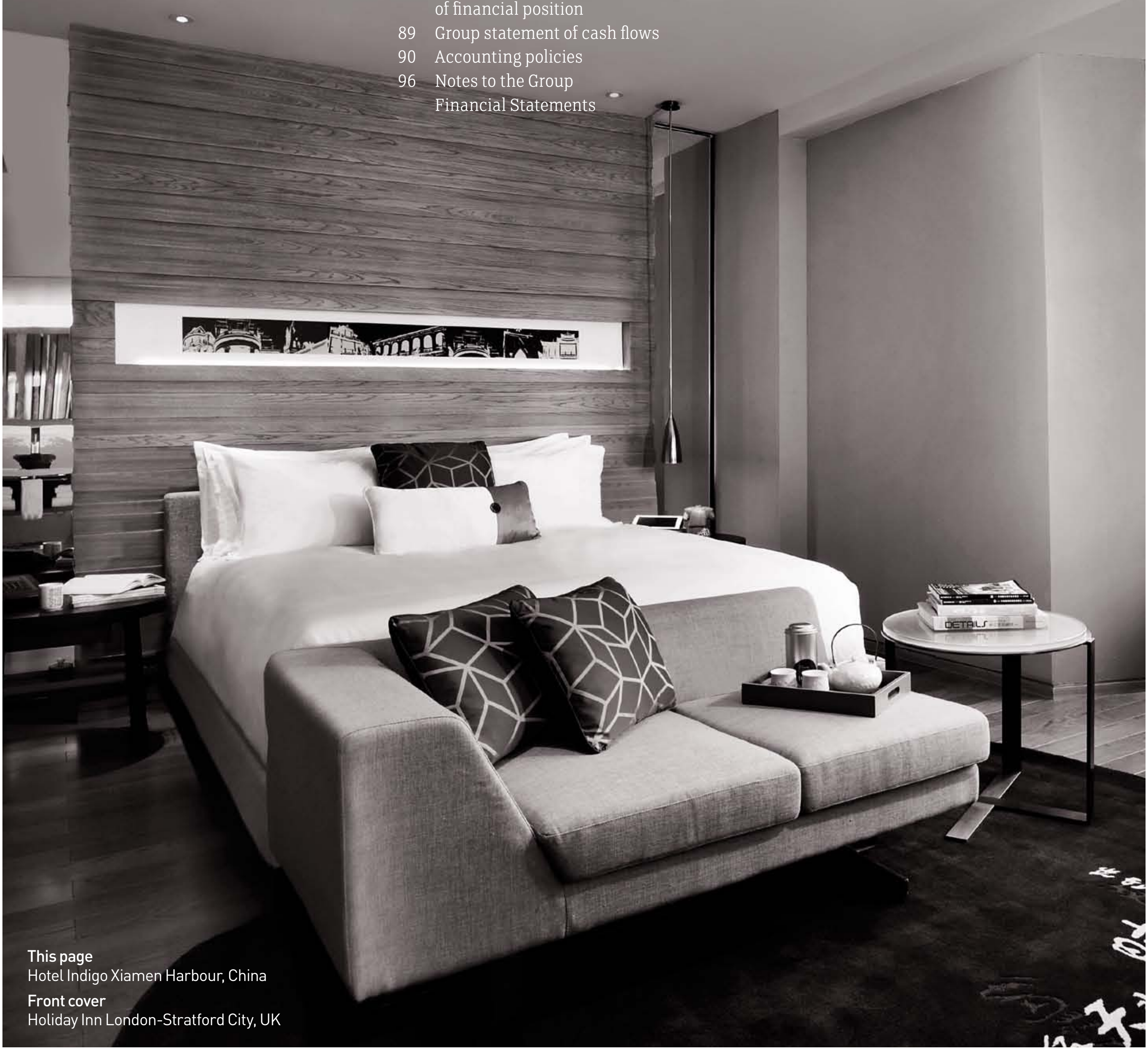
InterContinental Hotels Group

Annual Report and Financial Statements 2012



This page
Hotel Indigo Xiamen Harbour, China
Front cover
Holiday Inn London-Stratford City, UK

About us

We are a global hotel business with nine preferred Brands. With over 4,600 hotels and nearly 676,000 rooms in nearly 100 countries and territories around the world, we know hospitality. Our Vision is to become one of the great companies in the world by creating Great Hotels Guests Love. We will deliver this through our portfolio of preferred Brands, our talented People and best-in-class Delivery systems. At the heart of our culture is a commitment to act responsibly in everything we do.

Brands

We have a high-quality portfolio of nine preferred Brands from luxury hotels in the world's major cities and resorts to family-orientated hotels that offer great service and value and the world's first and largest hotel loyalty programme.

See pages 8, 12 and 13 for more information on our preferred portfolio of Brands

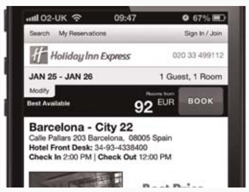
IHG® InterContinental Hotels Group | InterContinental Hotels & Resorts | Holiday Inn | Holiday Inn Express | Holiday Inn Resort | Holiday Inn Club Vacations | Crowne Plaza Hotels & Resorts | Hualuxe Hotels and Resorts 華邑酒店及度假村 | hotel Indigo | EVEN Hotels | Staybridge Suites | Candlewood Suites | PriorityClubRewards

People

Our Brands represent a promise to our guests and it is our talented and passionate People that bring each brand to life and thereby deliver Great Hotels Guests Love.

See pages 14, 30 to 33 for information on our talented People

Delivery



Our best-in-class Delivery systems enable us to leverage our scale to build guest preference for our Brands and drive reservations and revenue to our hotels.

See pages 14 and 15 for information on our best-in-class Delivery systems

Responsible Business

IHG is committed to conducting business in a responsible way and this underpins each of our strategic priorities. Championing and protecting the trusted reputation of IHG and our Brands is not just the right thing to do, but it makes great business sense too.

See page 15 for information on our Responsible Business practices, pages 34 to 37 for Corporate Responsibility matters, pages 38 to 44 for our approach to risk management and pages 45 to 80 on our governance processes

Where we compete

We have over 4,600 hotels and nearly 676,000 rooms internationally. When people travel, they look for hotel brands they trust. Operating our preferred Brands to global standards increases guest demand for the hotels we franchise, manage and own in nearly 100 countries and territories around the world.

The Americas

	Hotels	Rooms
InterContinental	53	17,756
Crowne Plaza	183	48,730
Holiday Inn*	820	146,661
Holiday Inn Express	1,931	168,398
Hotel Indigo	37	4,307
Staybridge Suites	183	19,787
Candlewood Suites	299	28,675
Other	49	15,303
Total for The Americas	**3,555**	**449,617**
Total development pipeline	**670**	**72,573**

* Includes 10 Holiday Inn Club Vacations (3,701 rooms) and 17 Holiday Inn Resort properties (4,240 rooms)

Find out more on pages 20 and 21

Europe

	Hotels	Rooms
InterContinental	30	9,394
Crowne Plaza	84	19,566
Holiday Inn*	288	46,610
Holiday Inn Express	212	24,903
Hotel Indigo	10	949
Staybridge Suites	4	605
Total for Europe	**628**	**102,027**
Total development pipeline	**91**	**15,184**

* Includes 3 Holiday Inn Resort properties (362 rooms)

Find out more on pages 22 and 23

Asia, Middle East and Africa (AMEA)

	Hotels	Rooms
InterContinental	65	20,791
Crowne Plaza	65	18,559
Holiday Inn*	75	17,440
Holiday Inn Express	12	2,877
Staybridge Suites	2	304
Other	13	2,766
Total for AMEA	**232**	**62,737**
Total development pipeline	**132**	**30,357**

* Includes 14 Holiday Inn Resort properties (3,311 rooms)

Find out more on pages 24 and 25

Greater China

	Hotels	Rooms
InterContinental	22	9,373
Crowne Plaza	60	21,452
Holiday Inn*	64	20,777
Holiday Inn Express	37	9,453
Hotel Indigo	3	405
Other	1	141
Total for Greater China	**187**	**61,601**
Total development pipeline	**160**	**50,916**

* Includes 3 Holiday Inn Resort properties (893 rooms)

Find out more on pages 26 and 27

Crowne Plaza Toulouse, France

InterContinental Danang Sun Peninsula, Vietnam

InterContinental The Palazzo, Las Vegas, US

Our business model

We run hotels in three ways: franchised, managed and owned. Our asset-light business model means we own just 10 hotels* (less than one per cent of our portfolio). Most of our hotels operate under a franchise agreement or are managed by IHG on behalf of owners. All of our hotels are supported by our revenue delivery systems and marketing programmes, which drive business to our hotels.

See page 12 for more information on our business model

Key facts*

4,602
hotels

675,982
rooms

3,934
hotels franchised

658
hotels managed

10
hotels owned and leased

Operating profit before exceptional items

$614m†
Group

$486m†
The Americas

$88m
AMEA

$115m
Europe

$81m
Greater China

* As at 31 December 2012.

† Includes one significant liquidated damages receipt in 2012 of $3m in The Americas.

Chairman's Statement

I feel privileged to be the Chairman of IHG, a company with an impressive history and successful track record of driving superior returns for shareholders. My fellow Board members and I look forward to guiding IHG to even greater achievements as we focus on brand building and the strategic global expansion of the business in the near term and future.

In my first few months after taking over from David Webster, I am delighted to share my perspective and impressions of our Company. Since I joined in January, I have spent much of my time getting to know the business better – meeting with employees, shareholders, owners and guests and visiting our operations around the world.

Several things have struck me as a newcomer to IHG. This is a business with a clear strategy and a consistent track record of implementation throughout its 10-year history. There is a focus across the whole organisation on creating Brands that are preferred by both our guests and owners, and at the heart of this is the People. I have been particularly impressed by the skills, commitment and energy of all those I've met, who either work in IHG's corporate offices or in one of IHG's hotels, and on behalf of the Board, I would like to thank all our People for their focus, dedication and commitment. Lastly, the integral role that Responsible Business practices play in IHG's strategy is underpinned by a strong set of values and unique culture seen across the business.

Performance

IHG's strong performance in 2012 demonstrates the effectiveness of our strategy, despite the challenging economic environment. We converted 4 per cent revenue growth into operating profit growth of 10 per cent (before exceptional items) and adjusted earnings per share growth of 9 per cent.

We continue our long track record of dividend growth for shareholders, with the Board recommending a 10 per cent increase to the final dividend for 2012, taking it to 43.0 cents (27.7 pence). This will give a full-year dividend of 64.0 cents per share up 16 per cent on 2011. This converts to a sterling full-year dividend of 41.2 pence per share, up 19 per cent on 2011. Subject to shareholder approval, the final dividend will be paid on 31 May 2013.

Financial position and shareholder returns

We remain committed to an efficient balance sheet while maintaining an investment grade credit rating through the cycle. During the year we announced a $1 billion return of funds to shareholders, split between a $0.5 billion special dividend with share consolidation and a $0.5 billion share buyback programme. The special dividend was paid on 22 October 2012 and $107 million of shares had been bought back by year end. Once the share buyback programme is complete, total funds returned to shareholders since the 2003 demerger, excluding ordinary dividends, will amount to $7.6 billion.

Year-end net debt of $1,074 million was up $536 million on 2011, reflecting this return of funds to shareholders. Nevertheless, the business continues to be strongly cash generative, with free cash flow of $463 million, up 10 per cent on 2011. In November 2012 we issued a £400 million 10-year bond, diversifying our sources of funding and extending our average debt maturity.

Board

David Webster retired at the end of 2012, having served on IHG's Board since the original listing of the Company in April 2003 and as Chairman since January 2004. During this period IHG has executed the move to an asset-light business model, grown net room count by over 25 per cent, whilst successfully completing the relaunch of the Holiday Inn brand. We thank him for his invaluable contribution and wish him a happy and fulfilling retirement.

Graham Allan left the Board on 15 June 2012, following his appointment as Chief Operating Officer of Dairy Farm International Holdings Limited based in Hong Kong. I would like to thank Graham for his contributions as an independent Non-Executive Director and as a member of the Audit, Nomination and Corporate Responsibility Committees. We are in the process of recruiting a new Non-Executive Director to replace Graham.

Dale Morrison, who has been a Non-Executive Director since June 2011, was appointed to the Corporate Responsibility Committee in November 2012. This adds to his existing roles on the Audit and Nomination Committees.

+5%
Total gross revenue

from hotels in IHG's System to $21.2bn*
Revenue up 4%† to $1,835m†

+6.8%
Fee revenue※

Driven by 5.2% RevPAR growth and 2.7% net System size growth

+16%: 64.0¢
Total full-year dividend

Sterling equivalent of 41.2p

$614m†
Operating profit before exceptional items

Group $614m† (2011 $559m♦)
The Americas $486m† (2011 $451m♦)
Europe $115m (2011 $104m)
Asia, Middle East and Africa $88m (2011 $84m♦)
Greater China $81m (2011 $67m)

+5.2%
Revenue per available room∞

Total number of rooms operating under IHG brands 675,982 (4,602 hotels)

8.4m
New Priority Club Rewards members added

Total Priority Club Rewards members 71.4m
69% of rooms revenue delivered through IHG's channels or by Priority Club Rewards members direct to hotel

*Total room revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels (not all attributable to IHG).
†Includes one significant liquidated damages receipt in 2012 of $3m in The Americas.
♦Includes two significant liquidated damages receipts in 2011; $10m in The Americas and $6m in Asia, Middle East and Africa.
※Group revenue excluding owned and leased hotels, managed leases and significant liquidated damages. Growth stated at constant currency.
∞Total System rooms revenue divided by the number of room nights available.

Governance

IHG is committed to high standards of corporate governance; we believe good governance is a fundamental part of being a Responsible Business and underpins everything we do. This year, we again commissioned a formal evaluation of the performance of the Board from an independent consultant, the findings of which are outlined on page 54. The 2012 feedback confirmed that the Board and each of its Committees continue to operate effectively and that each Director continues to make an effective contribution and retains a strong commitment to the role.

Further information on our governance practices can be found on pages 45 to 80.

Outlook

There is no doubt that the global economy will continue to see challenges in the year ahead. IHG's proven strategy, resilient business model, portfolio of preferred Brands, talented People and strong balance sheet give us the confidence that the business will continue to perform well into the future and deliver long-term value to all stakeholders.

Patrick Cescau
Chairman

Crowne Plaza London-The City, UK

Chief Executive's Review

2012 was another year of high-quality growth for IHG, with the launch of two new brands and a strong pace of hotel openings and signings. Driven by a material increase in worldwide demand for hotel rooms, we generated an impressive 6.8 per cent growth in fee revenue, one of our key metrics of success. This translated into double digit profit growth, driven by our preferred Brands and brought to life in our hotels by talented and passionate People.

How we win

Our well established, asset-light strategy has enabled us to deliver good revenue and profit growth again this year, despite the continued challenges in the wider global economy. At the core of this strategy lies the third party owners of IHG branded hotels. At IHG we have a unique competitive advantage, which is the strong and deep relationship that we have with our owners, primarily through the IHG Owners Association. This collaboration enables us to work closely with our owners, tap into their combined expertise and take action more quickly and effectively than our competitors.

As we move into our 10th year as a stand-alone listed company, we can be proud of our record of delivery as we continue to gain market share, leveraging our scale to grow margins, profits and cashflow. This has enabled us to continue to reinvest in our business whilst simultaneously returning significant sums of surplus cash to shareholders and generating superior shareholder returns. In August 2012 we announced a $1 billion return of funds to shareholders continuing our long track record of returns, with total funds returned to shareholders since the 2003 demerger, including ordinary dividends, of around $9 billion, almost twice the market capitalisation of the Group when we listed.

We will continue to drive the business forward through our preferred Brands, talented People and best-in-class Delivery systems, all underpinned by our commitment to Responsible Business. In 2012 we continued to outperform the industry with strong RevPAR growth, with particular outperformance in our two largest markets, the US and Greater China. Importantly, in spite of the limited availability of capital in many markets, we increased the number of rooms operating in our System by 2.7 per cent. This, combined with healthy RevPAR growth is what has enabled us to grow our fee revenue so strongly.

Preferred Brands

Our preferred Brands are at the heart of our business and are key to our continued success in driving strong results. Our brands are already some of the most recognised in the industry but we continue to innovate and develop them to meet changing guest needs and to stay ahead in a competitive market place.

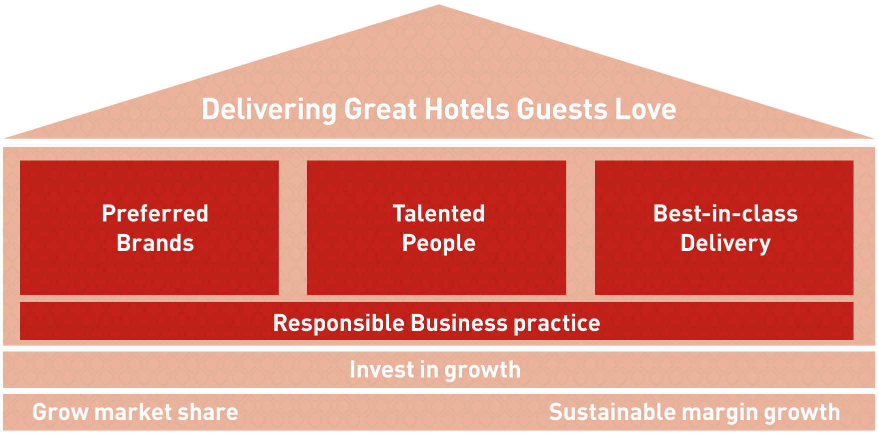
We are delighted to have launched two new brands in 2012; HUALUXE Hotels & Resorts in China and EVEN Hotels in the US. HUALUXE has had a particularly strong start with 15 signings in the year. Each of these brands has been created through a deep understanding of the trends in the lodging marketplace combined with genuine insight into guest occasions and needs. They have been designed to meet a need which we feel is underserved in the market today and which can deliver significant revenue and profit opportunities over the longer term, in our two largest markets. IHG's significant expertise in both these markets and the scale of our operations enabled us to launch these two new brands simultaneously, unprecedented in the industry.

New brands are exciting and have the potential to create value in the future and IHG has a track record of successful brand launches. But it is our powerful portfolio of established brands that create value for our owners and shareholders today – and we never lose sight of that fact as we continually evolve and refine them. Our largest brand, the Holiday Inn brand family, continues to deliver significant value for both IHG and our owners. This year Holiday Inn was the official hotel provider to the London 2012 Olympic and Paralympic Games and celebrated its 60th anniversary. In 2012 Holiday Inn continued its post relaunch track record by growing its premium to the sector each year since 2007, and was ranked 'Highest Guest Satisfaction Among Mid-Scale Full Service Hotel Chains, Two Years in a Row' by J.D. Power and Associates¤ (see page 141).

Crowne Plaza is our second largest brand after the Holiday Inn brand family. It is already the world's fourth largest full-service hotel brand in the upper segments, generating almost 20 per cent of our total gross revenue per annum. Crowne Plaza has been highly successful and has a solid foundation for future growth, however we see significant opportunity to take its performance in The Americas up to the levels achieved by the brand globally. We are currently undertaking a three-phase, multi-year repositioning programme, which will look to provide a more consistent, targeted experience around the world.

Talented People

Great hotel brands need to deliver a consistent, branded experience to guests, and talented and passionate People are essential for this. At IHG we are focussed on ensuring our People deliver consistent



service, irrespective of ownership model. This is a complex task and our success has required significant innovation and effort as we have worked hand-in-hand with our owners to deliver on it.

Our suite of People Tools help our owners and General Managers to develop a BrandHearted culture, make IHG and its hotels a great place to work and deliver the brand promise to our guests. To support communities and aid recruitment we have developed the IHG Academy programme, which is a collaboration between IHG hotels or corporate offices and local education providers and/or community organisations around the world, providing the opportunity to develop skills and improve employment prospects. We celebrated the opening of our 150th IHG Academy in January this year and to date over 10,000 participants have benefited from the IHG Academy programme.

We continue to be rewarded for our efforts in this area and have been recognised in The Sunday Times 25 Best Big Companies to Work For in 2012, as well as winning a number of other awards globally.

Best-in-class Delivery

IHG provides our hotels with a powerful combination of best-in-class revenue platforms, programmes and tools with which to drive profitable revenue to our branded hotels – what we call our System. The scale and power of this System enables us to outperform by creating, converting, yielding and retaining demand.

We continue to lead industry innovation, and this can be seen in our progress with mobile and web booking solutions. We are a founding member of roomkey.com, which was launched in 2012 as the first industry-owned online hotel search engine. Revenues from mobile devices generated $330 million in 2012. During 2012, Holiday Inn was the first major hotel brand to launch a travel app on the Windows 8 platform. In 2012, 69 per cent of total rooms revenue was delivered through IHG's channels, including our call centres and websites, and our award-winning Priority Club Rewards programme. This is the largest loyalty and rewards programme in the industry with 71.4 million members worldwide and is a very important way in which we retain and reward loyal guests. In 2012 Priority Club Rewards members accounted for 41 per cent of the revenue generated in our hotels. Our scale advantage means that we can offer guests more choice, which better meet their needs, and this is a key driver of our outperformance.

Looking forward we remain confident. Despite the uncertain economy in some markets, long-term travel trends are positive, particularly in developing markets such as China and Asia generally. The drivers of demand in the hotel industry remain positive and IHG is well-placed to benefit from these as we continue to deliver against our clearly defined strategy with preferred Brands delivered by talented People and best-in-class Delivery systems, all underpinned by our strong governance structure and Responsible Business practices.

Richard Solomons
Chief Executive

The IHG Owners Association is continuing to strengthen its alignment with IHG – we've been on this journey for nearly 60 years, and this latest chapter is perhaps the most exciting yet.

In autumn 2012, the Executive Committee of the IHG Owners Association and the IHG Executive Committee met in Oklahoma City to fashion a plan that launched this latest chapter. Together we agreed to refine the focus of our work and established five key priorities around which to organise our work:

1. deliver the strongest brand portfolio in the industry;
2. deliver the strongest set of tools in the industry;
3. develop the strongest approach to standards in the industry;
4. develop the strongest General Manager talent in the industry; and
5. maintain the strongest reputation for doing business the right way.

As a result of establishing these focussed priorities, the IHG Owners Association is reorganising its committee structure to work towards this shared vision. Our goal is to work closely with IHG to increase owner margins by strengthening the IHG brands.

We plan to begin by working in three specific areas: energise General Managers to be our brand promise keepers; master the IHG revenue tools in every hotel; and relentlessly pursue these brand standards that matter.

IHG owners are proud of their hotels, and the IHG Owners Association is proud to work with IHG. Our mutual focus on strengthening the IHG brands gives us the greatest opportunity to increase hotel value and owner margins.

Mike Hembree
2013 Chairman
IHG Owners Association

IHG OWNERS ASSOCIATION

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

Preferred Brands

Delivering nine preferred hotel Brands: a portfolio that covers everything from luxury hotels in the world's major cities and resorts to reliable family-orientated hotels that offer great service and value.

InterContinental® Hotels & Resorts

We've been on the international scene for over 60 years, so no-one knows the world like we do. Located in more than 60 countries, we know that well-travelled, affluent guests want to be connected to what's special about a destination.

- 170 hotels
- 57,314 rooms
- 48 hotels in development pipeline

Crowne Plaza® Hotels & Resorts

Our guests are high achievers that strive to be successful in everything they do. We provide the facilities and service they need to help them on their upward journey.

- 392 hotels
- 108,307 rooms
- 98 hotels in development pipeline

HUALUXE™ Hotels & Resorts

HUALUXE Hotels & Resorts is the first upscale international hotel brand designed specifically for Chinese guests focussing on unique aspects of Chinese etiquette, the importance of rejuvenation, status recognition and enabling spaces that reflect local customs and heritage.

- 15 hotels in development pipeline

Hotel Indigo®

Our guests appreciate art and design, the latest fashion and new experiences. They are looking for the individuality and style of a boutique hotel, but with the reliability and consistency of a big brand company.

- 50 hotels
- 5,661 rooms
- 47 hotels in development pipeline

Holiday Inn®

Our guests appreciate innovation, but they also want to be comfortable, both emotionally and physically. The Holiday Inn brand promise is to deliver comfort in a way that is new, yet familiar.

- 1,200 hotels
- 218,981 rooms
- 231 hotels in development pipeline

Holiday Inn Club Vacations®

We give our guests all of the benefits of a vacation home with none of the hassle. While staying with us, they don't have to compromise on space or daily routines.

- 10 hotels
- 3,701 rooms

Holiday Inn Resort®

We offer effortless choice for a relaxing break that is safe and inviting, where everyone has activities with indulgent touches along the way.

- 37 hotels
- 8,806 rooms
- 12 hotels in development pipeline

Holiday Inn Express®

Our guests want a straightforward, uncomplicated experience, delivered in an engaging manner. A hotel that provides just what they need enabling them to manage their money wisely and stay smart.

- 2,192 hotels
- 205,631 rooms
- 452 hotels in development pipeline

EVEN™ Hotels

EVEN Hotels uniquely provides solutions for all aspects of business and leisure travellers' holistic wellness needs. Our guests want to maintain their balance and well-being on the road and we're here to help them.

- 1 hotel in development pipeline

Staybridge® Suites

We provide guests with a warm and welcoming environment and the modern comforts of home-like surroundings.

- 189 hotels
- 20,696 rooms
- 71 hotels in development pipeline

Candlewood® Suites

Our guests turn to us for all the comforts of home when home is temporarily left behind. Guests have the space to stretch out and relax, with on-site amenities and services always available.

- 299 hotels
- 28,675 rooms
- 78 hotels in development pipeline

Business Review

This Business Review provides a review of the business environment in which InterContinental Hotels Group PLC (the Company) and its group of companies (together the Group or IHG) operate, our strategy for winning, key performance indicators (KPIs) and commentaries on the development and performance of the business for the financial year ended 31 December 2012. It also covers our approach towards employee and corporate responsibility matters, including the environment, risk management throughout the Group and a description of the risks and uncertainties impacting the business.

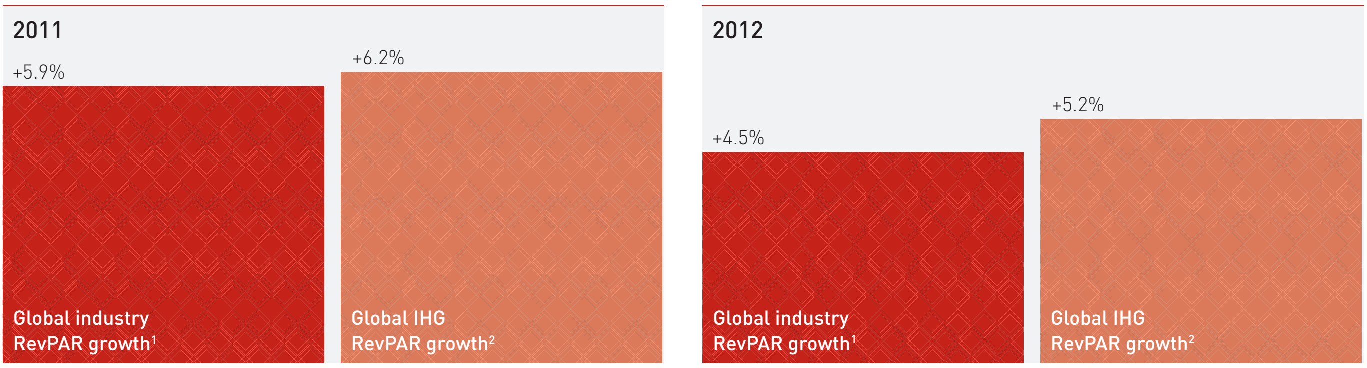

Hotel Indigo Shanghai on the Bund, China

Industry overview

The hotel industry performed well last year despite challenging economic conditions. The economic outlook deteriorated over the course of 2012 with increased concerns over the Eurozone and weaker performance in the US and China. Global Domestic Product (GDP) increased by 2.3 per cent in 2012, compared with 2.9 per cent in 2011 and the year ended with a continued uncertain outlook across the globe.

However, the hotel industry demonstrated its resilience against this challenging economic background. Globally, industry revenue per available room (RevPAR), a key industry indicator, increased by 4.5 per cent, compared to a 5.9 per cent increase in 2011. IHG performed well against these market conditions, with global RevPAR growth in 2012 of 5.2 per cent.

RevPAR growth 2011 v 2012



1 Data sourced from Smith Travel Research.
2 Comparable hotels.

The global hotel market is estimated to be close to 21.5 million rooms. Smith Travel Research calculates that there are 7.3 million branded hotel rooms, with the remainder a combination of independent hotels, guesthouses and other types of lodging. IHG holds the largest share of branded rooms, currently approximately nine per cent of branded supply, distributed across nearly 100 countries and territories around the world. In 2012 we opened 33,922 new rooms worldwide (226 new hotels). This has taken the number of open IHG hotel rooms to 675,982 (4,602 hotels) at 31 December 2012, up 2.7 per cent from 2011, taking into account the removal of hotels which left the IHG System.

The benefits of a brand, such as the greater security and performance of a global reservation system, loyalty programmes and international networks, are clear to many owners and IHG is 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.

To ensure our strategy continues to be sustainable in the changing business environment and suitable for the Group's capabilities, IHG closely monitors markets across the globe and follows key industry and business metrics such as RevPAR, average daily rate, demand, GDP and guest satisfaction.

Our strategy

With a portfolio of preferred Brands in the most attractive markets, our talented People are focussed on delivering Great Hotels Guests Love and executing a clear set of priorities to achieve our Vision of becoming one of the great companies in the world

Where we compete	How we win
Relevant consumer segments	Portfolio of preferred Brands
Most attractive markets	Talented People
Appropriate business model	Best-in-class Delivery
	Responsible Business

A good strategy makes clear choices against a range of business opportunities in order to achieve a set of defined goals. An organisation needs to be able to execute these decisions 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 IHG branded hotels and the speed at which we grow. We measure this through key performance indicators (KPIs) such as growing RevPAR, System size and fee based margins. In addition, we ensure we continue to improve employee engagement, guest and owner satisfaction 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

Where we compete

Competing in relevant consumer segments

The hotel industry is usually segmented according to price point and IHG is focussed on the three segments that generate over 90 per cent of branded hotels revenue, namely midscale (broadly three star), upscale (mostly four star) and luxury (five star). However, to build preferred Brands, we believe we need to advance our understanding of our guests and their needs to ensure our brands remain contemporary and relevant.

We have therefore completed a fundamental occasion-based needs segmentation analysis to understand why guests book hotels – looking at who they are, the occasion they are travelling for and their needs when travelling. Many guests no longer have a single purpose for their hotel stay – for example, business trips turn into family holidays, and we need to meet these demands, focussing more on the needs of our guests, to deliver loyalty and brand preference. We used this analysis to develop the brand proposition for our two new brands, HUALUXE Hotels & Resorts and EVEN Hotels, and we continue to work on this needs-based segmentation to help inform our view of the hotel market and our brand strategies going forward.

Competing in the most attractive markets

Our strategy is to build preferred Brands with scale positions in the most attractive markets globally. Concentrating growth in the largest markets means IHG and owners can operate more efficiently and benefit from enhanced revenues and reduced costs. Our key markets include large developed markets such as the US, UK and Germany, as well as emerging markets like China and India.

The US is the largest market for branded hotels, with 3.38 million rooms, accounting for 69 per cent of all US rooms available. The segment in the US with the greatest share is midscale, with 1.38 million branded hotel rooms, and IHG's Holiday Inn brand family, comprising Holiday Inn, Holiday Inn Express, Holiday Inn Club Vacations and Holiday Inn Resort, is the largest brand in this segment.

In China, IHG sees the greatest opportunity for growth of any single country and our strategy has been to enter the market early, to develop our relationships with key local third party owners and grow our presence rapidly. In a country with 659,000 branded hotel rooms, IHG is the largest international hotel company with over 61,000 rooms across our brands and more than 50,000 in the planning phase or under construction. This rapid pace of openings for IHG has been in anticipation of increasing demand for hotels, driven by a large, emerging middle class and growing domestic and international travel.

IHG is also focussed on developing in other high priority markets. We seek to develop our portfolio of brands in those markets which will be sources of strong hotel demand in the future. We have continued to build our position in these markets in the last year. For example, we increased the distribution of our core brands in India, building upon our leadership position of Holiday Inn. In Russia and the Commonwealth of Independent States (CIS), there are opportunities for new construction and conversions as well as strong demand for branded hotels. IHG continues to adapt its business model by market, choosing partnerships and joint ventures where appropriate.

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

During 2012, we opened 33,922 rooms in 26 countries and territories, and signed a further 53,812 rooms into our development pipeline (hotels in planning and under construction but not yet opened) across 33 countries and territories. As part of our ongoing commitment to maintaining the quality of our brands, we removed 16,288 rooms during the year. As at 31 December 2012, IHG had the second largest pipeline in the industry, with 169,030 rooms in 1,053 hotels across 60 countries and territories. This represents a market share of 12 per cent of all hotels under development, including those that are independent or unaffiliated with a brand.

Competing with an appropriate business model

	Brand ownership	Marketing and distribution	Staff	Hotel ownership	IHG capital	IHG income
Franchised This is the largest part of our business: 3,934 hotels operate under franchise agreements	IHG	IHG	Third-party	Third-party	None	Fee % of rooms revenue
Managed We manage 658 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 10 hotels worldwide (less than one per cent of our portfolio)	IHG	IHG	IHG	IHG	High	All revenues and profits

As can be seen in the diagrams above and below, our business model is focussed on franchising and managing hotels, rather than owning them, enabling us to grow at an accelerated pace with limited capital investment. This allows IHG to focus on building strong, preferred Brands based on relevant consumer needs, leaving asset management and real estate to our local third party owners 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. It allows IHG to focus on building strong Delivery systems such as our branded hotel websites and call centres, creating greater returns for owners.

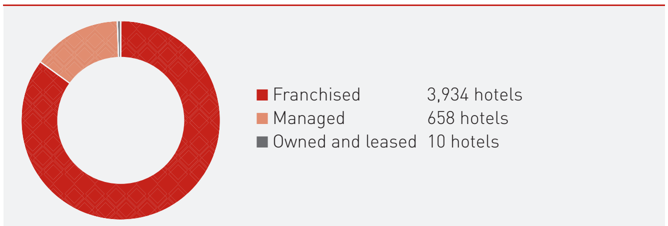
A key characteristic of the franchised and managed business model is that it is highly cash generative, with a high return on capital employed. It enables us to focus on growing our fee revenue (Group revenue excluding owned and leased hotels, managed leases and significant liquidated damages) and fee based margins (operating profit as a percentage of revenue, excluding revenue and operating profit from owned and leased hotels, managed leases and significant liquidated damages).

Currently 86 per cent of our Group operating profit (before regional and central overheads and exceptional items) 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 in order to drive growth. 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.

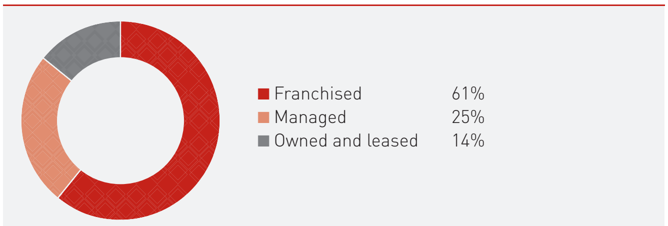
On 6 November 2012, we announced that the InterContinental London Park Lane would be the next hotel considered for sale and that discussions regarding the disposal of the InterContinental New York Barclay were progressing and would be opened to a wider group of prospective buyers.

We continue to invest for growth, strengthening both our existing brands and launching new ones.

IHG global hotel count by ownership type at 31 December 2012



IHG continuing operating profit* by ownership type for the year ended 31 December 2012



*Before regional and central overheads and exceptional items

How we win

Winning with a portfolio of preferred Brands

We aim to build a portfolio of brands that are bigger, better, and stronger:

- Bigger means we have prioritised our growth strategy to build brand scale and leverage this scale through greater operational efficiency.
- Better means a focus on continuous improvement in how we develop and deliver our brands to ensure guest needs are met with a consistent, high-quality experience.
- Stronger means a focus on driving brand preference among guests, owners, investors and employees.

As part of our commitment to deliver against our brand strategy, in 2012, IHG launched two unique new brands to the market, which complement our overall portfolio of brands.

As of 31 December 2012, IHG's portfolio comprised the following brands:

Our new brands

EVEN Hotels was launched in February 2012 following extensive customer research in order to create a brand that meets travellers' holistic wellness needs. EVEN Hotels is aimed at business and leisure travellers who are looking for a wellness experience in a hotel stay at a mainstream price point. IHG is investing up to $150 million in establishing the brand, owning and managing the first hotels to ensure the brand achieves its potential and market share growth in the US. During 2012, IHG signed the first EVEN hotel located in the heart of midtown Manhattan, New York.

HUALUXE Hotels & Resorts was officially launched in March 2012 and is the first international upscale hotel brand designed specifically for Chinese guests, to take advantage of both the supply and demand side opportunities we see in China. The brand is tailored to address the specific needs of domestic Chinese guests focussing on the unique aspects of Chinese etiquette, the importance of rejuvenation, status recognition and local customs and heritage. It will enable us to expand in China's key gateway cities but will also drive growth in its secondary cities where a specifically Chinese offer is appealing. The brand could open in key global gateway cities in the future as outbound travellers from China are forecasted to reach 100 million in the next 10-15 years. During 2012, we signed 15 hotels for the brand.

Our established brands

InterContinental Hotels & Resorts is IHG's luxury brand located in key cities and resort destinations across more than 60 countries worldwide. The brand's ethos is to empower guests to share their knowledge to enjoy great experiences that enrich their lives. Hotels under this brand tend to be managed by IHG. In 2012, we opened six more properties around the world, including the InterContinental London-Westminster in the UK, the InterContinental Sanctuary Cove Resort, IHG's first InterContinental Resort in Australia, and two new resorts in Asia – InterContinental Samui Baan Taling Ngam Resort in Thailand and InterContinental Danang Sun Peninsula Resort in Vietnam. We also signed 10 hotels in 2012.

Crowne Plaza Hotels & Resorts is IHG's upscale brand and is currently the fourth largest full-service hotel brand in the upper segments with nearly 400 hotels and resorts in 66 countries. The brand continues to appeal to business travellers, providing facilities and services that cater to these types of travellers. We continue to progress the three-phase, multi-year Crowne Plaza repositioning programme. As part of IHG's commitment to strengthen the brand, quality audits have been carried out at almost all Crowne Plaza hotels in The Americas and Europe and we have been actively managing the estate in order to drive brand consistency. Crowne Plaza also saw significant growth in 2012, particularly in China with eight new hotel openings making it the largest international upscale brand in China.

Hotel Indigo is our boutique brand, and the world's first global boutique hotel brand focussed on guests who appreciate art and design and who want to experience something different. Hotel Indigo provides guests with the refreshing design and service experience synonymous with a boutique hotel, aligned with the local neighbourhood story. During 2012, we opened 13 Hotel Indigo properties, six in The Americas, two in Greater China and five in Europe, expanding the brand's footprint. In 2012, the brand also reached its 50th hotel milestone with the openings of Hotel Indigo London Kensington-Earl's Court in the UK and Hotel Indigo New Orleans Garden District in the US.

The Holiday Inn brand family, which comprises Holiday Inn, Holiday Inn Club Vacations, Holiday Inn Resort and Holiday Inn Express, is the world's largest midscale hotel brand by number of rooms at 31 December 2012. It is the largest brand in IHG's portfolio predominantly operating under franchise agreements in The Americas and Europe and management agreements elsewhere.

Holiday Inn is for the contemporary traveller looking for innovative comfort in a relaxing hotel environment. Holiday Inn aims to provide guests familiarity, convenience and reliability while supporting and meeting all guest needs. As official hotel provider to the London 2012 Olympic and Paralympic Games, we opened the Holiday Inn London-Stratford City. In 2012, the brand celebrated its 60th anniversary and we opened our largest Holiday Inn to date – the stunning Holiday Inn Macao Cotai Central in China with 1,224 rooms.

Holiday Inn Club Vacations, our timeshare business in North America, provides guests with all the benefits of a vacation home with none of the hassle. It expanded its portfolio in 2012 with the opening of three new resorts, including a new 658-room resort in Las Vegas, Nevada.

Holiday Inn Resort is our Holiday Inn resort proposition with 37 properties currently in the portfolio, for guests who work hard but also want to lead a balanced life. Seven new resorts opened in 2012, including the Holiday Inn Resort Changbaishan in China.

Holiday Inn Express is a brand for the traveller looking for efficiency. The brand offers a straightforward, uncomplicated guest experience providing the things a guest needs, and is delivered in a way that is stimulating and engaging. As one of the world's fastest growing hotel brands, it is geared to the smart business or private traveller who appreciates value without compromising on comfort and style. IHG continued to grow the brand in all regions with 114 new openings in 2012, including hotels in Thailand and India.

Staybridge Suites is IHG's 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. During 2012, Staybridge Suites opened 11 hotels, including the prominent Staybridge Suites London-Stratford City as part of IHG's London 2012 Olympic and Paralympic Games legacy, taking the total number of Staybridge Suites hotels to 189. In 2012, 17 Staybridge Suites hotels under IHG's management were renovated as part of a renovation programme with the owner, Hospitality Properties Trust. Hotels under this brand tend to be under franchised and management contracts.

Candlewood Suites is IHG's midscale extended stay brand in North America and is primarily franchised by IHG. Candlewood Suites aims to provide guests with a home-like stay at great value. A trust system has always prevailed for this brand – the 'Candlewood Cupboard' which is a convenient place for our guests to stock up on essentials and treats on an honour system and our newly launched 'Lending Locker', which enables guests to borrow kitchen apparatuses, such as coffee grinders. During 2012, 59 Candlewood Suites hotels under management by IHG were renovated with the owner, Hospitality Properties Trust, as part of our commitment to deliver a great brand for guests. We opened 12 hotels during 2012, taking the total number of Candlewood Suites hotels to 299.

External recognition

We have received a number of awards for our brands and hotels during 2012, including the following:

- InterContinental Hotels & Resorts was named 2012 World Travel Awards' World's Leading Hotel Brand for the fourth year running and World's Leading Business Hotel Brand for the second year running;
- InterContinental Hotels & Resorts won Best Business Hotel Brand in the World at the 2012 Business Traveller Awards Asia-Pacific Awards for the third year running;
- Holiday Inn was ranked 'Highest in Guest Satisfaction Among Mid-Scale Full Service Hotel Chains, Two Years in a Row' by J.D. Power and Associates¤ (see page 141);
- Hotel Indigo Shanghai on the Bund was named Best Boutique Hotel in Asia-Pacific at the 2012 Business Traveller Asia-Pacific Awards; and
- Hotel Indigo San Diego Gaslamp Quarter featured as one of the Top 25 Hotels in Southern California in the Condé Nast 2012 Readers' Choice Awards.

Winning with our talented People

IHG believes that our preferred Brands are brought to life by our talented and passionate People. Therefore to deliver on our brand promise, we must attract, retain and develop the very best talent in the industry to service our guests and bring our Brands to life.

IHG directly employed an average of 7,981 people worldwide in the year ended 31 December 2012, whose costs were borne by the Group. When the whole of IHG's estate is taken into account (including staff working in the franchised and managed hotels) over 350,000 people worked globally across all IHG's brands as at 31 December 2012.

The four pillars of our People strategy are:

- **Developing a BrandHearted culture:** Our brands are brought to life by our talented and passionate People and we have focussed on developing and improving our tools, to make it easy for our People to deliver the brand promise. In 2012, we launched a new brand framework focussed on transforming our brand standards and looked at how we manage projects – all part of developing a BrandHearted culture.
- **Making IHG a great place to work:** We believe in treating people as individuals and celebrating achievements. In our employer brand, we call this 'Room to be yourself' and this commitment is brought to life by four key promises (as explained on pages 31 and 32). IHG continues to be recognised around the globe as an employer of choice.
- **Delivering world-class People Tools to our owners**: By partnering with the hotel human resources community, we have developed a set of award-winning People Tools that not only help increase employee retention and guest satisfaction but also drive efficiencies and increase revenue for our owners.
- **Building a strong leadership team:** To grow our business sustainably and responsibly, we need a strong BrandHearted leadership team. Therefore, we have created a Leadership Framework, which clearly defines what great leadership looks like to help develop our leaders of tomorrow.

Being the first hotel company to be trusted to run the London 2012 Olympic and Paralympic Village was a groundbreaking opportunity for IHG, giving our People the opportunity to benefit from new skills and experiences.

See pages 30 to 33 for more information.

Winning with our best-in-class Delivery

During 2012, IHG remained focussed on driving guests (room nights) to its hotels and its portfolio of brands. IHG leverages its size and scale to drive demand to its hotels, executing a multi-channel strategy that enables guests to search and book in the most appropriate mode for them, either over the phone, by computer or via an application on a mobile device. We maximise the demand we deliver through these channels through advanced techniques that manage revenue per booking, drive customer loyalty and maximise owner returns.

Our channels and loyalty programme, Priority Club Rewards, are the engine of our business, and in 2012 delivered on average 69 per cent of total rooms revenue direct to hotel.

Our channels

As part of our multi-channel strategy, we aim to drive revenue and bookings using our direct channels. During 2012, hotel revenue generated through our websites increased to \$3.4 billion whilst our global call centres answered more than 23 million inbound contacts and drove more than \$1.9 billion in revenue for our hotels.

Mobile communications are also having profound effects on the hotel industry and IHG has been quick to adapt to these new channels with significant growth in revenue generated through our branded mobile applications, across all major platforms, rising from \$2.4 million in 2009 to more than \$330 million in 2012.

We are also a founding member of roomkey.com, which was launched in 2012 as the first industry-owned hotel metasearch engine, providing another innovative channel to drive guest nights to our brands.

Social media has also changed the way in which we communicate with guests and with our stakeholders in general. Our new Guest Ratings and Review tool launched on our websites in 2012 enables guests to share their thoughts about their hotel experiences so that other future guests can take this into account during the booking process.

Priority Club Rewards

Priority Club Rewards was the hotel industry's first loyalty programme and is the largest of its kind in the world with 71.4 million members at the end of 2012, an increase of 13 per cent during the year. In 2012, it won Premier Traveler magazine's inaugural award for Best Hotel Loyalty Program and Global Traveler magazine's award for Best Hotel Rewards Program for the eighth consecutive year.

We also leverage sales and marketing expertise in order to support our multi-channel strategy. The System Fund is a \$1.2 billion fund of cash assessments and contributions, collected by IHG from hotels within the IHG System, and proceeds from the sale of Priority Club Rewards points. The System Fund is managed by IHG for the benefit of hotels in the IHG System with the objective of driving revenues for the hotels. It is therefore used to pay for marketing, the Priority Club Rewards loyalty programme and the global reservation system.

As a result of the power of our revenue delivery systems, IHG has built strong relationships with its owners. These relationships are founded on the ability to deliver high returns to owners using premium revenue generating products. IHG meets with the IHG Owners Association on a regular basis to facilitate the continued development of IHG's brands and systems. A message from the IHG Owners Association can be found on page 7.

Scale 4,602 hotels 157 million room nights annually	**Brand portfolio** Nine preferred hotel brands	**Priority Club Rewards** 71.4 million members, contributing over $7.2 billion to global system rooms revenue	**Web/Mobile** 13 language sites six language apps
Revenue Management World-class systems	**69%** room revenue delivery		**Food and beverage** Over $4.7 billion of food and beverage revenue and over 4,500 outlets worldwide
Reservations systems 10 call centres 12 languages	**Market coverage** In nearly 100 countries and territories	**Sales force** 17,600 sales professionals 2,020 accounts	**System Fund** Annual fund totalling $1.2 billion to maintain marketing and systems that generate demand for our hotels

Winning with our Responsible Business practices

With over 4,600 hotels in nearly 100 countries and territories around the world, our commitment to being a Responsible Business is central to our Vision of becoming one of the great companies in the world. Our People understand how important it is to champion and protect the trusted reputation of IHG and its brands and this is embedded in our culture. We believe that being a Responsible Business is necessary to enable us to stay ahead of the competition and grow, creating value for all of our shareholders and stakeholders in the long term. Amongst other things, it offers us a huge opportunity to innovate, create employment, empower people to perform at their best and feel good about what they do, and drive value for our business. That's why, for us, Responsible Business underpins each of our three strategic corporate priorities of preferred Brands, talented People and best-in-class Delivery, which work together to determine How We Win to create Great Hotels Guests Love.

Governance and leadership

Our Chairman and the Board and its Committees provide a strong leadership and promote a responsible business culture, by maintaining high standards in corporate governance, corporate responsibility and internal controls and risk management. Information on our Board and governance processes can be found on pages 45 to 80.

Brands

Trusted brands deliver a superior and consistent brand experience and to achieve this, we require a clear brand framework. Brand standards are the foundations of a clear brand framework for all our hotels and our compliance teams ensure that our hotels deliver in accordance with these. Our brand safety standards assist hotels in providing a safe and secure environment for our guests and employees. Our Corporate Responsibility programmes have also been designed so that they can be implemented throughout our hotel brands and corporate offices in any region. Information on our approach to Corporate Responsibility can be found on pages 34 to 37.

People

At the core of being a Responsible Business is ensuring that the actions of all of our employees working at our corporate offices and hotels maintain our trusted reputation. Operating an ethical business is vital to maintaining and protecting this trusted reputation and therefore we continually keep under review our internal policies and training to promote understanding, awareness, accountability and transparency.

Delivery

Having in place an effective system of internal controls and risk management is essential to being a Responsible Business. Our tools, processes and procedures ensure a business based on a solid foundation with a commitment to doing the right thing for the benefit of all our stakeholders. Information on our risk management processes can be found on pages 38 to 44.

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', focussing on relevant consumer segments, the most attractive markets and the appropriate business model; and
- 'How we win', focussing on our corporate priorities of preferred Brands, talented People, best-in-class Delivery and Responsible Business.

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

- fee revenue and fee based margins;
- global RevPAR;
- system contribution – the proportion of business delivered to our hotels by our dedicated IHG booking channels;
- employee engagement; and
- Responsible Business practices.

These KPIs are used to measure the progress of our Group to deliver Great Hotels Guests Love and achieve our Vision of becoming one of the great companies in the world.

Our performance against our KPIs over the 2010-2012 period is summarised below:

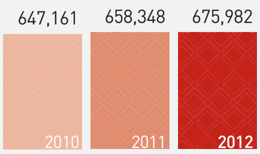
Where we compete

Strategic priorities

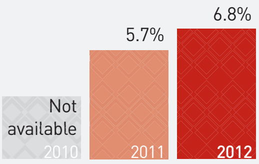
Most attractive markets and appropriate business model

To accelerate profitable growth of our core business in our most attractive markets where presence and scale really count using the right business model to drive our fee revenue and income streams.

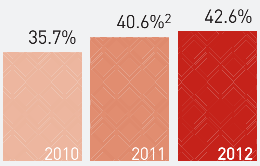
KPIs



Net rooms supply



Growth in fee revenue[1]



Fee based margins

Current status and 2012 development

- System size grown to 675,982 rooms;
- 4,602 hotels open globally;
- built scale of Hotel Indigo brand to 50 hotels globally; and
- fee based margins of 42.6%, up two percentage points on 2011, a particularly strong result.

2013 priorities

- Accelerate growth strategies in quality locations in agreed scale markets; and
- continue to leverage scale.

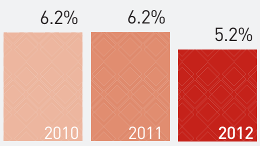
How we win – Delivering Great Hotels Guests Love

Strategic priorities

Preferred Brands

Operate a portfolio of preferred, locally-relevant 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 2012 development

- Clarified the brand propositions for Holiday Inn and Holiday Inn Express and celebrated the Holiday Inn 60th anniversary;
- continued the repositioning of Crowne Plaza;
- achieved two new brand launches in two geographies; and
- achieved strong brand successes in Greater China, particularly through the growth of HUALUXE Hotels & Resorts with 15 signings for the brand and improved the strength of Crowne Plaza through brand preference and awareness.

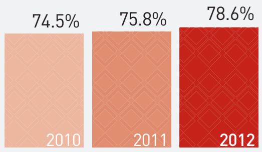
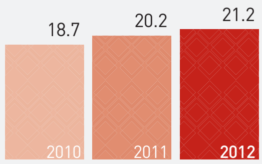
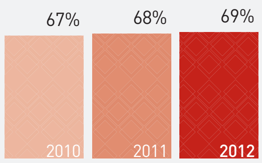
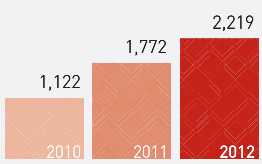
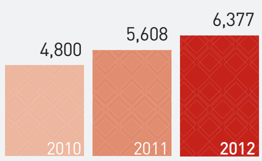
2013 priorities

- Invest to build long-term brand preference for the Holiday Inn brand family;
- continue the repositioning of the Crowne Plaza brand;
- support growth of our new brands: EVEN Hotels in the US and HUALUXE Hotels & Resorts in Greater China; and
- continue to deliver a consistent brand experience and increased guest satisfaction through our needs-based segmentation analysis.

1 At constant currency.

2 One percentage point growth on an underlying basis.

How we win – Delivering Great Hotels Guests Love

Strategic priorities	KPIs	Current status and 2012 development	2013 priorities
Talented People Create hotels that are well run, with brands brought to life by people who are proud of the work they do.	 **Employee engagement scores** Average of two employee engagement surveys per year	• New brand management training launched for General Managers; • all of our corporate offices and more than 4,000 IHG hotels participated in Celebrate Service week, our global employee recognition event; • created a new Mandarin recruitment site and launched career pages on social networking platforms in China to continue our aim to be employer of choice; and • industry-leading suite of People Tools now embedded in our franchised and managed hotel estate.	• Empower our frontline teams with the tools and training to consistently deliver great guest experiences that build brand preference, advocacy and repeat business; • continue to strengthen our talent pipeline and succession planning to meet our growth ambitions; • instil a winning culture through strong leadership and performance management; and • build on our strong employer brand to make IHG a magnet for talent.
Best-in-class Delivery Generate higher returns for owners and IHG through increased revenue share, improved operating efficiency and growing margins.	 **Total gross revenue** Actual $bn  **System contribution to revenue*** Per cent of rooms revenue delivered through IHG's channels and Priority Club Rewards programme direct to hotel	• Launched strategic industry partnership in roomkey.com; • 71.4 million Priority Club Rewards members – 8.4 million new members enrolled in 2012, up 13 per cent on 2011; and • global IHG sales force with 17,600 sales professionals.	• Continue to strengthen IHG's system of delivering profitable demand to hotels; • put in place the required technology infrastructure to enable growth; and • continue to increase business from our loyalty programme, Priority Club Rewards.
Responsible Business Take a proactive stance and seek creative solutions on environmental sustainability and sustainable communities in a way that drives shared value for IHG, owners, guests and the communities in which we operate.	 **Hotels signed-up to Green Engage** Hotels, cumulative  **Participants benefiting from the IHG Academy**	• 2,219 of our hotels enrolled in Green Engage by end of 2012; • 11.7 per cent energy savings in our owned and managed estate by end of 2012 (on a per available room night basis); • industry standard for measuring carbon was launched in 2012 and included in Green Engage via our new carbon calculator; • over 150 IHG Academy programmes by the end of 2012; and • fan base of the 'IHG Planet CR' Facebook page expanded to over 20,000 by the end of 2012.	• Work to ensure all our hotels that are enrolled in Green Engage effectively use the tool for greatest impact; • continue to drive awareness and engagement around the IHG Shelter in a Storm Programme; • continue to expand the IHG Academy programme throughout the world; and • focus on driving awareness of IHG's approach to corporate responsibility across internal and external stakeholder groups using a variety of channels, to maximise employee pride, and reinforce IHG's reputation as a Responsible Business.

* All historical numbers are stated on a comparable basis.

Performance

Group performance

Group results

	12 months ended 31 December		
	2012 $m	2011 $m	% change
Revenue			
Americas	**837**	830	0.8
Europe	**436**	405	7.7
AMEA	**218**	216	0.9
Greater China	**230**	205	12.2
Central	**114**	112	1.8
	1,835	1,768	3.8
Operating profit			
Americas	**486**	451	7.8
Europe	**115**	104	10.6
AMEA	**88**	84	4.8
Greater China	**81**	67	20.9
Central	**(156)**	(147)	(6.1)
Operating profit before exceptional items	**614**	559	9.8
Exceptional operating items	**(4)**	35	(111.4)
	610	594	2.7
Net financial expenses	**(54)**	(62)	12.9
Profit before tax	**556**	532	4.5
Earnings per ordinary share			
Basic	**189.5¢**	159.2¢	19.0
Adjusted	**141.5¢**	130.4¢	8.5
Average US dollar to sterling exchange rate	**$1:£0.63**	$1:£0.62	1.6

Revenue increased by 3.8% to $1,835m and operating profit before exceptional items increased by 9.8% to $614m during the 12 months ended 31 December 2012.

Fee revenue, being Group revenue excluding revenue from owned and leased hotels, significant liquidated damages received in 2012 and 2011 and properties that are structured for legal reasons as operating leases, but with the same characteristics as management contracts, increased by 6.8% when translated at constant currency and applying 2011 exchange rates.

The 2012 results reflect continued RevPAR growth in each of the regions, with an overall RevPAR increase of 5.2%, including a 3.2% increase in average daily rate. The results also benefited from System size growth of 2.7% year-on-year to 675,982 rooms. Group RevPAR growth remained robust for the year, reflecting favourable supply and demand dynamics in the US over 2012, although trading was also affected by the impact of Eurozone uncertainty as well as industry-wide challenges in Greater China in the latter part of the year related to the political leadership change.

Operating profit improved in each of the regions. RevPAR growth of 6.1% in The Americas helped drive an operating profit increase of $42m (9.5%), after excluding the benefit of a $3m liquidated damages receipt in 2012 and a $10m liquidated damages receipt in 2011. Operating profit in Europe increased by $11m (10.6%), with RevPAR growth of 1.7%. Operating profit in AMEA increased by $13m (17.3%) after adjusting for a $6m liquidated damages receipt in 2011 and the disposal of a hotel asset and partnership interest that contributed $3m in profits in 2011, reflecting RevPAR growth of 4.9%. Strong operating profit growth of $14m in Greater China reflected an 11.6% increase in System size as well as 5.4% RevPAR growth.

At constant currency, central overheads increased from $147m to $158m in 2012 ($156m at actual currency), reflecting investment in infrastructure and capabilities to support the growth of the business.

Operating profit margin was 42.6%, up 2.0 percentage points on 2011, after adjusting for owned and leased hotels. The Americas and Europe managed leases and significant liquidated damages received in 2012 and 2011.

Profit before tax increased by $24m to $556m. Adjusted earnings per ordinary share increased by 8.5% to 141.5¢.

Total gross revenue

	2012 $bn	2011 $bn	% change
InterContinental	**4.5**	4.4	2.3
Crowne Plaza	**4.0**	3.9	2.6
Holiday Inn	**6.3**	6.0	5.0
Holiday Inn Express	**4.8**	4.4	9.1
Staybridge Suites	**0.6**	0.6	–
Candlewood Suites	**0.5**	0.5	–
Hotel Indigo	**0.2**	0.1	100.0
Other	**0.3**	0.3	–
Total	**21.2**	20.2	5.0

One measure of IHG 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 5.0% from $20.2bn in 2011 to $21.2bn in 2012, including a 5.0% increase in Holiday Inn and a 9.1% increase in Holiday Inn Express.

Global hotel and room count

At 31 December	Hotels 2012	Hotels Change over 2011	Rooms 2012	Rooms Change over 2011
Analysed by brand				
InterContinental	**170**	1	**57,314**	(284)
Crowne Plaza	**392**	5	**108,307**	3,203
Holiday Inn*	**1,247**	7	**231,488**	3,232
Holiday Inn Express	**2,192**	78	**205,631**	8,965
Staybridge Suites	**189**	10	**20,696**	1,129
Candlewood Suites	**299**	14	**28,675**	1,175
Hotel Indigo	**50**	11	**5,661**	1,097
Other	**63**	(4)	**18,210**	(883)
Total	**4,602**	122	**675,982**	17,634
Analysed by ownership type				
Franchised	**3,934**	102	**500,792**	11,721
Managed	**658**	21	**170,998**	6,005
Owned and leased	**10**	(1)	**4,192**	(92)
Total	**4,602**	122	**675,982**	17,634

* Includes 10 Holiday Inn Club Vacations (3,701 rooms) and 37 Holiday Inn Resort properties (8,806 rooms) (2011: 7 Holiday Inn Club Vacations (2,928 rooms) and 32 Holiday Inn Resort properties (7,809 rooms)).

During 2012, the IHG global System (the number of hotels and rooms which are franchised, managed, owned or leased by the Group) increased by 122 hotels (17,634 rooms).

Openings of 226 hotels (33,922 rooms) were driven by continued expansion in the US, particularly within the Holiday Inn brand family which opened more than 11,000 rooms during 2012, and Greater China. The level of hotel removals fell from 198 hotels (33,078 rooms) in 2011 to 104 hotels (16,288 rooms) in 2012, as anticipated following the completion of the Holiday Inn relaunch.

Global pipeline

At 31 December	Hotels 2012	Hotels Change over 2011	Rooms 2012	Rooms Change over 2011
Analysed by brand				
InterContinental	**48**	(3)	**15,713**	(1,910)
Crowne Plaza	**98**	(10)	**31,183**	(3,460)
Holiday Inn*	**243**	(24)	**44,988**	(5,762)
Holiday Inn Express	**452**	(18)	**51,760**	(441)
Staybridge Suites	**71**	(24)	**7,544**	(2,482)
Candlewood Suites	**78**	(16)	**6,742**	(1,320)
Hotel Indigo	**47**	(12)	**5,869**	(1,310)
EVEN	**1**	1	**230**	230
HUALUXE	**15**	15	**4,904**	4,904
Other	**–**	–	**97**	97
Total	**1,053**	(91)	**169,030**	(11,454)
Analysed by ownership type				
Franchised	**744**	(109)	**82,901**	(13,612)
Managed	**309**	18	**86,129**	2,158
Total	**1,053**	(91)	**169,030**	(11,454)

* Includes nil Holiday Inn Club Vacations (nil rooms) and 12 Holiday Inn Resort properties (2,390 rooms) (2011: 1 Holiday Inn Club Vacations (658 rooms) and 15 Holiday Inn Resort properties (3,037 rooms)).

At the end of 2012, the pipeline totalled 1,053 hotels (169,030 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 30% in Greater China.

Excluding 25 hotels (4,796 rooms) signed as part of the US government's Privatization of Army Lodgings initiative in 2011, signings increased from 331 hotels (50,628 rooms) to 356 hotels (53,812 rooms). Signings during 2012 included 15 hotels for the HUALUXE Hotels & Resorts brand, as well as the first signing for the EVEN Hotels brand.

During 2012, the opening of 33,922 rooms contributed to a net pipeline decline of 11,454 rooms. Active management out of the pipeline of deals that have become dormant or no longer viable reduced the pipeline by 31,344 rooms, representing a decrease of 11.8% over 2011.

Global pipeline signings

At 31 December	Hotels 2012	Hotels Change over 2011	Rooms 2012	Rooms Change over 2011
Total	**356**	–	**53,812**	(1,612)

The Americas

Maximise the performance and growth of our portfolio of preferred Brands, focussing on our core midscale and upscale segments, mostly through franchise agreements over the next three years.

2013 priorities

- Build upon the success of the Holiday Inn relaunch by continuing to improve the guest experience, investing to drive guest consideration and differentiation between the Holiday Inn brand family, particularly Holiday Inn and Holiday Inn Express, improving hotel performance and unit growth;
- execute the multi-year programme to reposition Crowne Plaza Hotels & Resorts;
- activate growth in our newest brands by successfully launching EVEN Hotels and continuing to accelerate growth from Hotel Indigo; and
- further deploy IHG tools throughout the franchised estate, across revenue management, brand standards, channel management, Responsible Business practices and People Tools.

Americas results

	12 months ended 31 December		
	2012 $m	2011 $m	% change
Revenue			
Franchised	**541**	502	7.8
Managed	**97**	124	(21.8)
Owned and leased	**199**	204	(2.5)
Total	**837**	830	0.8
Operating profit before exceptional items			
Franchised	**466**	431	8.1
Managed	**48**	52	(7.7)
Owned and leased	**24**	17	41.2
	538	500	7.6
Regional overheads	**(52)**	(49)	(6.1)
Total	**486**	451	7.8

Americas comparable RevPAR movement on previous year

	12 months ended 31 December 2012
Franchised	
Crowne Plaza	5.4%
Holiday Inn	5.9%
Holiday Inn Express	6.1%
All brands	6.0%
Managed	
InterContinental	10.5%
Crowne Plaza	3.8%
Holiday Inn	9.6%
Staybridge Suites	(1.7)%
Candlewood Suites	(0.8)%
All brands	7.3%
Owned and leased	
All brands	6.3%

Revenue and operating profit before exceptional items increased by $7m (0.8%) to $837m and by $35m (7.8%) to $486m respectively. RevPAR increased 6.1%, with 4.1% growth in average daily rate. US RevPAR was up 6.3% in 2012 despite uncertainty regarding the presidential election and the 'fiscal cliff' in the latter part of the year.

Franchised revenue increased by $39m (7.8%) to $541m. Royalties growth of 8.7% was driven by RevPAR growth of 6.0%, including 6.1% for Holiday Inn Express, together with System size growth of 2.3%. Operating profit increased by $35m (8.1%) to $466m.

Managed revenue decreased by $27m (21.8%) to $97m and operating profit decreased by $4m (7.7%) to $48m. Revenue and operating profit included $34m (2011 $59m) and $nil (2011 $1m) respectively from managed leases. Excluding properties operated under this arrangement, as well as the benefit of a $3m liquidated damages receipt in 2012 and a $10m liquidated damages receipt in 2011, revenue and operating profit grew by $5m (9.1%) and $4m (9.8%) respectively. Growth was driven by a RevPAR increase of 7.3%, including 9.6% for Holiday Inn.

Owned and leased revenue declined by $5m (2.5%) to $199m and operating profit grew by $7m (41.2%) to $24m. Excluding the impact of disposals, revenue increased by $4m (2.1%) and operating profit increased by $8m (50.0%). The increase in revenue was driven by RevPAR growth of 6.3%, offset by the impact of the partial closure of an owned hotel in the Caribbean. The operating profit increase of $7m included a $1m 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, after which no depreciation was charged, and a $3m year-on-year benefit relating to one-off reorganisation costs at one hotel in 2011.

Americas hotel and room count

At 31 December	Hotels 2012	Hotels Change over 2011	Rooms 2012	Rooms Change over 2011
Analysed by brand				
InterContinental	**53**	1	**17,756**	158
Crowne Plaza	**183**	(5)	**48,730**	(1,272)
Holiday Inn*	**820**	4	**146,661**	840
Holiday Inn Express	**1,931**	57	**168,398**	5,463
Staybridge Suites	**183**	9	**19,787**	967
Candlewood Suites	**299**	14	**28,675**	1,175
Hotel Indigo	**37**	4	**4,307**	334
Other	**49**	(2)	**15,303**	(246)
Total	**3,555**	82	**449,617**	7,419
Analysed by ownership type				
Franchised	**3,354**	88	**407,849**	9,169
Managed	**196**	(5)	**39,583**	(1,639)
Owned and leased	**5**	(1)	**2,185**	(111)
Total	**3,555**	82	**449,617**	7,419

* Includes 10 Holiday Inn Club Vacations (3,701 rooms) and 17 Holiday Inn Resort properties (4,240 rooms) (2011: 7 Holiday Inn Club Vacations (2,928 rooms) and 14 Holiday Inn Resort properties (3,658 rooms)).

The Americas hotel and room count in the year increased by 82 hotels (7,419 rooms) to 3,555 hotels (449,617 rooms). Openings of 148 hotels (16,618 rooms) included 113 Holiday Inn brand family hotels (12,566 rooms), representing more than 70% of openings for the region. Six Hotel Indigo openings (639 rooms) helped the brand reach the 50 property milestone globally by the end of 2012. 22 hotels (1,927 rooms) opened as Staybridge Suites hotels and Candlewood Suites hotels, IHG's extended stay brands. 66 hotels (9,199 rooms) were removed from the System in 2012, compared to 153 hotels (24,284 rooms) in 2011.

Americas pipeline

At 31 December	Hotels 2012	Hotels Change over 2011	Rooms 2012	Rooms Change over 2011
Analysed by brand				
InterContinental	**4**	(1)	**925**	(415)
Crowne Plaza	**16**	(6)	**3,737**	(1,512)
Holiday Inn*	**139**	(19)	**18,827**	(3,224)
Holiday Inn Express	**345**	(27)	**32,388**	(1,972)
Staybridge Suites	**64**	(22)	**6,648**	(2,247)
Candlewood Suites	**78**	(16)	**6,742**	(1,320)
Hotel Indigo	**23**	(15)	**3,076**	(1,417)
EVEN	**1**	1	**230**	230
Total	**670**	(105)	**72,573**	(11,877)
Analysed by ownership type				
Franchised	**659**	(106)	**70,290**	(11,997)
Managed	**11**	1	**2,283**	120
Total	**670**	(105)	**72,573**	(11,877)

* Includes nil Holiday Inn Club Vacations (nil rooms) and 5 Holiday Inn Resort properties (640 rooms) (2011: 1 Holiday Inn Club Vacations (658 rooms) and 6 Holiday Inn Resort properties (669 rooms)).

The Americas pipeline totalled 670 hotels (72,573 rooms) as at 31 December 2012. Signings of 226 hotels (25,536 rooms) included 173 hotels (18,866 rooms) in the Holiday Inn brand family as well as the first signing for the EVEN Hotels brand, a flagship property in the heart of midtown Manhattan, New York City. The pipeline decreased by 105 hotels (11,877 rooms) compared to 2011.

Europe

Continue to grow in priority markets and across key cities, and improve underlying margin through operational excellence over the next three years.

2013 priorities

- Accelerate growth in our priority markets and in key cities across the region;
- continue to expand Hotel Indigo across the region in key gateway cities and localise the Holiday Inn Express brand; and
- continue to deliver operational excellence to improve guest satisfaction and deliver market outperformance by embedding our revenue tools, system delivery platforms, Responsible Business practices and People Tools.

Europe results

	12 months ended 31 December		
	2012 $m	2011 $m	% change
Revenue			
Franchised	**91**	86	5.8
Managed	**147**	118	24.6
Owned and leased	**198**	201	(1.5)
Total	**436**	405	7.7
Operating profit before exceptional items			
Franchised	**65**	65	–
Managed	**32**	26	23.1
Owned and leased	**50**	49	2.0
	147	140	5.0
Regional overheads	**(32)**	(36)	11.1
Total	**115**	104	10.6

Europe comparable RevPAR movement on previous year

	12 months ended 31 December 2012
Franchised	
All brands	1.8%
Managed	
All brands	1.0%
Owned and leased	
InterContinental	5.2%

Revenue and operating profit before exceptional items increased by $31m (7.7%) to $436m and by $11m (10.6%) to $115m respectively. RevPAR increased 1.7%, with 1.2% growth in average daily rate despite challenging economic conditions across Europe.

Franchised revenue increased by $5m (5.8%) to $91m, whilst operating profit was flat at $65m. At constant currency, revenue increased by $8m (9.3%) and operating profit increased by $3m (4.6%). Growth was mainly driven by an increase in royalties of 2.7% (7.5% at constant currency) reflecting RevPAR growth of 1.8%, together with System size growth of 4.0%.

Managed revenue increased by $29m to $147m (24.6%) and operating profit increased by $6m (23.1%) to $32m. Revenue and operating profit included $80m (2011 $46m) and $2m (2011 $nil) respectively from managed leases. Excluding properties operated under this arrangement and on a constant currency basis, revenue decreased by $1m (1.4%) reflecting a 4.3% decrease in System size partially offset by RevPAR growth of 1.0%. On the same basis, operating profit grew by $5m (19.2%).

In the owned and leased estate, revenue decreased by $3m (1.5%) to $198m and operating profit increased by $1m (2.0%) to $50m. At constant currency and excluding the impact of disposals, revenue increased by $10m (5.1%) and operating profit increased by $4m (8.3%). The InterContinental London Park Lane and the InterContinental Paris Le Grand delivered year-on-year RevPAR growth of 8.0% and 2.5% respectively.

Europe hotel and room count

At 31 December	Hotels 2012	Hotels Change over 2011	Rooms 2012	Rooms Change over 2011
Analysed by brand				
InterContinental	**30**	–	**9,394**	(270)
Crowne Plaza	**84**	(2)	**19,566**	(159)
Holiday Inn*	**288**	(2)	**46,610**	145
Holiday Inn Express	**212**	14	**24,903**	1,722
Staybridge Suites	**4**	1	**605**	162
Hotel Indigo	**10**	5	**949**	542
Total	**628**	16	**102,027**	2,142
Analysed by ownership type				
Franchised	**528**	19	**79,899**	3,088
Managed	**98**	(3)	**21,211**	(946)
Owned and leased	**2**	–	**917**	–
Total	**628**	16	**102,027**	2,142

* Includes 3 Holiday Inn Resort properties (362 rooms) (2011: 3 Holiday Inn Resort properties (362 rooms)).

During 2012, Europe System size increased by 16 hotels (2,142 rooms) to 628 hotels (102,027 rooms). Openings of 39 hotels (5,477 rooms) included 31 hotels in the Holiday Inn brand family (4,233 rooms). Hotel Indigo continued to build momentum in the region with five hotel openings, doubling the System size in Europe for the brand. 23 hotels (3,335 rooms) were removed from the System in 2012.

Europe pipeline

At 31 December	Hotels 2012	Hotels Change over 2011	Rooms 2012	Rooms Change over 2011
Analysed by brand				
InterContinental	**2**	(3)	**404**	(906)
Crowne Plaza	**12**	–	**2,769**	(184)
Holiday Inn	**20**	(5)	**4,267**	(672)
Holiday Inn Express	**43**	–	**6,284**	342
Staybridge Suites	**1**	(1)	**168**	(115)
Hotel Indigo	**13**	2	**1,292**	37
Total	**91**	(7)	**15,184**	(1,498)
Analysed by ownership type				
Franchised	**83**	1	**12,186**	187
Managed	**8**	(8)	**2,998**	(1,685)
Total	**91**	(7)	**15,184**	(1,498)

The Europe pipeline totalled 91 hotels (15,184 rooms) as at 31 December 2012. Signings of 48 hotels (7,023 rooms) increased from 2011 levels and included 35 hotels (5,489 rooms) in the Holiday Inn brand family, including the first two Holiday Inn Express hotels in Russia. Seven Hotel Indigo hotels (572 rooms) were signed, including three more hotels in the UK and firsts for the brand in France, Spain and Israel. 16 hotels (3,044 rooms) were removed from the pipeline in 2012. The pipeline decreased by seven hotels (1,498 rooms) compared to 2011.

Asia Middle East and Africa (AMEA)

Execute our strategic plans to strengthen our Brands and increase our revenue share through operational excellence and outperformance over the next three years.

2013 priorities

- Grow distribution of our core brands across the region, building upon the leadership position of Holiday Inn;
- build preferred Brands and strengthen our position in key strategic markets; and
- deliver operational excellence and outperformance at our hotels by embedding revenue driving tools and, where appropriate, localising brands, channels, Responsible Business practices and People Tools.

AMEA results

	12 months ended 31 December		
	2012 $m	2011 $m	% change
Revenue			
Franchised	**18**	19	(5.3)
Managed	**152**	151	0.7
Owned and leased	**48**	46	4.3
Total	**218**	216	0.9
Operating profit before exceptional items			
Franchised	**12**	12	–
Managed	**90**	87	3.4
Owned and leased	**6**	5	20.0
	108	104	3.8
Regional overheads	**(20)**	(20)	–
Total	**88**	84	4.8

AMEA comparable RevPAR movement on previous year

	12 months ended 31 December 2012
Franchised	
All brands	7.2%
Managed	
All brands	4.6%

Revenue and operating profit before exceptional items increased by $2m (0.9%) to $218m and by $4m (4.8%) to $88m respectively. RevPAR increased 4.9%, with 1.2% growth in average daily rate, with robust trading in Southeast Asia and Japan, partly offset by continuing uncertainty impacting some markets in the Middle East.

On both a constant and actual currency basis, franchised revenue decreased by $1m (5.3%) to $18m and operating profit was flat at $12m.

Managed revenue and operating profit increased by $1m (0.7%) to $152m and by $3m (3.4%) to $90m respectively. At constant currency, excluding the benefit of a $6m liquidated damages receipt in 2011 and after adjusting for the disposal of a hotel asset and partnership interest in Australia, which contributed $3m to operating profit in 2011, revenue and operating profit increased by $7m (4.8%) and $11m (14.1%) respectively. RevPAR growth was 4.6% and although year-end System size was 7.1% higher than at the end of 2011, due to the phasing of openings towards the end of the year, rooms available during the year grew by only 2.2%. Operating profit in 2012 benefited from a $1m increase in profit from an associate and $2m lower year-on-year bad debt expense.

In the owned and leased estate, revenue and operating profit increased by $2m (4.3%) to $48m and by $1m (20.0%) to $6m respectively.

AMEA hotel and room count

At 31 December	Hotels 2012	Hotels Change over 2011	Rooms 2012	Rooms Change over 2011
Analysed by brand				
InterContinental	**65**	1	**20,791**	366
Crowne Plaza	**65**	4	**18,559**	1,638
Holiday Inn*	**75**	(2)	**17,440**	(592)
Holiday Inn Express	**12**	4	**2,877**	1,020
Staybridge Suites	**2**	–	**304**	–
Other	**13**	(3)	**2,766**	(778)
Total	**232**	4	**62,737**	1,654
Analysed by ownership type				
Franchised	**48**	(6)	**10,860**	(1,757)
Managed	**182**	10	**51,290**	3,400
Owned and leased	**2**	–	**587**	11
Total	**232**	4	**62,737**	1,654

* Includes 14 Holiday Inn Resort properties (3,311 rooms) (2011: 13 Holiday Inn Resort properties (3,121 rooms)).

The AMEA hotel and room count in the year increased by four hotels (1,654 rooms) to 232 hotels (62,737 rooms). The level of openings increased from 10 hotels (2,907 rooms) in 2011 to 16 hotels (4,243 rooms) in 2012. These included four hotels for the InterContinental brand, including the 197-room InterContinental Danang Sun Peninsula Resort in Vietnam, as well as the first Holiday Inn Express hotels in Bahrain, India and Thailand. Six Crowne Plaza hotels (1,777 rooms) were opened in 2012, including resort locations in Thailand and Jordan. 12 hotels (2,589 rooms) were removed from the System in 2012.

AMEA pipeline

At 31 December	Hotels 2012	Hotels Change over 2011	Rooms 2012	Rooms Change over 2011
Analysed by brand				
InterContinental	**20**	1	**5,366**	272
Crowne Plaza	**18**	(3)	**5,345**	(1,384)
Holiday Inn*	**47**	4	**10,895**	515
Holiday Inn Express	**35**	8	**7,091**	1,410
Staybridge Suites	**6**	(1)	**728**	(120)
Hotel Indigo	**6**	1	**932**	80
Total	**132**	10	**30,357**	773
Analysed by ownership type				
Franchised	**2**	(2)	**425**	(427)
Managed	**130**	12	**29,932**	1,200
Total	**132**	10	**30,357**	773

* Includes 4 Holiday Inn Resort properties (900 rooms) (2011: 4 Holiday Inn Resort properties (900 rooms)).

The AMEA pipeline totalled 132 hotels (30,357 rooms) as at 31 December 2012. Signings of 36 hotels (7,866 rooms) included 24 hotels (4,657 rooms) in the Holiday Inn brand family. In addition, six InterContinental hotels (1,728 rooms) were signed, including resort locations in Thailand and Australia. 10 hotels (2,850 rooms) were removed from the pipeline in 2012, compared to 32 hotels (8,243 rooms) in 2011. The pipeline increased by 10 hotels (773 rooms) compared to 2011.

Greater China

Maximise scale and strength and establish multi-segment local operating expertise to drive margin and expand our strong portfolio of Brands over the next three years.

2013 priorities

- Grow distribution and expand our portfolio of Brands with a particular focus on Crowne Plaza Hotels & Resorts and HUALUXE Hotels & Resorts;
- build upon the success of the Holiday Inn relaunch to continue to grow the Holiday Inn brand family;
- extend IHG's leading presence in the market with strategic distribution of brands in established and emerging cities in Greater China; and
- localise IHG channels, systems, processes, brands, Responsible Business practices and People Tools to increase efficiency and margin performance.

Greater China results

	12 months ended 31 December		
	2012 $m	2011 $m	% change
Revenue			
Franchised	**3**	2	50.0
Managed	**89**	77	15.6
Owned and leased	**138**	126	9.5
Total	**230**	205	12.2
Operating profit before exceptional items			
Franchised	**4**	3	33.3
Managed	**51**	43	18.6
Owned and leased	**45**	37	21.6
	100	83	20.5
Regional overheads	**(19)**	(16)	(18.8)
Total	**81**	67	20.9

Greater China comparable RevPAR movement on previous year

	12 months ended 31 December 2012
Managed	
All brands	5.6%
Owned and leased	
InterContinental	6.7%

Revenue and operating profit before exceptional items increased by $25m (12.2%) to $230m and by $14m (20.9%) to $81m respectively. RevPAR increased 5.4% with 3.1% growth in average daily rate.

Franchised revenue increased by $1m (50.0%) to $3m and operating profit by $1m (33.3%) to $4m, boosted by the opening of the 1,224-room Holiday Inn Macao Cotai Central.

Managed revenue increased by $12m (15.6%) to $89m and operating profit increased by $8m (18.6%) to $51m. RevPAR growth of 5.6% reflected continued economic growth in the region, although the whole industry was affected in the latter part of the year by the once in a decade political leadership change and the Diaoyu/Senkaku islands territorial dispute. There was also continued significant System size growth for the managed estate in the region (9.7% rooms growth in 2012 following 14.2% rooms growth in 2011).

Owned and leased revenue increased by $12m (9.5%) to $138m and operating profit increased by $8m (21.6%) to $45m, with RevPAR growth of 6.7% at the InterContinental Hong Kong.

Regional costs increased by $3m (18.8%) to $19m reflecting increased investment in operations and infrastructure in the region.

Greater China hotel and room count

At 31 December	Hotels 2012	Hotels Change over 2011	Rooms 2012	Rooms Change over 2011
Analysed by brand				
InterContinental	**22**	(1)	**9,373**	(538)
Crowne Plaza	**60**	8	**21,452**	2,996
Holiday Inn*	**64**	7	**20,777**	2,839
Holiday Inn Express	**37**	3	**9,453**	760
Hotel Indigo	**3**	2	**405**	221
Other	**1**	1	**141**	141
Total	**187**	20	**61,601**	6,419
Analysed by ownership type				
Franchised	**4**	1	**2,184**	1,221
Managed	**182**	19	**58,914**	5,190
Owned and leased	**1**	–	**503**	8
Total	**187**	20	**61,601**	6,419

* Includes 3 Holiday Inn Resort properties (893 rooms) (2011: 2 Holiday Inn Resort properties (668 rooms)).

The Greater China hotel and room count in the year increased by 20 hotels (6,419 rooms) to 187 hotels (61,601 rooms). Openings of 23 hotels (7,584 rooms) included the Holiday Inn Macao Cotai Central (1,224 rooms), the largest Holiday Inn in the world. Eight Crowne Plaza hotels (2,996 rooms) and two Hotel Indigo hotels (224 rooms) were opened in 2012.

Greater China pipeline

At 31 December	Hotels 2012	Hotels Change over 2011	Rooms 2012	Rooms Change over 2011
Analysed by brand				
InterContinental	**22**	–	**9,018**	(861)
Crowne Plaza	**52**	(1)	**19,332**	(380)
Holiday Inn*	**37**	(4)	**10,999**	(2,381)
Holiday Inn Express	**29**	1	**5,997**	(221)
Hotel Indigo	**5**	–	**569**	(10)
HUALUXE	**15**	15	**4,904**	4,904
Other	**–**	–	**97**	97
Total	**160**	11	**50,916**	1,148
Analysed by ownership type				
Franchised	**–**	(2)	**–**	(1,375)
Managed	**160**	13	**50,916**	2,523
Total	**160**	11	**50,916**	1,148

* Includes 3 Holiday Inn Resort properties (850 rooms) (2011: 5 Holiday Inn Resort properties (1,468 rooms)).

The Greater China pipeline totalled 160 hotels (50,916 rooms) as at 31 December 2012. Signings of 46 hotels (13,387 rooms) increased from 38 hotels (12,112 rooms) in 2011 and included 15 hotels for the newly launched HUALUXE Hotels & Resorts brand, together with 12 Crowne Plaza hotels (4,527 rooms). 12 hotels (4,655 rooms) were removed from the pipeline in 2012. The pipeline increased by 11 hotels (1,148 rooms) compared to 2011.

Central

Central results

	12 months ended 31 December		
	2012 $m	2011 $m	% change
Revenue	**114**	112	1.8
Gross central costs	**(270)**	(259)	(4.2)
Net central costs	**(156)**	(147)	(6.1)

Net central costs increased by $9m (6.1%) from $147m in 2011 to $156m in 2012. At constant currency, net central costs increased by $11m (7.5%). The movement was driven by investment in infrastructure and capabilities to support the growth of the business. Central revenue mainly comprised technology fee income.

System Fund

System Fund results

	12 months ended 31 December		
	2012 $m	2011 $m	% change
Assessment fees and contributions received from hotels	**1,106**	1,025	7.9
Proceeds from sale of Priority Club Rewards points	**144**	128	12.5
	1,250	1,153	8.4

In the year to 31 December 2012, System Fund (the Fund) income increased by 8.4% to $1,250m primarily as a result of growth in hotel room revenues. 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 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 loss of $4m. Exceptional gains included a $23m impairment reversal and the release of a $9m liability no longer required relating to the 2003 demerger of the Group from Six Continents PLC. Exceptional charges included $16m from the reorganisation of the Group's support functions together with a restructuring in the AMEA region, $2m loss on disposal of an interest in a hotel and $18m write-off of software.

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

Net financial expenses

Net financial expenses decreased by $8m to $54m primarily due to lower average debt levels.

Financing costs included $2m (2011 $1m) 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 2012 also included $19m (2011 $18m) in respect of the InterContinental Boston finance lease.

Taxation

The effective rate of tax on operating profit excluding the impact of exceptional items, was 27% (2011 24%). Excluding the impact of prior year items, the equivalent tax rate would be 30% (2011 36%). This rate is higher than the average UK statutory rate of 24.5% 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 $142m (2011 $48m). This represented, primarily, the recognition of $104m of deferred tax assets whose value has become more certain as a result of a change in law and the resolution of prior period tax matters, together with the associated release of $37m of provisions. In 2011 the credit mainly related to a revision of the estimated tax impacts of an internal reorganisation completed in 2010.

Net tax paid in 2012 totalled $122m (2011 $90m) including $3m paid (2011 $1m) in respect of disposals. Tax paid represents an effective rate of 22% (2011 17%) on total profits and is lower than the effective income statement tax rate of 27% 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.

IHG earns approximately 60% of its revenues in the form of franchise, management or similar fees, with almost 90% of IHG branded hotels being franchised. In jurisdictions in which IHG does franchise business, the prevailing tax law will generally provide for IHG to be taxed in the form of local withholding taxes based on a percentage of fees rather than based on profits. Costs to support the franchise business are normally incurred regionally or globally and therefore profits for an individual franchise jurisdiction cannot be separately determined.

Earnings per ordinary share

Basic earnings per ordinary share in 2012 was 189.5¢, compared with 159.2¢ in 2011. Adjusted earnings per ordinary share was 141.5¢, against 130.4¢ in 2011.

Dividends

The Board has proposed a final dividend per ordinary share of 43.0¢ (27.7p). With the interim dividend per ordinary share of 21.0¢ (13.5p), the full-year dividend per ordinary share for 2012 will total 64.0¢ (41.2p), an increase of 16% over 2011. On 22 October 2012 a special dividend of $1.72 (108.4p) per ordinary share was paid to shareholders.

Share price and market capitalisation

The IHG share price closed at £17.07 on 31 December 2012, up from £11.57 on 31 December 2011. The market capitalisation of the Group at the year end was £4.6bn.

Capital structure and liquidity management

Net debt* at 31 December	2012 $m	2011 $m
Borrowings:		
Sterling	**638**	–
US dollar	**626**	715
Other	**5**	5
Cash and cash equivalents	**(195)**	(182)
Net debt	**1,074**	538
Average debt levels	**651**	721

* Including the impact of currency derivatives.

Facilities at 31 December	2012 $m	2011 $m
Committed	**1,075**	1,075
Uncommitted	**96**	79
Total	**1,171**	1,154

Interest risk profile of gross debt for major currencies at 31 December	2012 %	2011 %
At fixed rates	**100**	100

During the year, $472m of cash was generated from operating activities of which $133m was invested in capital expenditure. After shareholder returns of $786m, including a $505m special dividend and $107m of share buybacks, net debt at 31 December 2012 was $1,074m, an increase over the year of $536m. Net debt included $212m in respect of the finance lease obligations for the InterContinental Boston and $11m in respect of currency swaps related to the £250m sterling bond.

In November 2012, the Group issued a 10-year £400m public bond under its Medium Term Notes programme. The bond has a coupon of 3.875% and extends the maturity profile and diversifies the sources of the Group's debt. The Group issued its first bond under the programme in December 2009 which was a £250m seven-year public bond at a coupon of 6%, which was immediately swapped into US dollar debt using currency swaps.

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 undrawn at the year end.

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

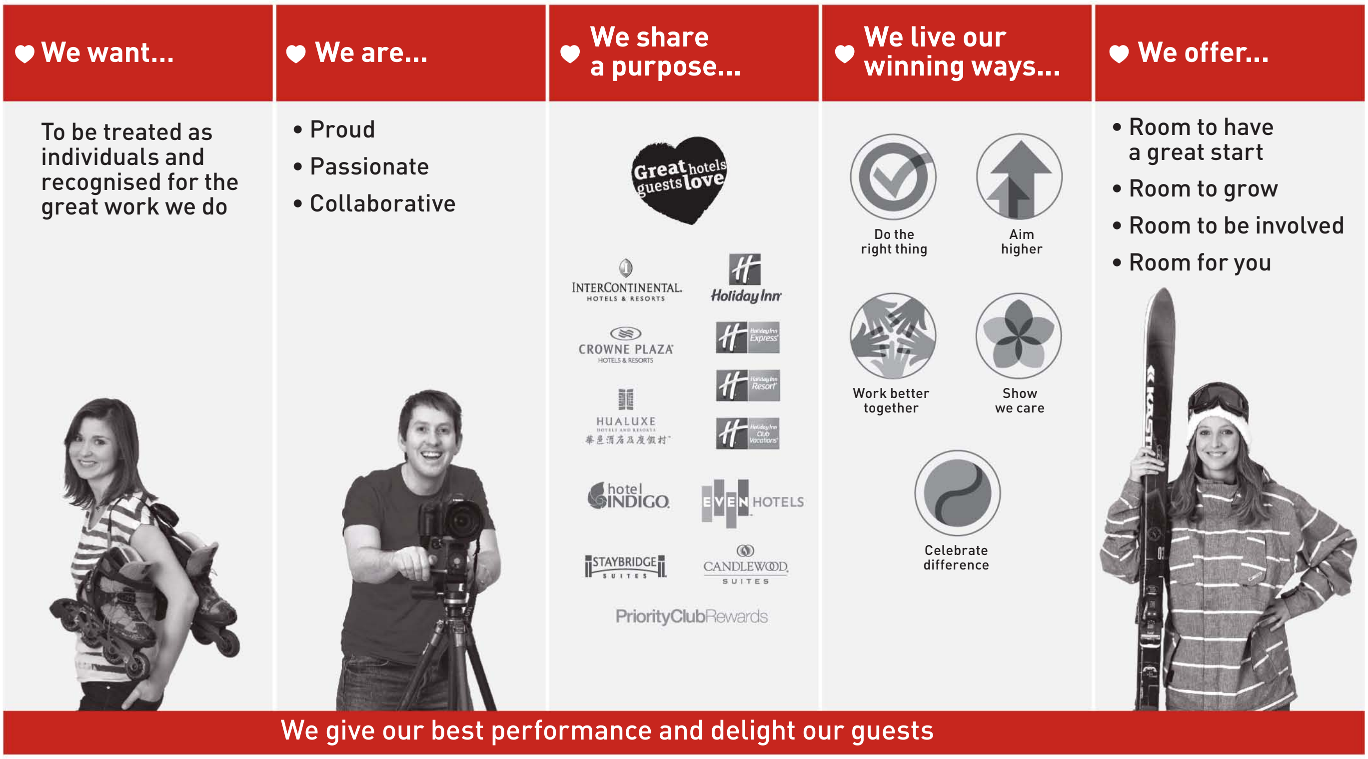
Our talented People

We believe that the success of IHG doesn't just depend on the brilliance of one brand or one person, but a whole family of preferred Brands, brought to life by talented and passionate People who deliver Great Hotels Guests Love.

IHG employed 7,981 people worldwide during the year ended 31 December 2012 whose costs were borne by the Group. When the Group's entire estate is taken into account (including employees working in the franchised and managed hotels) over 350,000 people worked globally across all IHG's brands as at 31 December 2012. Unless otherwise stated, any data in this section relates to the people directly employed by IHG and those who work in managed hotels or part of our joint venture with All Nippon Airways in Japan – in total 120,000 people. Our People strategy is focussed on engaging all those who work in IHG hotels and corporate offices to deliver great performance and Great Hotels Guest Love across all our Brands regardless of the business model.

In this section we explain each of the pillars of our People strategy and how this enables us to meet the fresh challenges of a changing workforce and increased competition, as well as describing our approach to diversity and how we provide a safe and secure environment for our guests and employees.

Our employer brand



The four pillars of our People strategy are:

- developing a BrandHearted culture;
- making IHG a great place to work;
- delivering world-class People Tools to our owners and hotels; and
- building a strong leadership team.

Developing a BrandHearted culture

Being BrandHearted means changing the way we think, act and behave when it comes to our Brands – it means putting them at the centre of every conversation, every idea and every decision we make. Our Brands offer a distinct promise to our guests, so it is vital that we make it easy for our owners and General Managers and their teams to keep those brand promises. In 2012 we launched a new Brand Framework to better define what a great branded guest experience looks like. We are also transforming the way we deliver our brand standards to hotels, making it easier than ever before for all of our hotels to create a consistent brand experiences. This work forms part of our ongoing commitment to provide our hotel estate with simple, easy-to-use tools that generate better business performance and brand preference. Our Programme Office has been leading this work internally.

Ways of working

The Programme Office has been instrumental in driving a more disciplined approach to the way we develop, design and deliver projects to hotels. This year we refreshed our Ways of Working to promote a more coordinated approach to project design and developed the new IHG Way of Project Management – a bespoke set of tools to improve the way we deliver projects to hotels. This gives us a consistent and more effective approach to projects, and project risk management.

Heart of house

Our Heart of house initiative has been a key project in 2012. When our colleagues feel engaged, they deliver better service to our guests. This is why Heart of house continues to be so influential in helping us embed a BrandHearted culture. Heart of house is an integral part of our People Tools. It is unique in the hotel industry – transforming the traditional 'back of house' into the heart of our hotels – an inspiring, inviting, place for employees to learn more about what's happening at IHG, their hotel brand, their hotel and in their teams. Heart of house provides both a shared space for colleagues to communicate and an improved working environment and supports our General Managers in involving, inspiring and engaging their teams as brand ambassadors. Nearly 1,000 of our hotels have now installed Heart of house.

Celebrating service

Being BrandHearted is also about celebrating employees, and recognising achievement is very important to us. That's why every year, through Celebrate Service week, we recognise our colleagues for the great work they do to give our guests an enjoyable stay. Celebrate Service week, which was instigated by, and run in partnership with, the IHG Owners Association, saw more than 4,000 hotels participating in 2012. This has now become an important driver of employee engagement – following this year's event we found 99 per cent of employees at our corporate offices, central reservations offices and managed and owned hotels and 98 per cent of those working at participating franchised hotels said they felt proud to work for a company that recognises its people in this way.

Making IHG a great place to work

Our People play a key role in delivering our brand promises day in, day out. To achieve our Vision, we need to attract the very best people, harness their passion and equip them with the right skills to give our guests a truly great experience. Research shows that people want to be treated as individuals and recognised for the great work they do. In our employer brand we call this Room to be yourself and this commitment is brought to life by four key promises:

Room to have a great start

Over the next few years, to meet our growth targets, we need to find an additional 90,000 BrandHearted colleagues. People that really love our Brands, can bring them to life though great service delivery. By defining the specific behaviours needed to bring our Brands to life and incorporating them in all our People Tools, we are able to recruit people with the right attitude for the brand as well as the right technical skills for the role. All new recruits attend an orientation programme and have access to a new onboarding portal to ensure they understand our Winning Ways, Room to be yourself and what being BrandHearted really means, from the moment they join IHG.

To support our recruitment efforts and build upon our high levels of employee engagement, we launched the Recommend a friend scheme in 2012 to all franchised, managed and owned and leased hotels and central reservations offices. This followed the success of the launch of a similar scheme at our corporate offices, which saw 21 per cent of corporate hires coming through employee recommendations – a 15 per cent increase from 2011.

One of the biggest recruitment challenges we face is how we leverage the strength of our global brand, while being sensitive to the local markets in which our hotels operate. In Greater China, for example, we have created a new recruitment site in Mandarin and have launched career pages on social networking platforms such as Weibo and Renren (the number 1 social media platform amongst college students in Greater China).

As further explained on page 35 as part of our Responsible Business practices, the IHG Academy provides local people with the opportunity to build and develop their skills and improve their employment prospects. An IHG Academy is a collaboration between IHG hotels or our corporate offices and local education providers and/or community organisations and helps us create a pipeline of potential recruits and future talent. We currently have over 150 IHG Academy programmes in 37 countries around the world.

Room to be involved

We ask our employees and those colleagues working in our managed hotels to participate in an employee engagement survey twice a year. 96 per cent of employees took part in our 2012 employee engagement survey. The results were impressive with 94 per cent of respondents saying they are proud to work for IHG – which is an all time high and 20 per cent higher than industry benchmarks. Better still, our engagement scores continue to improve year-on-year and we have seen an 18 percentage point increase across the Group in the last five years.

Highlights of our 2012 employee engagement survey results (taking the average of the two annual surveys) include:

- our employees are more engaged than ever before with 78.6 per cent engagement for 2012 – 2.8 per cent higher than the 2011 engagement average;
- 85 per cent say we are 'living' our Winning Ways; and
- we continue to beat external benchmarks – according to our survey administrator, engagement scores for high-performing companies have remained flat and service companies have had a decrease of 1.5 per cent per year since 2010.

This year, for the first time we launched the employee engagement survey to our franchise estate with 15 per cent of hotels pioneering its use and a 4.7 percentage point increase in engagement in those hotels between April and October.

By listening to our People and responding to their needs we can drive better business results. This was shown in a study we commissioned to examine the link between employee engagement and hotel performance. This study found that the difference in gross operating profit margin between hotels with highly engaged people compared with those with lower engagement can be as much as seven percentage points.

When we compared hotels where engagement had increased, against those where it had not, we found that for every 5 percentage point increase in engagement, there was, on average, 70 cents of increased RevPAR. That means that for a 200-bed hotel this RevPAR increase could generate an additional $50,000 of revenue per annum.

Room to grow

Providing all our colleagues with Room to grow is an essential part of our culture and is at the heart of how we continue to develop our business. Our approach ensures that we provide learning and development opportunities to all colleagues, whilst investing strongly behind our critical roles and core capabilities. To support this, every employee creates a personal development plan with their manager, which supports their development and, in turn, drives our business success.

One of the most important roles for driving the success of our business is our hotel General Managers. This is why we are launching our new General Manager training programme, which is a breakthrough programme designed to shift our mindset away from simply creating great hotel managers to developing great Brand managers. To have preferred Brands, we need the best General Managers in the industry and therefore we have invested heavily in our approach to hiring, training and developing them. This has been the focus of our shared agenda with the IHG Owners Association and we are proud to have worked with them to develop this programme, which will be rolled-out initially to new Holiday Inn and Holiday Inn Express General Managers from the first quarter of 2013.

Mid-management and above continue to be supported through IHG's Leaders Lounge, our award-winning online community and leadership development forum. The usage of IHG's Leaders Lounge continues to rise, with more than 7,000 visits per month to access short learning sessions, providing practical tips and insights designed to be completed in just a few minutes.

Room for you

We pride ourselves on our ability to recognise great BrandHearted behaviour internally and in 2012 we launched Bravo!, an online peer-to-peer recognition tool that gives our colleagues the means to publicly recognise each other's work and efforts. To date more than 25,000 Bravos! have been sent, proving our People really value the opportunity to be able to give and receive recognition from their peers.

We are also strengthening Group performance culture in our corporate offices. Our annual incentive plan for our senior executives now aligns with our strategic priorities of Brands, People and Delivery, as explained in the Directors' Remuneration Report on pages 59 to 78, ensuring alignment with shareholder interests.

Delivering world-class People Tools for our owners

It's never easy to find people who can live and breathe our Brands, but it's an important job, perhaps the most important job, because guests don't differentiate between a hotel being franchised, managed or owned, they just want a fantastic and consistent brand experience. By working with the hotel human resources community we developed a set of award-winning People Tools that not only help increase employee retention, performance and guest satisfaction but also drive efficiencies and increase revenue for our owners. Our People Tools are a suite of best practice tools which help our hotels hire, train, involve and recognise the best people for each of our brands. In 2012, 96 per cent of General Managers using our People Tools regularly said they would recommend them to others. We believe this is a point of differentiation compared to our competitors.

As well as continuing to drive awareness around our People Tools we have also worked to make it easier for hotels to access them. In 2012 we launched Hotel Solutions which is the ultimate toolbox, providing hotels with a single gateway to access the full suite of People Tools, as well as other training and guidance tools. These tools cover across a broad range of hotel operations, housekeeping and hotel safety, as well as Responsible Business practices. Hotel Solutions also encourages collaboration across all of our hotels around the world, another example of us leveraging our System size for the benefit of our hotels. Since its launch, 71 per cent of hotels have been using it, with General Managers saving an estimated three to four hours each month on administrative tasks. Further, hotels using Hotel Solutions have seen improvements in guest satisfaction, which shows that the right tools, in the right hands, can deliver the right results.

Building a strong leadership team

Growing our business sustainably and responsibly requires leaders who deliver great results, do the right thing, inspire their people and put our Brands at the heart of everything they do. In 2012 we introduced a more disciplined approach to leadership assessment and created our Leadership Framework to make it easier for our People to understand what great leadership looks like, including the skills and experiences they need in order to be able to move to the next level in their careers. Together, these approaches are ensuring that we are best placed to select and develop the best leaders for our business and for our Brands.

Our global suite of leadership programmes helps us develop our leaders and attract some of the world's best talent to our team. These programmes combine skills, development, education, experiences and access to great managers, mentors and coaches in order to develop the leadership competencies we need to meet our business goals. Support to our leaders also continues to be provided through IHG's Leaders Lounge.

By developing internal talent together with the strategic hiring of key individuals who bring additional skills, perspectives and experiences, we are building a strong leadership team, capable of driving a high performance culture and delivering on our strategic agenda.

Our Board and Executive Committee leadership and governance processes are set out on pages 46 to 80.

London 2012 Olympic and Paralympic Games: Giving our People a once-in-a-lifetime opportunity

Being the first hotel company to be trusted to help run the Athletes' Village was a groundbreaking opportunity for IHG. It gave us the chance to show thousands of athletes and a team of 8,000 volunteers, employees, contractors and secondees what world-class service is all about. The London 2012 Olympic and Paralympic Games were great for our colleagues too. Our Olympic secondees learnt many new skills to take back to their hotels and offices, and the first intake of talent from the IHG Academy at Newham were able to benefit from local work experience and hospitality training. The Olympics has enabled us to inspire our next generation of talent to achieve great things.

Before the London 2012 Olympic and Paralympic Games began, we were embracing the Olympic spirit across the whole business. Not everybody got to carry the torch or work in the Athletes' Village, but we tried to provide opportunities for all our People to have the chance to feel part of the experience.

Examples of our People being part of the Olympic and Paralympic experience include:

- we organised a charity fundraising campaign, 'Race Around the World,' which got more than 60,000 colleagues running, swimming and cycling and helped raise $300,000 for the IHG Shelter in a Storm Programme;
- we gave more than 1,400 people the chance to take part in an Olympics Masterclass, run by some of the world's top athletes, from cycling with Victoria Pendleton to swimming with Ellie Simmonds;
- we received more than 550 entries in our Design a Keycard competition for our hotels at the Athletes' Village;
- 72 IHG employees were given the opportunity to become Olympic Torchbearers. They were nominated by colleagues for showing remarkable feats in the environment and community or for having an extraordinary personal story;
- on 24 July 2012 the Olympic Torch Relay reached our UK Denham corporate office and 800 colleagues, friends and family were able to see the torch first-hand and cheer four IHG colleagues as they became official Olympic Torchbearers; and
- we were proud that 47 of our hotels across the country were given the important task of looking after the Olympic Torch Relay crew – helping to make the Relay such a success.

Celebrating diversity

Being a global organisation operating in nearly 100 countries and territories around the world, we recognise the importance and benefit of ensuring our workforce fully represents the communities in which we operate and the guests who stay in our hotels. We value our employees as unique individuals, with the different ideas, perspectives and energy they bring. We have created an inclusive culture where people are encouraged to be themselves. This is seen in our Room to be yourself employer brand and drives higher levels of employee engagement and, as a result, improves business performance.

Currently, 35 per cent of our middle to senior leadership population at our corporate offices are female and we continue to explore ways to increase the diversity of our management team. In 2012, we launched a review of diversity and inclusion that will ensure we have the right combination of policy and practices to further improve our recruitment, retention, development and career progression of minority groups, including a focus on increasing the representation of women at all levels of our business. The Group is also committed to providing equality of opportunity to all employees without discrimination and continues to be supportive of the employment of disabled persons.

Our Board's commitment to supporting diversity is set out on pages 50 and 58. Currently our Board comprises three women (27 per cent).

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 everyone to comply with relevant health and safety legislation.

The Group ensures that we protect 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 the review of health and safety matters.

Further information on our approach towards health and safety and security can be found on pages 38 to 44 and on our online Corporate Responsibility Report viewable at www.ihgplc.com/responsibility

External recognition

We are incredibly proud of the external recognition we receive across the globe as an employer of choice. In 2012 we:

- featured in The Sunday Times 25 Best Big Companies to Work For;
- received recognition for our employer brand at the Personnel Today Awards 2012 winning the Award for Employer Branding;
- were named in the top 10 of the World's Learning Elite – recognising the effectiveness of our use of formal training together with coaching and on-the-job learning;
- were recognised as one of India's Best Companies to Work For in 2012;
- were recognised as being one of the 100 Best Human Resource Management Companies in China; and
- were listed in The Job Crowd's The Top Companies For Graduates To Work For in 2012/13.

Corporate Responsibility

Corporate Responsibility (CR) is a key part of our Responsible Business practices. We treat it as a strategic business issue and therefore believe CR only makes sense if it aligns to our Vision of becoming one of the great companies in the world by creating Great Hotels Guests Love.

We believe that incorporating societal and environmental factors into our business strategy and operations will play a vital role in the long-term viability of our business and the travel and tourism sector. Whilst tourism plays a large role in the world economy and is an important source of wealth for many countries, our industry faces increasing pressure to balance its economic performance with its social and environmental impacts.

As a leading global hotel company, we are in a particularly strong position to help make tourism increasingly responsible. That's why, for IHG, Responsible Business underpins all of our strategic priorities. We aim to harness the role hotels play in society in order to create shared value for our business, our guests, the environment and the communities where we operate, whether that's conserving and protecting resources, helping local people build skills and improve their employability or providing refuge when disaster strikes. CR is an essential element of doing business responsibly.

Our CR ambition is to transform hospitality for more sustainable communities and better lives. We work to find innovative ways to build and run hotels that can fulfil our brand promises, tackle the environmental and social challenges we face and create shared value for IHG and our stakeholders.

We focus our CR activities in two areas that make sense to our business and where we believe we can make the most difference – the environment and the local community:

- **Environmental sustainability** – we drive environmental sustainability through our online environmental management platform Green Engage; and
- **Sustainable communities** – we create local economic opportunity, particularly through the IHG Academy, and we provide shelter when disaster strikes through the IHG Shelter in a Storm Programme.

All activities are underpinned by the robust policy and management foundations we have worked to build and strengthen since we set up our CR function in 2006.

Our CR governance

Our Corporate Responsibility Committee, a committee of the Board, was established in 2009 and is chaired by Jennifer Laing, a Non-Executive Director. Our Corporate Responsibility Committee Report is set out on page 57 and the Committee's membership, role, responsibilities and activities in 2012 are set out therein. The Committee oversees that we have the right policies, management and measurement systems in place to deliver against our strategy. It met three times in 2012, focussing on the global expansion of the IHG Academy programme, the activation of the IHG Shelter in a Storm Programme, the ongoing roll-out of Green Engage and our CR stakeholder engagement channels such as our online Corporate Responsibility Report.

We have established further governance committees run by members of the CR team to oversee globally-aligned decisions. These include our Global Sustainability Council and our IHG Community Strategy Committee, both of which met during 2012 to discuss improvements to, and expansions of, our key CR programmes.

Environmental sustainability

We are committed to designing, building and operating more environmentally sustainable hotels, something we believe is essential to being a Responsible Business and delivering Great Hotels Guests Love. Through Green Engage, our online environmental management platform, we provide our hotel owners with a roadmap to develop and operate more sustainable hotels.

In 2012:

- in our managed and owned estate our three-year target (2010-2012) was to reduce energy per available room by between 6 and 10 per cent; we exceeded our target with a reduction of 11.7 per cent; and
- our latest carbon footprint assessment revealed that we achieved an absolute reduction in IHG's global carbon footprint in our hotels and corporate offices of 76,000 metric tonnes in a year.

Our online Innovation Hotel website helps us to envision what future hotels could look like and how they might operate. The site allows online visitors to tell us what they think of the latest sustainable hotel concepts: www.ihgplc.com/innovation

GREEN engage

Green Engage

The environmental impact of our hotels is managed through every stage of the hotel lifecycle by Green Engage. Green Engage tracks the use of energy, carbon and water and the management of waste in our properties along with the associated costs. An important feature in Green Engage is Green Solutions – over 200 actions a property can implement to reduce its environmental impact. The programme provides owners with advice on everything from picking a suitable site and selecting the correct lighting for the hotel through to choosing responsible cleaning materials and providing staff training on environmental sustainability. Green Engage also provides the ability for our properties to answer our corporate client sustainability questions through its robust reporting feature.

Green Engage helps us fulfil our important commitment to doing business responsibly and, 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 per cent more energy efficient, so it makes both environmental and financial sense.

In 2012 we continued to invest in Green Engage, adding new features, such as the carbon calculator, energy and water benchmarks and multi-unit reporting. As at 31 December 2012, 2,219 of our hotels were enrolled in Green Engage. Our user base has since grown to over 2,260 hotels. Our aim is to have our entire estate tracking, managing and reporting its environmental impact over time.

Green Engage is driving revenue for IHG as well. Our research shows that many frequent travellers prefer hotels which are meaningfully engaged in managing their environmental impact. We have made it easier for this growing band of customers to book a Green Engage hotel by introducing an online booking capability for guests who want to stay at Green Engage hotels.

We think it is important for us to lead by example so we extended our environmental sustainability principles to our corporate office in Denham, UK, which incorporates a range of sustainable design features and uses Green Engage on an ongoing basis.

In addition to internal programme improvements, we have demonstrated leadership through our role in the International Tourism Partnership (ITP)/World Travel and Tourism Council (WTTC) Working Group seeking to agree a common carbon metric for the industry. The common methodology was agreed in 2012, a big step forward for our industry. We were able to quickly build it into Green Engage with our hotels able to start applying it immediately.

Sustainable communities

Our scale gives us a real opportunity to improve and transform the lives of local people in the communities where we operate. Our community strategy, which sets out how we seek to create local economic opportunity, is critical to achieving economic success and delivering Great Hotels Guests Love. In 2012 we continued to increase our focus on the community, successfully expanding both the IHG Academy programme and the IHG Shelter in a Storm Programme. To support the expansion of these programmes we work in collaboration with expert partners.

IHG Academy

The IHG Academy is a collaboration between individual IHG hotels or corporate offices and local education providers and/or community organisations providing local people with the opportunity to develop skills and improve their employment prospects in one of the world's largest hotel companies.

Within a consistent framework, each IHG Academy is tailored to meet the needs of local communities as well as hotels around the world. All IHG Academy programmes have three things in common:

- they operate together with local community organisations and/or education providers;
- they include a work experience placement, giving participants skills and real experience of working in a hotel; and
- they include performance feedback and a recruitment discussion, giving participants an opportunity to gain real experience of the job interview process, thereby improving their chances of finding a job in the hotel sector and in many cases, secure a job in one of IHG's hotels.

Participants of an IHG Academy come from all walks of life and range from university graduates through to disadvantaged young people, reflecting the range of careers, as well as opportunity for progression, available at IHG. In February 2012, we launched an IHG Academy in Newham East London, UK. This award-winning collaboration provides a hospitality certification and work experience in IHG hotels and, as part of our contribution to the London 2012 Olympics and Paralympics Games legacy, it supports the regeneration of East London.

We currently have over 150 IHG Academy programmes in 37 countries around the world and our vision is to have as many IHG hotels as possible participating in an IHG Academy. Our ability to build skills and raise aspirations across hundreds of communities continues to drive our commitment to this programme.

For more information on the IHG Academy visit www.ihgacademy.com

Celebrating the 150th IHG Academy opening, Beijing, China

IHG Shelter in a Storm Programme

Through the IHG Shelter in a Storm Programme, our hotels receive guidance on when and how best to respond when natural or man-made disasters occur. Our global partnership with CARE allows us to draw on expertise in humanitarian assistance and helps us find appropriate partners in the area when disaster strikes, directing help to where it is needed. When a disaster occurs, funds from the IHG Shelter Fund can be allocated to enable our hotels to respond quickly and effectively to support our guests, employees and the local community with financial support, vital supplies and accommodation.

The IHG Shelter Fund, a pool of funds from the fundraising efforts of IHG hotels and corporate offices, is a key element of the IHG Shelter in a Storm Programme, enabling us to respond quickly when disaster strikes, instead of waiting to raise funds after the event.

In 2012, $545,000 was raised for the IHG Shelter in a Storm Programme and the fund was put into action to support 10 disasters across six countries, including responding to severe flooding and a cyclone in Fiji, Superstorm Sandy on the US East Coast, flooding in Manila and the UK, wildfires in Colorado and Hurricane Isaac on the US Gulf Coast. On each occasion we assessed the damage to IHG hotels and the impact on their employees and communities, and allocated funds from the IHG Shelter Fund to help with essential supplies and accommodation.

For more information on the IHG Shelter in a Storm Programme or to donate visit www.ihgshelterinastorm.com

IHG employees take part in the Shelter Sprint to raise funds for the IHG Shelter in a Storm Programme

Stakeholder engagement

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

As a member of the International Tourism Partnership (ITP) and the World Travel & Tourism Council (WTTC), we work with our industry peers to share knowledge and resources, and together we address issues that affect the industry as a whole.

We engage with our stakeholders through a number of channels, including forums, meetings, individual interviews, surveys and through our websites:

- our award-winning online Corporate Responsibility Report, updated regularly, is available at www.ihgplc.com/responsibility;
- our 'IHG Planet CR' Facebook page is available at www.facebook.com/IHGCorporateResponsibility and at the end of 2012 had been liked by over 20,000 fans; and
- our internal intranet site is a one-stop-shop resource centre, which keeps all of our colleagues up-to-date on our key programmes.

We also continue to build on our series of animated videos to help raise awareness and understanding of our key programmes in a fun and engaging way. Recently we created a new video about our economic impacts – this reached almost one million people through Facebook. The videos are also available on YouTube and through our online Corporate Responsibility Report.

To make sure our hotel General Managers and their teams have the latest information on our programmes, we launched standalone websites for the IHG Academy and the IHG Shelter in a Storm Programme. These provide 'how to' guides and other materials for hotels to download and share with their teams.

Our engagement with shareholders is set out on page 55.

Public policy, regulation and legislation

The travel sector is one of the largest employers in the world and being a Responsible Business means engaging with decision-makers on policies that affect our guests, hotel owners and our other stakeholders.

We constantly engage with policymakers in executive and legislative branches around the world in order to advocate issues important to IHG, our owners and our guests. We particularly concentrate on issues relating to the operating environment for small businesses, data privacy and intellectual property. We work in a coordinated fashion with industry and business advocacy organisations in all regions where we have hotels.

Our systems and CR programmes help us keep ahead of legislative and regulatory requirements. For example, Green Engage is core to helping hotel owners manage current regulatory performance and prepare for anticipated regulations. In 2012 we used the programme 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 Sustainability Council. Our carbon strategy for managing our footprint is through Green Engage and we discuss our approach and actions with the IHG Owners Association to ensure our franchisees understand and support our initiatives.

To further drive engagement of our owners, General Managers and their teams, we introduced a suite of web-based tools to help them engage with their elected officials on policy issues of critical importance to the business.

Policies and Code of Ethics

Responsible Business is at the heart of everything we do. We encourage all our employees to 'do the right thing' and 'show we care' through living our Winning Ways as shown in the diagram on page 30. The Group's Code of Ethics and Business Conduct consolidates and clarifies expected standards of behaviour and communicates the ethical values of the Group globally. 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. We also have detailed policies on the environment, supporting our community, competition, anti-bribery and data privacy, which are regularly communicated via eLearning and face-to-face training modules promoting accountability and transparency.

We participate in the ITP working group on human trafficking. We also have our own human rights policy and in 2010, we signed up to the UN Global Compact aligning our operations and strategies with the 10 universal principles that include commitments to human rights and labour standards.

External recognition

In 2012, we were:

- awarded the Global Business Travel Association (GBTA) Gold Medal Award for Sustainability;
- awarded the Hotel Owners' and Franchisees' Transatlantic and European League (HOFTEL) Owner Friendly Innovation Award for Green Engage, an important recognition that Green Engage is of value to our hotel owners; and
- shortlisted for the World Environment Centre Award for Sustainability, making it to the final round with Green Engage commended.

CR priorities, performance and targets

The following table outlines IHG's overall CR developments and achievements during 2012 and priorities for 2013.

CR priorities	2012 developments and achievements	2013 priorities
Environmental sustainability	• In our managed and owned estate our three-year target (2010-2012) was to reduce energy per available room by between 6 and 10 per cent, we exceeded our target with a reduction of 11.7 per cent; • reduced our carbon footprint in our owned and managed hotels by 19 per cent per occupied room in a year; • achieved an absolute reduction in our global carbon footprint in our hotels and corporate offices of 76,000 metric tonnes in a year; • reached our target to have 50 per cent of our hotels (based on January 2012 hotel figures) using Green Engage on 14 January 2013, we now have over 2,260 hotels enrolled; and • launched a global carbon standard for hotels and added a new carbon calculator in Green Engage with our hotels able to start applying it immediately.	• Work to ensure all our hotels that are enrolled in Green Engage use the tool for greatest impact to help them reduce their environmental impacts and operating costs; • continue to work with the IHG Owners Association to further expand the Green Engage programme across our hotels; • continue our active engagement with the Hotel Carbon Measurement Initiative (HCMI) to further drive the carbon methodology in the industry; and • expand the ability for our guests to locate and book Green Engage hotels.
Sustainable communities	• Expanded our IHG Academy to 157 programmes – an increase of over 100 during the 2012 year; • created an IHG Academy online toolkit to help hotels and corporate offices on their journey to become an IHG Academy; • offered a life skills workshop in conjunction with our IHG Academy with Newham College as part of our London 2012 Olympic and Paralympic Games legacy commitment; • held 198 fundraising events including a global 'Race Around the World' event for the IHG Shelter in a Storm Programme; • raised $545,000 compared to our target of $150,000 for our IHG Shelter in a Storm Programme enabling us to respond quickly to disasters; • the IHG Shelter in a Storm Programme supported 10 disasters across six countries; • created an IHG Shelter in a Storm Programme online toolkit to share guidance on when and how to respond to a disaster and facilitate fundraising events; and • participated in the International Tourism Partnership working group on human trafficking and continued to raise awareness of our human rights policy internally.	• Continue to expand the IHG Academy throughout our estate making sure these programmes deliver positive and transformational results for their participants and IHG; • continue to drive awareness and engagement around the IHG Shelter in Storm Programme ensuring our hotels are prepared for disaster and able to respond quickly and effectively to help the local community and employees when needed; and • continue to provide ways for our employees in all IHG hotels and corporate offices to engage with the IHG Shelter in a Storm Programme by raising awareness and funds for the IHG Shelter Fund.
Stakeholder engagement and public affairs	• Continued to engage with our stakeholders through our refined stakeholder engagement process and channels; • exceeded our 'IHG Planet CR' Facebook page fans target of 6,000-10,000, with over 20,000 fans by the end of 2012; • launched a video to communicate the results of IHG's economic impact study; • launched a new ePlatform for government relations for US-based owners and General Managers; and • successfully joined with industry partners to lobby the US Government to reconsider a change to the per diem calculation methodology.	• Launch a set of externally facing targets across our three core programmes: IHG Academy, Green Engage and the IHG Shelter in a Storm Programme; • focus on driving awareness of IHG's approach to CR across internal and external stakeholder groups, and continue to share updates of each of our programmes; • drive higher engagement in our 'IHG Planet CR' Facebook page particularly around our three core programmes; • review our Corporate Responsibility Report in light of the new Global Reporting Initiative G4 guidelines; • roll out new CR eLearning training and integrate with the new General Managers training module; and • engage with a broader cross-section of our owners in public policy.

For more information please visit our Corporate Responsibility Report at www.ihgplc.com/responsibility or join us on our 'IHG Planet CR' Facebook page at www.facebook.com/IHGCorporateResponsibility

Risk management

IHG recognises the importance of having in place an effective system of internal controls and risk management to achieve our Vision of becoming one of the great companies in the world. Our Board and Committees work together with senior management to identify, assess, prioritise and mitigate risks. This is an essential part of being a Responsible Business.

Risk management system

Our internal controls and risk management system aims to support the delivery of our strategy by managing the risk of failing to achieve business objectives and protecting our business, in particular:

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

We are continually evolving our risk management system to respond to our ever-changing competitive environment, business relationships and guest preferences and believe that for this to be effective, we must:

- have a proactive risk management culture;
- embed risk management activity across our business;
- have comprehensive and accurate risk content; and
- have a robust risk management process and framework.

Proactive risk management culture

Having in place an effective system of internal controls and risk management is essential to being a Responsible Business. Therefore, the Board aims to embed proactive risk management capability and culture throughout the business. In achieving this, the Board is supported by the General Counsel and Company Secretary and the Heads of Global Risk Management and Global Internal Audit.

IHG's ambition for risk management is to foster a culture that is well-informed, curious, alert, responsive, consistent and accountable so that risk management becomes instinctive. We consider risks in a wide number of business activities, these include, but are not limited to,:

- key strategic planning and budget allocation processes;
- the Programme Office's processes on project planning, management and delivery (see page 31); and
- the design of policies, procedures, internal controls, and our approach to corporate governance (see pages 46 to 58).

Our risk management capability is continually developing and growing through ongoing risk assessment, post-project reviews and post-incident and crisis reviews.

Embedded Risk Management Activity

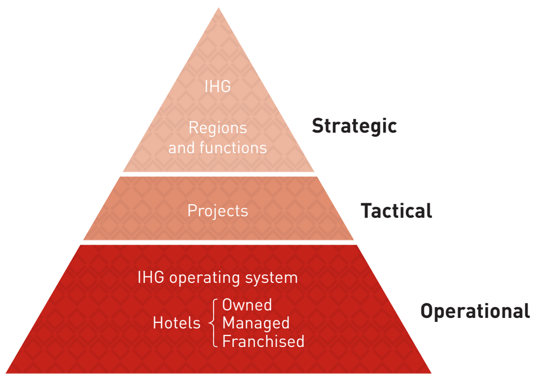
We seek to integrate risk-based solutions, programmes and activities into our day-to-day business processes. The Group continues to invest in risk management systems, training and controls to improve the performance and resilience of the business to protect IHG, our business, our brands, our guests and our other stakeholders.

By way of example, we have shown the application of the Risk Management Framework with respect to how we manage safety and security risk in our hotels in the Hotel Safety Framework on page 41. Additional risk activity applied to some of the dynamic risks the Group faces are described in the control and mitigation activities described on pages 40 and 41.

Comprehensive and accurate risk content

Risk management is about managing uncertainty and IHG seeks to develop comprehensive and accurate risk content through risk assessments. This enables us to have better informed decision-making, which when implemented in the right cultural context, greatly improve performance at the strategic, tactical and operational levels of the business. We therefore categorise our risks in this way to ensure that we consider the relevant risks and have in place appropriate oversight roles:

- **Strategic and market risks:** these typically arise from changes in the external environment and can impact on our Vision, ambitions and strategy over the long-term (often five to ten years or more). Risk assessments are integrated into Board level strategy setting and in the strategic planning process, which includes reporting to the Chief Executive during strategic reviews. Strategic risks are managed by senior leadership teams across the regions and corporate functions, with oversight by the Executive Committee.
- **Tactical and project risks:** these are risks that impact the delivery of IHG's key initiatives and projects. They often arise from project delivery challenges such as complexity, inaccurate assumptions or interdependencies. Project risks are managed as part of the management and delivery of projects, with central oversight on all priority projects provided by the Programme Office and the Executive Committee. As explained on page 31, the Programme Office has been integral in driving a consistent approach to our internal projects. Project risk management awareness, identification and mitigation is included as part of our project planning, management and delivery processes and training tools.
- **Operational risks:** these include a wide spectrum of risks that can affect the resilience, continuity or performance of IHG's internal operating systems or hotels. They are managed by corporate functions and regional teams working collaboratively with General Managers and hotel management teams to set policies and standards, and provide systems and tools, suitable for hotels to implement. Our senior leadership teams, regional operating committees, Global Operations Council and the Executive Committee work together to provide appropriate oversight.



Robust risk management process and framework

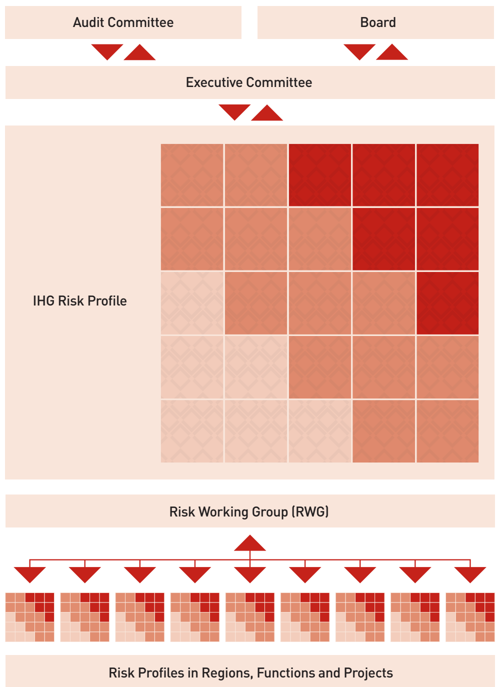
The Major Risk Review process enables the business to identify, monitor and manage the most significant risks to the Group (the Major Risks) and report these to the senior leadership teams across the regions and corporate functions. The Risk Management Framework provides a systematic consistent approach to managing identified risks.

Major Risk Review process

Having in place a robust major risk review process is essential to maintaining an effective risk management system. IHG's Major Risk Review process continuously identifies, monitors and manages risks owned by a wide range of stakeholders across each region, major projects and the corporate functions.

The Board is ultimately responsible for the Group's strategy and system of internal controls and risk management, as explained on pages 54 and 55. In addition, the Audit Committee annually reviews the effectiveness of the Group's internal controls and risk management system.

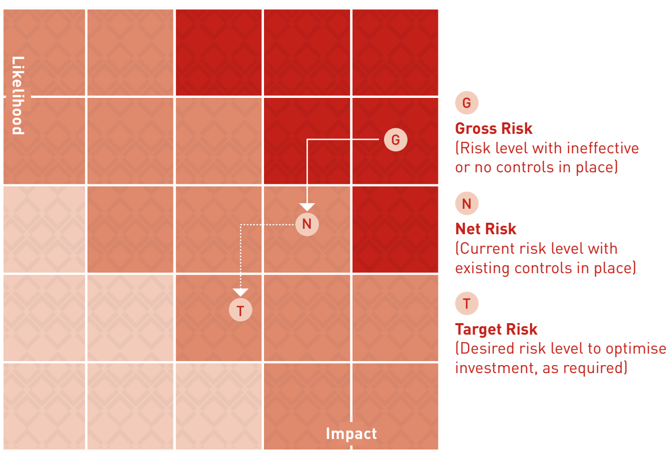
Risks identified in the regions, functions and projects are consolidated, refined and calibrated against a strategic view of risks by the Risk Working Group (RWG). The RWG is chaired by the General Counsel and Company Secretary and comprises the Heads of Global Strategy, Programme Office, Global Risk Management and Global Internal Audit and takes an active role in overseeing the Major Risks. The RWG meets on a quarterly basis, to ensure the Major Risks are appropriately managed and emerging risks are identified. The Major Risks are then discussed with the Executive Committee to gain agreement on the risk descriptions and ownership of actions, before final presentation to the Audit Committee and the Board.



Risk Management Framework

The Risk Management Framework is depicted in the 'Manage Risk' cog of the Hotel Safety Framework shown on page 41. This is a pragmatic risk framework which starts with a risk profile and moves through the necessary considerations for effective management or mitigation of risks. The framework reflects the cyclical nature of risks and allows for continuous assessment, particularly as the operating environment and competitive landscape is in a constant state of change. The segments of the 'Manage Risk' cog are as follows:

Risk profile: the identification and prioritisation of risks against consistently applied assessment definitions. This includes an assessment of gross risk (the level of risk before controls or actions are taken) and net risk (the level of risk 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:



Policy and standards: the 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: the practical aspects of risk management, such as roles, tools, templates, systems, forums and behaviours, which help management bring the policies and standards to life;

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

Operate and control: the ongoing operational activities and the use of tools, systems, checks and control measures to support compliance with policies and standards and to manage risk;

Risk financing: the consideration of the financial impact of risks if they were to happen and ensuring, where possible, that appropriate coverage is in place, which is usually through insurance; and

Review and report: the collection and analysis of management information to evaluate the effectiveness of controls and risk management, changes in the risk environment and delivery of action plans.

Managing risks in a changing environment

We continue to experience a dynamic external risk environment seeing changes or disruptions in political, economic, social, technological, legal and environmental risks. These external factors are expected to remain unsettled for 2013 and the foreseeable future. The Group's wide geographic spread and fee based model means that in general, events affecting specific hotels or in all but the most significant countries are not expected to have a material impact on the Group's results.

The following sets out our control and risk mitigation activities for those risks which are perceived as most dynamic and thus continuously monitored by senior management. These complement the wider comprehensive risk factors listed on pages 42 to 44.

Risk description	Control and mitigation activities
Macroeconomic outlook The current outlook for 2013 may worsen due to escalating impacts of the US 'fiscal cliff', change in leadership in China, uncertainty in the Eurozone and ongoing unrest in the Middle East. In addition to trading conditions, the economic outlook also affects the availability of capital to current and potential owners which may have an impact on existing operations and the health of the pipeline.	• IHG's scale, diverse portfolio of brands, segments, countries of operation and mix in business model, positions it well against short-term macroeconomic impacts; • IHG continues to monitor macroeconomic conditions and make necessary adjustments, including cost optimisation programmes where appropriate; and • IHG has developed revenue management tools and guidelines to assist hotels to monitor local developments in supply and demand and to inform decisions on pricing, promotions, channels and room inventory.
Increasing dependence on online travel agents (OTAs) Travellers now have access to far more information through comparison websites, search engines and online travel agents. Sales through these channels typically have high commission rates and are taking an increasing share of bookings across the travel and hospitality sector, which may have an impact upon our brands and profitability.	• IHG devotes a significant proportion of its marketing budget to non-traditional tools such as online search engines, its loyalty programmes and web and mobile applications, to encourage guests to book through its direct channels; • the Group continues to invest in developing its own internet presence and aims to make scale benefits when working with online business partners; and • IHG has implemented a book direct strategy, which has several initiatives including IHG's Best Price Guarantee for bookings made through IHG branded websites and roomkey.com, a hotel metasearch engine founded by IHG in partnership with several other hotel companies.
IT performance, resilience and technology change IHG is dependent on the stability of its IT infrastructure and must stay abreast of industry shifts towards mobile applications and cloud computing. Failure to maintain IT performance, resilience and technology change could impact guest experience and revenue channels.	• Network stability is a priority for IHG's Global Technology team, which includes deploying back-up systems, developing robust business continuity practices and working collaboratively with external service providers; • IHG's strategic partnerships with leading technology companies enables us to innovate, develop and deliver cost-effective solutions that differentiate its brands and enhance the guest experience; and • our Programme Office has developed a consistent approach to project management to ensure successful delivery of projects, including major technology ones.
Information security and payment card protection The threats against information remain an increasing concern with high-profile losses in many big businesses. The risk ranges from payment card information to other personal or sensitive information which can be held in IT systems, in paper format on desks and filing cabinets, in voice and video recordings and in other media.	• IHG takes information security very seriously and has applied risk-based methods to build capability and resilience into our systems and processes for a number of years; • IHG continues to aim to be fully compliant with Payment Card Industry – Data Security Standards (PCI-DSS) using tools and services from a leading specialist third party provider with respect to payment card processing; and • the Group manages data security incidents through internal committees and councils, which work together to contain this risk and reduce the Group's exposure. Sensitive data is tightly controlled through limited and monitored access.
Reputation and brand protection IHG's reputation and brands are important assets for the business. Protecting them is reliant upon the performance, behaviours and reputation of those working in all hotels and corporate offices and our owners. Failure to safeguard the reputation of IHG and its brands could have severe impacts on the Group's future performance.	• Responsible Business underpins each of our corporate priorities and we continually keep under review our internal policies and communicate these to employees throughout our business, thereby working to ensure our employees work ethically to maintain our trusted reputation; • led by the General Counsel and Company Secretary, a team of lawyers, compliance specialists, chartered secretaries, internal auditors and risk managers work together to champion and protect the trusted reputation of IHG and its brands; • we continue to ensure that global registered trademark protections for all of our new and existing brands, loyalty programmes and other relevant intellectual property are in place; and • we have established an effective internal controls and risk management system.

Risk description	Control and mitigation activities
Safety, security and crisis management There is a constant need to protect the safety and security of our guests, employees and assets against natural disasters and man-made threats. These include, but are not limited to, exceptional events such as natural catastrophes, civil or political unrest, violence and terrorism, fire and day-to-day accidents and incidents which impact the guest experience. The external risk environment over the last few years appears to be increasing – we have seen an increase in extreme weather and civil and political unrest. Furthermore, IHG's growth in emerging markets may increase the Group's exposure to the risk of civil and political unrest.	• IHG's proactive, risk-based approach to hotel safety and security is summarised below in the 'Managing risks in hotels' section; • IHG's hotel-level safety solutions combine measures to protect the physical building and processes and procedures to ensure guest and employee safety; and • IHG has strengthened the Group's crisis management capability in 2012, including the upgrading of the crisis call centre, refreshing our internal toolkit and eLearning course and strengthening the network of crisis coordinators.

Managing risks in hotels

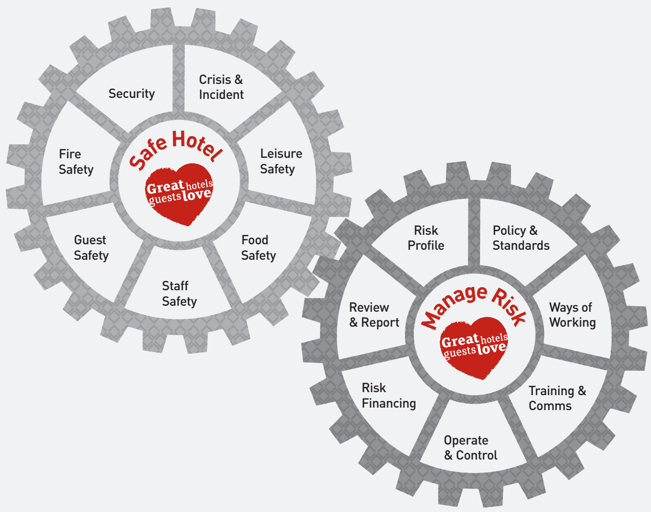
IHG's commitment to risk management safety, security and crisis management in hotels remains fundamental to it being a Responsible Business. We recognise the difference between a safe hotel and one which is poorly designed or operated. Therefore we require all hotels to become compliant with a set of global Brand Safety Standards.

IHG's approach has been to enable and support our hotel owners, General Managers and hotel employees 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 this. In 2012, over 50,000 employees used our web-based risk management tools, which include a comprehensive suite of risk management, safety and security training aligned to different roles and competency levels and have reached over 17,000 enrolments.

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 IHG hotels safe and secure. Safety and security is an essential element of being a Responsible Business and our Hotel Safety Framework underpins our hotel operations.

A hotel risk profile is also developed through various methods, including self-assessment, guest satisfaction surveys, design and engineering plans, incidents, intelligence gathering, quality audits and risk management reviews. Hotel management teams 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 throughout the organisation for issues that need to be escalated, either to drive action or to develop common solutions.



External recognition

- IHG's risk management training programme was awarded the Best Risk Training Programme in 2012 by the StrategicRISK European Risk Management Awards;
- we were awarded the Bronze award for the Best Use of Technology in Learning in the 2012 Training Journal Awards; and
- IHG remains a corporate member of the Chartered Institute of Environmental Health (CIEH), reflecting the Group's commitment to high standards of environmental health and it offers some safety training programmes which are accredited by the CIEH.

2013 risk factors

Whilst the Major Risk Review focussed 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, financial condition, turnover, profits, brands and reputation. The following section describes 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 141.

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. The current outlook for 2013 may worsen due to escalating impacts of the US 'fiscal cliff', change in leadership in China, uncertainty in Eurozone and ongoing unrest in the Middle East. In addition to trading conditions, the economic outlook also affects the availability of capital to current and potential owners, which could impact existing operations and health of the pipeline. 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 the Group'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 as well as the US dollar.
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 preparation, contingency planning or recovery capability in relation to a major incident or crisis may prevent operational continuity and consequently impact the value of our brands and/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.
The Group is dependent upon a wide range of external stakeholders and business partners	The Group is dependent upon the performance, behaviours and reputation of a wide range of business partners and external stakeholders including, but not limited to, owners, contractors, lenders, suppliers, vendors, joint venture partners, agents, third party intermediaries and other business partners. Further, the number and complexity of interdependencies with stakeholders is evolving. Breakdown in relationships, poor vendor performance, stakeholder behaviours or adverse reputations could impact on the Group's performance and competitiveness, guest experiences or the reputation of the Group or its brands.

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; 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 IHG 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 prematurely terminating contracts which would adversely impact overall System size and the Group's financial performance.

The Group is exposed to inherent risks in relation to changing technology and systems	The Group is reliant upon certain technologies, systems and platforms for the running of its business, particularly those which are highly integrated with business operational processes. Some of these are dependent upon the products and services of third party technology providers. The failure of any such third party provider to provide products and/or perform services could materially adversely impact the Group's business. The Group may also 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 adversely affect guest experiences, lose customers, fail to attract new customers, incur substantial costs or face other losses.

Operational risks

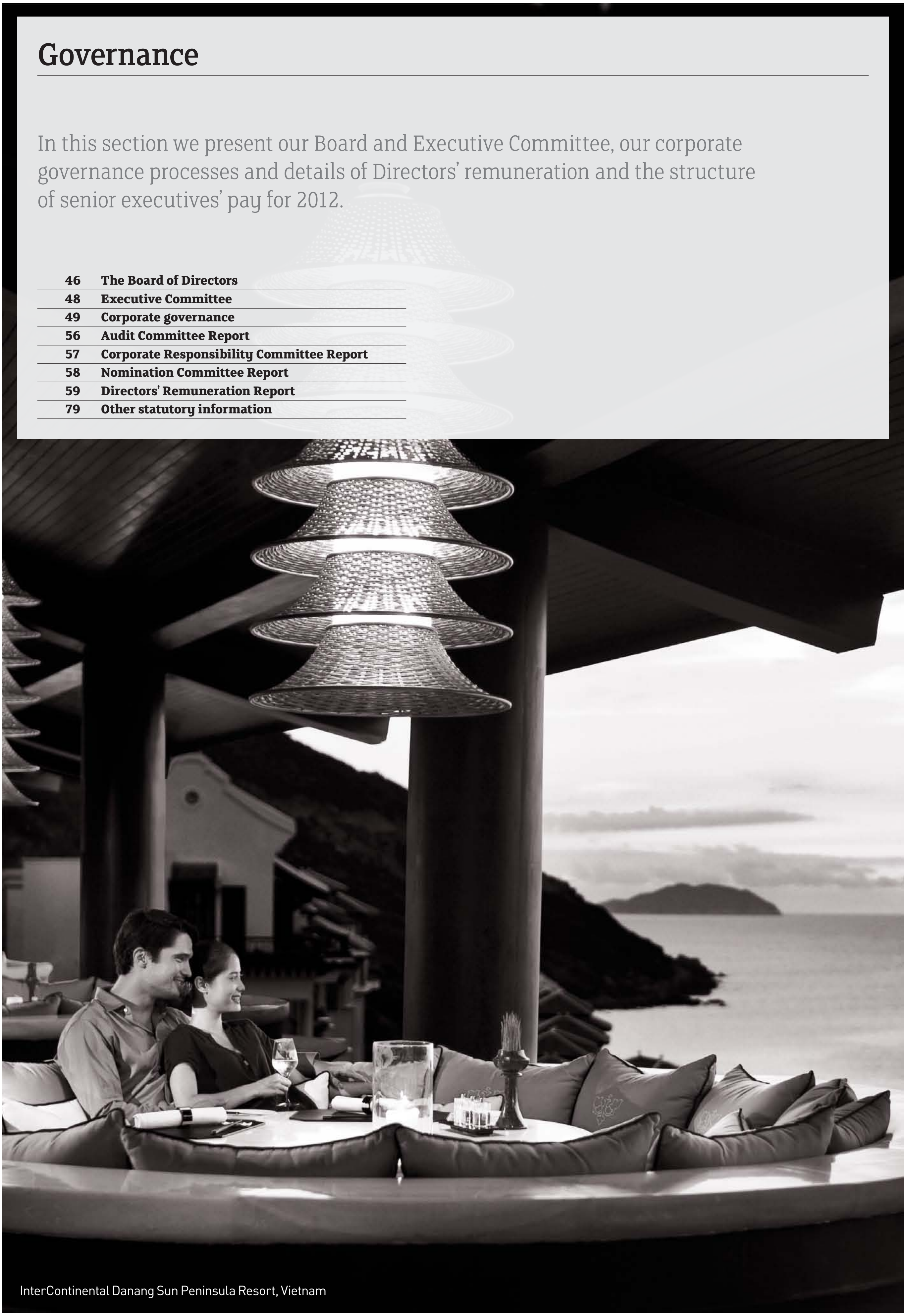
The Group is reliant on the reputation of its brands and the protection of its intellectual property rights	Any event that materially damages the reputation of one or more of the Group's existing or new brands and/or fails to sustain the appeal of the Group's existing or new brands to its customers may 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 travel comparison websites and online travel agents), consumer preference and perception, or other factors affecting consumers' willingness to purchase goods and services provided by the Group. Given the importance of brand recognition to the Group's business, the protection of its intellectual property poses a risk due to the variability and change of controls, laws and effectiveness of enforcement globally. Any widespread infringement, misappropriation or weakening of the control environment could materially harm the value of the Group's brands and its ability to develop the business.
The Group is 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 and/or the failure of a third party technology provider could lead to prolonged service disruption and may result in significant business interruption, impact the guest booking experience and subsequently impact on revenues. Lack of investment in these systems may also result in reduced capability, stability and 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.
The Group is exposed to the risks related to information security and data privacy	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, financial reporting and commercial development. The information is sometimes held in different formats such as digital, paper, voice and video and could be stored in many places including facilities managed by third party service providers. The threats towards the Group's information are dynamic including cyber attacks, fraudulent use, loss or misuse by employees and breaches of our vendors' security arrangements amongst others. The legal and regulatory environment and requirements set out by the payment card industry surrounding information security and data privacy across the many jurisdictions in which the Group operates are constantly evolving. If the Group fails to appropriately protect information and ensure relevant controls are in place to enable the release of information through the appropriate channels in a timely and accurate manner, System performance, guest experience and the reputation of the Group may be adversely affected. This can lead to revenue losses, fines, penalties and other additional costs, including legal fees.
The Group is exposed to a variety of risks associated with safety, security and crisis management.	There is a constant need to protect the safety and security of our guests, employees and assets against natural and man-made threats. These include but are not limited to exceptional events such as extreme weather, civil or political unrest, violence and terrorism, serious and organised crime, fraud, employee dishonesty, cyber crime, fire and day-to-day accidents, incidents and petty crime which impact the guest or employee experience, could cause loss of life, sickness or injury and result in compensation claims, fines from regulatory bodies, litigation and impact reputation. Serious incidents or a combination of events could escalate into a crisis which if managed poorly could further expose the Group and its brands to significant adverse reputational damage.

Operational risks continued

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, failure to 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 required to comply with existing and changing regulations across numerous countries, territories and jurisdictions	Governmental regulations affect countless aspects of the Group's 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 the Group operates 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	Certain companies in the Group are the subject of various claims and proceedings. The ultimate outcome of these matters is subject to many uncertainties, including future events and uncertainties inherent in litigation. In addition, the Group could be at risk of litigation from many parties, including but not limited to, 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. Unfavourable outcomes of claims or proceedings could have a material impact on the Group's results of operations, cash flow and/or financial position. Exposure to significant litigation or fines 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 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 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 118 to 121.
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.

Governance

In this section we present our Board and Executive Committee, our corporate governance processes and details of Directors' remuneration and the structure of senior executives' pay for 2012.



InterContinental Danang Sun Peninsula Resort, Vietnam

The Board of Directors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1 Patrick Cescau, Non-Executive Chairman

Appointed to the Board: 1 January 2013
Skills and Experience: From 2005 to 2008, Patrick was Group Chief Executive of Unilever Group, having previously been Chairman of Unilever PLC, Vice-Chairman of Unilever NV and Foods Director, following a progressive career with the Company, which began in France in 1973. Prior to being appointed to the Board of Unilever NV in 1999, as Finance Director, he was Chairman of a number of the Company's major operating companies and divisions, including in the USA, Indonesia and Portugal.

Board Contribution: Patrick has held Board positions for more than 12 years in leading global businesses and brings extensive international experience in brands, consumer products, as well as finance. As Chairman, Patrick is responsible for leading the Board and ensuring it operates in an effective manner and promoting constructive relations with shareholders.

Other Appointments: Currently a Non-Executive Director of International Consolidated Airlines Group S.A. and the Senior Independent Director and Non-Executive Director of Tesco PLC. Patrick is also a trustee of the Leverhulme Trust and Chairman of the St Jude India Children's Charity. He was formerly a Senior Independent Director and Non-Executive Director of Pearson PLC and a Director at INSEAD.

2 Richard Solomons, Chief Executive

Appointed to the Board: 10 February 2003
Skills and Experience: A chartered accountant and a member of the Executive Committee of the World Travel & Tourism Council. From 2003 to 2011 Richard was Chief Financial Officer and Head of Commercial Development. Since joining the Group in 1992 he has held a variety of senior financial and operational roles, including Chief Operating Officer of The Americas Hotels division and Finance Director of the Hotels business prior to the separation of Six Continents PLC in April 2003. He became Chief Executive in July 2011.

Board Contribution: Richard has extensive experience in finance and is responsible for the executive management of the Group and ensuring the implementation of Board strategy and policy.

3 Tom Singer, Chief Financial Officer

Appointed to the Board: 26 September 2011
Skills and Experience: Prior to joining the Group, Tom 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.

Board Contribution: Tom has extensive financial experience obtained from UK and international finance roles. He is responsible, together with the Board, for overseeing the financial operations of the Group and setting its financial strategy.

4 Kirk Kinsell, President, The Americas

Appointed to the Board: 1 August 2010
Skills and Experience: Kirk has 30 years' experience in the hospitality industry, including senior franchise positions with Holiday Inn Corporation and ITT Sheraton. He joined the Group in 2002 as Senior Vice President, Chief Development Officer for The Americas region. He became an Executive Committee member in September 2007 and was previously President, Europe, Middle East and Africa until June 2011.

Board Contribution: Kirk has vast experience in the hospitality industry and is responsible for the business development and performance of all the hotel brands and properties in The Americas region.

5 Tracy Robbins, Executive Vice President, Human Resources and Group Operations Support

Appointed to the Board: 9 August 2011
Skills and Experience: Tracy has over 27 years' experience in human resources roles in service industries. She joined the Group in December 2005 from Compass Group PLC, a world-leading food service company, where she was Group Human Resources Leadership & Development Director. Previously Group HR Director for Forte Hotels Group. She also spent seven years at Tesco PLC as a Retail Human Resources Manager where she implemented a culture change and restructuring strategy across 150 stores.

Board Contribution: Tracy has many years of experience in human resources and is responsible for global talent management, leadership development, employee reward strategy and implementation, organisational capability and operations support.

6 David Kappler, Senior Independent Non-Executive Director

Appointed to the Board: 21 June 2004
Skills and Experience: David is a fellow of the Chartered Institute of Management Accountants. Formerly Chief Financial Officer of Cadbury Schweppes plc and Non-Executive Chairman of Premier Foods plc. He also served as a Non-Executive Director of Camelot Group plc and HMV Group plc.

Board Contribution: David brings over 35 years' knowledge and experience in financial reporting, risk management and internal financial controls. As Chairman of the Audit Committee he is responsible for leading the Committee to ensure effective internal controls and risk management systems are in place.

Other Appointments: David is a Non-Executive Director of Shire plc, a member of the Europe Advisory Council of Trilantic Capital Partners and Chairman of ADS2 Brands Limited.

7 Jennifer Laing, Independent Non-Executive Director

Appointed to the Board: 25 August 2005
Skills and Experience: Jennifer 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, she has over 30 years' experience in advertising including 16 years with Saatchi & Saatchi.

Board Contribution: Jennifer has over 30 years' experience in marketing and advertising and is Chairman of the Corporate Responsibility Committee, responsible for the Corporate Responsibility objectives and strategy.

Other Appointments: Currently a Non-Executive Director of Hudson Global, Inc., a US human resources company and Premier Foods plc, a branded food producer.

8 Jonathan Linen, Independent Non-Executive Director

Appointed to the Board: 1 December 2005
Skills and Experience: Jonathan 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.

Board Contribution: Jonathan has over 25 years' experience working in the financial and branded sectors and is a member of the Remuneration Committee.

Other Appointments: Currently a Non-Executive Director of Yum! Brands, Inc. and Modern Bank, N.A., a US private banking company. Jonathan also serves on a number of US councils and advisory boards.

9 Luke Mayhew, Independent Non-Executive Director

Appointed to the Board: 1 July 2011
Skills and Experience: Luke is currently a Non-Executive Director of Brambles Limited, a global provider of supply chain and information management solutions. Previously he served for 12 years on the Board of John Lewis Partnership, including as Managing Director of the Department Store Division. Luke also spent five years at British Airways PLC and seven years at Thomas Cook Group PLC in senior positions. He was also a Non-Executive Director of WH Smith PLC and Chairman of Pets at Home Group Limited.

Board Contribution: Luke has over 30 years' experience in senior roles in the branded sector and is Remuneration Committee chairman at Brambles Limited and has been since 2006. As Chairman of the IHG Remuneration Committee he is responsible for setting the remuneration policy.

Other Appointments: Currently a Non-Executive Director of Brambles Limited.

10 Dale Morrison, Independent Non-Executive Director

Appointed to the Board: 1 June 2011
Skills and Experience: A founding partner of TriPointe Capital Partners, a private equity firm. Dale was previously President and Chief Executive Officer of McCain Foods Limited and President and Chief Executive Officer of Campbell Soup Company.

Board Contribution: Dale has over 10 years' experience in sales and marketing positions, and over 25 years' experience in general management, having held senior positions in the branded foods sector.

Other Appointments: Currently a Non-Executive Director of International Flavors & Fragrances Inc., a producer of flavours and fragrances, and Chairman of Findus Group Limited, a frozen food company.

11 Ying Yeh, Independent Non-Executive Director

Appointed to the Board: 1 December 2007
Skills and Experience: Ying 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. She was, for 15 years, a diplomat with the US Foreign Service in Hong Kong and Beijing until 1997.

Board Contribution: Ying has over 20 years' experience gained from working in senior positions in global organisations across a broad range of sectors.

Other Appointments: Currently a Non-Executive Director of AB Volvo, a transportation related products and services company, ABB Ltd, a global leader in power and automation technologies, and Samsonite International S.A., a travel luggage company.

Audit Committee member
Corporate Responsibility Committee member
Nomination Committee member
Remuneration Committee member

Executive Committee

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In addition to the Executive Directors on the Board, the Executive Committee comprises:

1 Keith Barr, Chief Executive, Greater China

Joined the Group: 2000

Skills and Experience: Keith has over 20 years' experience in the hospitality industry. He has held 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.

Key Responsibilities: These include business development and performance of all the hotel brands and properties in the Greater China region.

2 Angela Brav, Chief Executive, Europe

Joined the Group: 1988

Skills and Experience: Angela has over 24 years' experience in the hospitality industry, including hotel operations, franchise relations and technology solutions. She has held various senior roles in the Group's US and European businesses prior to becoming Chief Operating Officer, North America. She was appointed Chief Executive, Europe in August 2011.

Key Responsibilities: These include business development and performance of all the hotel brands and properties in Europe.

3 Larry Light, Chief Brands Officer

Joined the Group: 2012

Skills and Experience: Larry is one of the world's leading brand consultants and was formerly Chief Marketing Officer for McDonald's. Larry has held previous executive roles in media, marketing and advertising for BBDO Worldwide and Ted Bates Advertising and has made many academic contributions on branding principles and methods.

Key Responsibilities: These include building on the Group's strategy of developing and nurturing a powerful portfolio of preferred Brands.

4 Eric Pearson, Executive Vice President and Chief Information Officer

Joined the Group: 1997

Skills and Experience: Eric has a background in engineering and technology and started his career at IHG over 15 years ago. Since then he has held various senior positions in the field of emerging technologies and global e-commerce. Eric most recently held the position of Chief Marketing Officer for The Americas region.

Key Responsibilities: These include global technology, including IT systems and information management, throughout the Group.

5 Jan Smits, Chief Executive, Asia, Middle East and Africa

Joined the Group: 2002

Skills and Experience: Jan has 31 years' experience in the hospitality industry. He held various senior positions in the Asia and Australasia region. He became Managing Director, Asia Australasia in June 2009. Following the amalgamation of our Middle East and Africa region with our Asia Australasia region, he became Chief Executive, Asia, Middle East and Africa in August 2011.

Key Responsibilities: These include business development and performance of all the hotel brands and properties in Asia, Middle East and Africa.

6 George Turner, Executive Vice President, General Counsel and Company Secretary

Joined the Group: 2008

Skills and Experience: George is a solicitor and qualified to private practice in 1995. Prior to joining the Group, George spent 12 years with Imperial Chemical Industries PLC where he held a number of key positions including Deputy Company Secretary. He was appointed Executive Vice President, General Counsel and Company Secretary in January 2009.

Key Responsibilities: These include corporate governance, risk management, insurance, regulatory, internal audit, legal, corporate responsibility and public affairs.

7 Steven Sickel, Interim Global Head of Sales and Distribution*

Joined the Group: 2000

Skills and Experience: Steven has over 20 years' experience in sales and marketing. Prior to joining the Group over 12 years ago, he was Managing Director, Loyalty Marketing at Continental Airlines for eight years.

Key Responsibilities: Has interim responsibility for revenue management, revenue systems and worldwide sales, in addition to his existing responsibilities as Senior Vice President, Distribution Relationship Marketing, where he is responsible for e-commerce, reservations and loyalty programmes.

In April 2013 Kenneth MacPherson will join the Group as Chief Executive, Greater China having previously been General Manager and Board Director of Sichuan Shuijingfang Company Ltd, a Diageo joint venture in China. With effect from 1 June 2013 Keith Barr will be appointed to the newly created position of Chief Commercial Officer, responsible for brands, sales, marketing and distribution, and will remain a member of the Executive Committee. During the transition Larry Light will continue in his role as Chief Brands Officer and as a member of the Executive Committee. Following the transition Larry will stay on as a senior IHG advisor.

* Steven Sickel, who has been an interim member of the Executive Committee, will return to his full-time role leading Distribution Relationship Marketing in June 2013.

Corporate governance

Chairman's overview

Since becoming Chairman at the beginning of January, I have sought to understand and assess the effectiveness of governance at IHG. I have considered the following areas in particular:

- the Board's ability to (i) achieve its objectives and effectively monitor progress against our strategy and (ii) to deliver strong performance and create long-term shareholder value;
- the effectiveness of internal controls and risk management;
- the composition of the Board, including the balance of skills and experience, its size and effectiveness; and
- the Board's calendar of meetings, the meeting agendas and the quality and level of information received by Directors and the Board's management of time.

I have sought the views of shareholders, the Directors and senior management and I have also reviewed current and previous evaluations of the Board's performance and investor reports.

IHG is committed to conducting its business with high standards of corporate governance and believes that good governance, with robust practices and processes, is a fundamental part of being a Responsible Business.

We have seen a couple of Board changes during 2012, with the retirement of David Webster as Non-Executive Chairman on 31 December 2012 and the retirement of Graham Allan as a Non-Executive Director on 15 June 2012. Dale Morrison was appointed to the Corporate Responsibility Committee, in addition to his membership of the Audit and Nomination Committees, in November 2012. The progressive refreshing of the Board ensures that we have appropriate continuation and a multi-skilled and diverse Board.

Our dual listed status requires that the Corporate Governance Report give details on our compliance against the UK Corporate Governance Code (the Code) and also the New York Stock Exchange (NYSE) rules, 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.

I am pleased to report in this section of the Annual Report on our compliance against the principles and provisions of the Code, available at www.frc.org.uk, and I can confirm that during 2012 we complied with all aspects of the Code.

Patrick Cescau
Chairman
18 February 2013

Leadership

Board and Committee structure

The Board and Committee structure are pivotal in maintaining compliance with best practice. IHG has a number of Board and management committees which provide a sound governance framework.

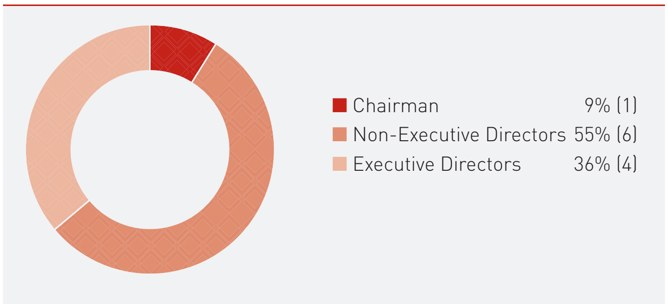
The Board

Board composition

The Board's current composition of a Non-Executive Chairman, four Executive and six 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 appointment to the Board.

Current Directors' biographical details, including their main external commitments, are set out on pages 46 and 47.

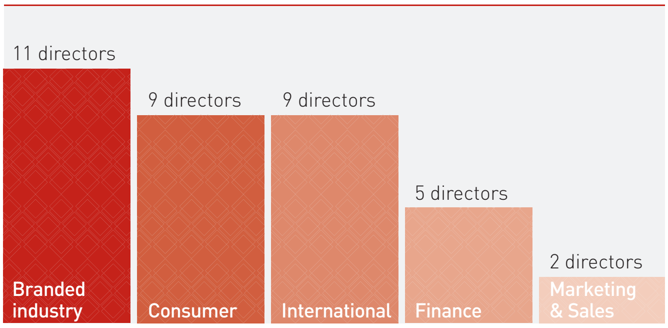
Non-Executive/Executive Director split



Board balance of skills

Collectively, the Board has an appropriate balance of skills, experience, independence, knowledge and diversity to enable it to discharge its duties and responsibilities effectively.

Board experience and skills



Board meetings

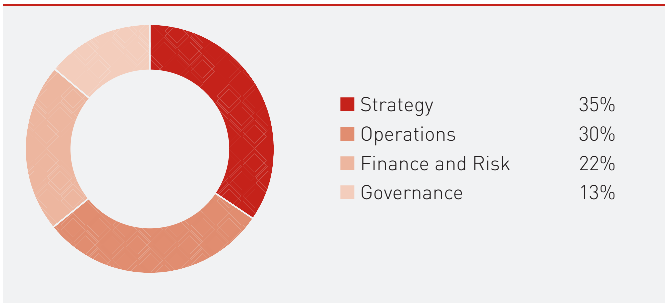
Eight regular Board meetings are scheduled each year and additional meetings are held as necessary. This includes a two-day strategy meeting held in one of the Group's key markets, in which the Board considers the Group's strategy and related issues. This provides an opportunity for the business to have a wide-ranging dialogue with the Board and for the Board to meet many of our senior management and understand key geographical markets.

The Chairman, in conjunction with the Company Secretary, plans the agenda for each Board meeting. Directors are briefed on the Group's financial performance and its operations, including commercial and operational matters, 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. Evening presentation topics during 2012 included updates from the Global Operations Council, an economist presentation and developments in our communications strategy.

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.

Below is a chart illustrating the approximate time the Board has spent discussing key topics at scheduled Board meetings during the year:

Board allocation of time



Board annual strategy meeting

During 2012, the Board held a two-day strategy meeting in Delhi, India which enabled the Board to gain a greater understanding of growth potential in India. 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 current progress, and an overview of the medium to long-term financial impacts of our strategic choices.

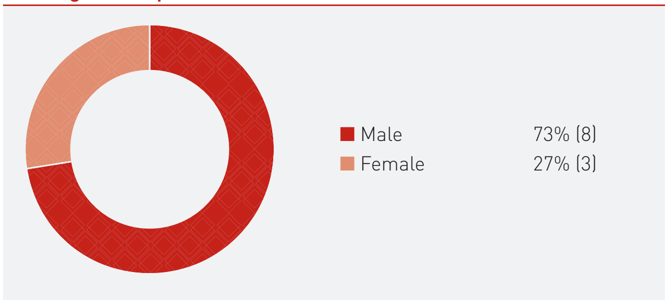
Diversity

With a presence in nearly 100 countries and territories globally, we believe that our leadership should reflect the diversity of our employees, our guests and the local communities in which we operate. The Board recognises the benefits of diversity throughout our global business and firmly believes in the importance of a diverse Board membership.

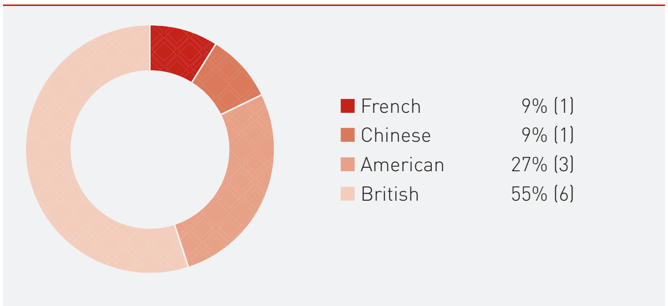
We continue to focus on providing an inclusive environment, in which employees are valued for who they are and what they bring to the Group, and in which talented individuals are retained through all levels of the organisation. Further details on our approach to diversity are set out on pages 33 and 58.

The current Board gender and nationality split is illustrated below:

Board gender split



Board nationalities



Independent advice

All Directors have access to the advice and services of the Company Secretary, the Company's external legal advisers and the external auditors, who are currently Ernst & Young LLP. There is an agreed process by which Directors may seek independent professional advice at the Company's expense in the furtherance of their duties.

Conflicts of interest

The Board reviews potential conflicts of interest as a standing agenda item at each Board meeting. At the December 2012 Board meeting, each of the Directors were 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. Directors have continuing obligations to update the Board on any changes to these conflicts. Under the Articles of Association the Board is authorised to approve Director conflicts of interest.

Directors and officers liability (D&O) insurance

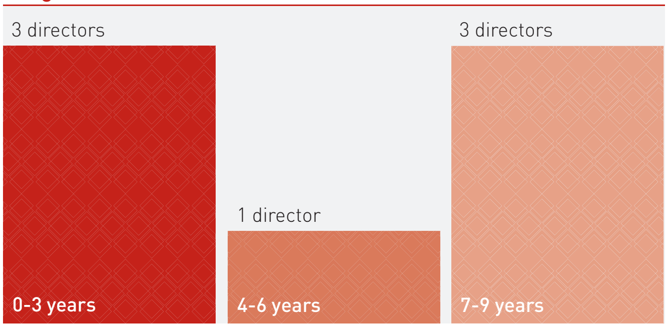
The Company maintains D&O insurance which covers Directors and officers of the Company against defending civil proceedings brought against them in their capacity as a Director or officer of the Company.

There were no indemnity provisions relating to the UK pension plan for the benefit of the Directors during 2012.

Effectiveness

The Board believes that in order to be most effective there must be a mix of skills and experience, background and length of service on the Board. The current Non-Executive Directors' lengths of tenure as at 1 January 2013 are illustrated below:

Length of Non-Executive Director tenure



The structure, size and composition of the Board and succession planning is continuously monitored by the Chairman and the Nomination Committee. Further details can be found on page 58.

Key responsibilities

The Board

- Strategic direction, development, performance and control of the Group, approval of strategic plans and capital and revenue budgets;
- reviewing significant investment proposals;
- maintaining an overview and control of the Group's operating and financial performance;
- monitoring the Group's overall system of internal controls and risk management, governance and compliance, considering regulatory changes and developments; and
- ensuring that the necessary financial and human resources are in place for the Group to meet its objectives.

The Board has a schedule of matters reserved to it which are available on the website at www.ihgplc.com/investors under corporate governance.

Chairman

- Leadership of the Board and in doing so ensuring the efficient and effective operation of the Board and its Committees;
- overseeing corporate governance matters and ensuring they are addressed;
- representing the Group externally, in particular with shareholders; and
- in conjunction with the Chief Executive and Company Secretary, ensuring 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.

Chief Executive

- Recommending to the Board, and implementing, the Group's strategic objectives;
- managing business operations; and
- managing the executive management of the Group and ensuring that the Board understands Executive Directors' views on business issues.

The Chief Executive is assisted in meeting his responsibilities by the Chief Financial Officer and the Executive Committee (who head up the Group's principal operations and functions).

Non-Executive Director

The Non-Executive Directors represent a strong source of advice and judgement. Part of their role is to constructively challenge and help develop proposals on strategy. Each Director has significant external commercial experience and together they have a broad range of skills and experience.

Senior Independent Director

- 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.

Company Secretary

- Ensuring a good flow of information to the Board and its Committees and between the Executive Committee and the Non-Executive Directors;
- facilitating all Director inductions; and
- advising the Board on corporate governance and keeping the Board up-to-date on all legal, regulatory and other developments.

Biographical details of the members of the Board, including the Chairman, Chief Executive and Senior Independent Director, and Company Secretary can be found on pages 46 to 48.

Board committees

The Board has established four permanent Committees to assist in the discharging of its responsibilities. These are as follows:

- Audit Committee;
- Corporate Responsibility Committee;
- Nomination Committee; and
- Remuneration Committee.

Reports for each Committee setting out the membership, responsibilities, key issues discussed during the year and key priorities for 2013 are set out on pages 56 to 78.

Each Committee has written terms of reference which are approved by the Board and subject to review every year. At the review in December 2012 some minor amendments were made to update the Audit and Remuneration Committee's terms of reference. Copies of the 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.

Set out below is a table showing the current membership of each Committee:

Directors	Designation	Audit Committee	Corporate Responsibility Committee	Nomination Committee	Remuneration Committee
Patrick Cescau	Non-Executive Chairman			X[1]	
Richard Solomons	Chief Executive		X		
Kirk Kinsell	President, The Americas				
Tracy Robbins	Executive Vice President, Human Resources and Group Operations Support				
Tom Singer	Chief Financial Officer				
David Kappler[2]	Senior Independent Non-Executive Director	X[1]		X	X
Jennifer Laing[2]	Non-Executive Director	X	X[1]	X	
Jonathan Linen[2]	Non-Executive Director			X	X
Luke Mayhew[2]	Non-Executive Director		X	X	X[1]
Dale Morrison[2]	Non-Executive Director	X	X	X	
Ying Yeh[2]	Non-Executive Director		X	X	X

1 Committee Chairman.
2 In the Board's view all Non-Executive Directors are independent.

Management committees

Details of our management committees are set out below:

Executive Committee

Its role is to consider and manage a range of important strategic and business issues facing the Group. Amongst many other things 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.

Governance: The Committee is chaired by the Chief Executive and usually meets monthly. As set out on page 48, members of the Committee comprise the Executive Directors and the most senior executives from the Group. The Committee recommends to the Board significant decisions which require its approval.

Disclosure 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.

Governance: The Committee is chaired by the Group's Financial Controller. Members of the Committee comprise the Company Secretary and other senior executives. The Committee reports to the Chief Executive, the Chief Financial Officer and the Audit Committee.

General Purposes Committee

The Committee 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.

Governance: The 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 and the other Executive Directors are notified in advance of the business of the meeting.

Copies of the 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.

A summary of each Director's attendance at the Board and its principal Committee meetings during 2012 is shown below:

	Designation	Board	Committees: Audit	Committees: Corporate Responsibility	Committees: Nomination	Committees: Remuneration
Directors						
Richard Solomons	Chief Executive	8/8	n/a	3/3	n/a	n/a
Kirk Kinsell	President, The Americas	8/8	n/a	n/a	n/a	n/a
Tracy Robbins	Executive Vice President, Human Resources and Group Operations Support	6/8[3]	n/a	n/a	n/a	n/a
Tom Singer	Chief Financial Officer	8/8	n/a	n/a	n/a	n/a
David Kappler	Senior Independent Non-Executive Director	8/8	5/5	n/a	5/5	6/6
Jennifer Laing	Non-Executive Director	8/8	5/5	3/3	5/5	n/a
Jonathan Linen	Non-Executive Director	6/8[3]	n/a	n/a	3/5[3]	6/6
Luke Mayhew	Non-Executive Director	8/8	n/a	3/3	5/5	6/6
Dale Morrison	Non-Executive Director	8/8	5/5	1/1	5/5	n/a
Ying Yeh	Non-Executive Director	8/8	n/a	3/3	5/5	6/6
Former Directors						
David Webster[1]	Non-Executive Chairman	7/8[3]	n/a	n/a	4/4	n/a
Graham Allan[2]	Non-Executive Director	3/3	2/2	1/1	2/2	n/a
Total meetings held		**8**	**5**	**3**	**5**	**6**

1 Patrick Cescau was appointed as Non-Executive Chairman on 1 January 2013 following the retirement of David Webster on 31 December 2012.
2 Graham Allan resigned as a Non-Executive Director on 15 June 2012.
3 Tracy Robbins missed two Board meetings due to health reasons. Jonathan Linen missed two Board meetings and two Nomination Committee meetings; one due to illness and the other due to a prior commitment known to the Board in advance. David Webster missed one Board meeting due to a prior work commitment, known to the Board in advance.

Annual re-election of Directors

The Directors have agreed to retire at each Annual General Meeting (AGM) and offer themselves for re-election annually in line with the Code recommendations. Biographical information about the Directors can be found on pages 46 and 47 and shareholders will receive further information on Directors seeking election and re-election as part of the Notice of AGM 2013. Details of Directors' service contracts and appointment terms are set out on page 74.

Director induction, training and development

Director induction

There is a tailored induction programme for all Director appointments which is designed to meet their individual needs and to introduce them to, and familiarise them with, the principal activities of the Group as well as with central and regional management. Throughout their appointment with the Company, Directors are encouraged to request further information as they consider necessary to fulfil their role.

Key aspects of the induction are as follows:

- familiarisation with the Group, this includes areas such as the Board structure and its Committees, Group structure and strategy, the principal activities of the Group and its approach to risk and risk management;
- meetings with both senior executives and regional and central management from various functions across the Group, including Business Reputation and Responsibility, Human Resources, Corporate Affairs, Global Strategy and Corporate Development, Global Internal Audit and Financial Planning and Analysis;
- meetings with institutional investor groups and key institutional investors to gain an understanding of their views; and
- visits to our global corporate offices and hotels to provide a greater insight into the business.

All induction programmes accord with best practice guidelines and are tailored to each Director's individual requirements.

On appointment Non-Executive Directors are advised of the likely time commitment for the role. Annually, as part of the Board performance evaluation, the Chairman reviews the time each Non-Executive Director has dedicated to the Company during the year.

Director training and development

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.

Board legal and regulatory briefings

During 2012, the Directors received briefings on a number of legal and regulatory developments, including the Financial Reporting Council's updates on changes to the Code and guidance to Audit Committees and draft regulations on the reform of executive remuneration. The Chairman regularly reviews and agrees training and development needs with each Director. In addition, the Company Secretary regularly makes the Board aware of training opportunities and additional information to enable them to keep up-to-date and enhance their knowledge of the business.

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.

2012 Board performance evaluation process

The 2012 evaluation of the Board and its Committees was conducted with external assistance in accordance with the guidance in the Code. The Board performance evaluation was conducted with Lintstock Limited, an independent facilitator, who has no other connection with IHG.

The Board performance evaluation questionnaires covered a variety of topics including:

- Board composition, succession planning and dynamics;
- Board advisors, Board papers and effectiveness of the Committees;
- Board expertise and how the Board spends its time;
- the Board's strategic and operational oversight;
- input into risk management and internal controls; and
- investor and stakeholder relationships.

2012 Board performance evaluation results

The results of the questionnaires were collated and presented to the Board for discussion at its meeting in February 2013. The feedback confirmed that the Board and each of its Committees continue to operate effectively and that each Director continues to make an effective contribution and retains a strong commitment to the role.

2012 and 2011 Board performance evaluation outcomes and action plan

2012		2011	
Observations	**Action taken/to be taken**	Observations	Actions taken
Deepen the Board's focus on the Group's strategy.	Retain focus on strategy with particular attention on the external environment.	Improve meeting processes to enable more time for wider Board discussion.	Board agendas are regularly reviewed to ensure sufficient time for Board discussion.
Ensure the smooth integration of the new Chairman.	A tailored induction has been completed with ongoing support.	Allot adequate time on agendas to review the effectiveness of past decisions.	Board agendas are assessed to ensure adequate time is allocated to all matters.
Continue to improve the meeting process including senior management presentations and papers to the Board.	Senior management to review the optimum level of detail in presentations and papers.	Continue to encourage discussion on key strategic issues facing the Group.	Facilitation of discussions on key strategic issues has been addressed.
Consider growth opportunities for the Group.	Continue to review growth opportunities for the Group.	Build upon and improve oversight of the main risks affecting the Group.	Provision of additional materials as necessary to the Board and increased discussion at Board meetings.

Individual Director performance evaluations

The performance evaluations of members of the Board are carried out by the following individuals:

Director being appraised	Appraisee
Chairman	All Directors complete the externally produced questionnaire. The results are then reviewed by the Senior Independent Director and Non-Executive Directors excluding the Chairman.
Chief Executive	Chairman and all Non-Executive Directors meet to discuss performance.
Executive Directors	Chief Executive.
Non-Executive Directors	Chairman.

Accountability

Internal controls and risk management

The Board has ultimate responsibility for ensuring that business risks are effectively managed. The Board has considered and approved the risk management policy and has delegated regular review of the risk management procedures to the Audit Committee.

The review was carried out through a monitoring process, which accords with the Code and the Turnbull Guidance.

Day-to-day management of business risks is the responsibility of the Executive Committee. These are managed through established processes which 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 a dynamic risk assessment and assurance mapping process (through reports from the Head of Global Risk Management, the Head of Global Internal Audit, and, as appropriate, from management) providing assurance that the significant risks faced by the Group are being identified, assessed, prioritised, evaluated and appropriately managed and mitigated, 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 auditors on the effectiveness of systems for internal controls, financial reporting and risk management;
- the timeliness and effectiveness of corrective action taken by management; and
- material financial and non-financial risks.

For further details on the Group's risk management system and 2013 risk factors see pages 38 to 44.

Board annual review of internal controls and risk management

The Board conducted a review of the effectiveness of the system of internal controls and risk management during the year ended 31 December 2012. This covered all material controls, including financial, operational and compliance controls, the principal risks affecting the Group, the risk management systems, and also took into account any material developments since the year end.

Whilst areas for continuous improvement have been identified and actions initiated as a result of the Group's processes, no significant shortcomings have been identified from the 2012 risk assessments.

Internal controls and managing risk

The system of internal controls and risk management aims to support the delivery of our strategy by managing the risk of failing to achieve business objectives. As such it must be recognised that it can only provide reasonable and not absolute assurance.

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 on pages 38 to 44.

Risk register

In 2012, the Audit Committee was satisfied that the Group has an effective risk management system and the Executive Committee, Audit Committee and the Board reviewed and agreed the major risks affecting the Group.

Global internal audit plan

Annually the Audit Committee discusses the internal audit plan and approves its nature and scope for the forthcoming year. This plan is reviewed on a quarterly basis to ensure coverage of emerging risks. The Audit Committee then instructs Global Internal Audit to undertake an agreed schedule of audits during which the effectiveness of the Group's internal controls are assessed.

Global Internal Audit (GIA) Effectiveness Review

During the year a GIA Effectiveness Review was carried out and reported to the Audit Committee. The review contained input from auditees, external auditors and senior management and assessed GIA against the Institute of Internal Auditors (IIA) Standards. The following conclusions were highlighted:

- the GIA audit methodology standards are aligned to IIA Standards and recognise best practice;
- the dynamic risk assessment and assurance mapping processes enable GIA to effectively identify and monitor emerging risks; and
- working in collaboration with other Group functions has increased effectiveness of audits and reduced duplication.

The Audit Committee therefore concluded that during the year the Group's systems of internal controls and risk management, including the internal audit activities, were operating effectively.

Financial reporting controls

The key financial controls across all our business units have 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.

Engagement

Shareholder relations

The Board takes its responsibility to represent and promote the interests of its shareholders seriously and believes it is very important to fully engage with its shareholders. Details of shareholder profiles as at 31 December 2012 can be found on page 137.

Shareholder engagement

The Board has engaged with shareholders in a number of ways during 2012, which included:

- half-year and full-year formal reporting;
- presentations by the Chief Executive and Chief Financial Officer to institutional investors, analysts and the media following results announcements;
- a programme of meetings throughout the year with major institutional shareholders;
- telephone conferences after the release of first and third quarter results; and
- meeting the shareholders face-to-face and responding to questions at the Annual General Meeting.

To enable as many shareholders as possible to access conferences and presentations, telephone dial-in facilities are made available in advance and live audio webcasts are made available after the presentation, together with associated data and documentation. These can be found at www.ihgplc.com/investors under financial library.

Currently around 30 sell-side research analysts publish research on the Group; their details are available at www.ihgplc.com/investors under analysts' details.

Meetings with major institutional shareholders

A programme of meetings throughout the year is arranged with major institutional shareholders. These meetings 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.

Board shareholder updates

Facilitated, structured meetings are encouraged with shareholders 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.

Annual General Meeting (AGM)

Additionally, the AGM provides a useful forum for one-to-one communication with private shareholders, many of whom are also guests in our hotels. 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 Committees.

Re-engaging with lost shareholders

We continue to be supported by ProSearch to locate shareholders who have failed to keep their details up-to-date. To date the programme has been very successful and many asset reunifications have been made.

Engagement on remuneration matters

Details of the Remuneration Committee's engagement with shareholders is set out on page 61.

Audit Committee Report

The Audit Committee takes responsibility for reviewing the integrity of the Group's financial reporting systems, the effectiveness of internal controls and risk management systems and the appointment and work of the internal and external auditors.

Committee membership

Member	Role	Meetings attended	Appointed to Committee from	Length of tenure to 31 Dec 2012
David Kappler	Chairman	5/5	Jun 2004	8 yrs 7 mths
Graham Allan	Member	2/2	(retired Jun 2012)	n/a
Jennifer Laing	Member	5/5	Aug 2005	7 yrs 5 mths
Dale Morrison	Member	5/5	Jun 2011	1 yr 7 mths
Total meetings held		**5**		

Governance

The Committee's 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 was in place throughout 2012. All Committee members are independent. The Committee had the opportunity to meet with the internal and external auditors on at least four occasions in the year without the presence of management.

The Board is satisfied that David Kappler has recent and relevant financial experience as a qualified accountant and former CFO of Cadbury Schweppes plc. Details of the qualifications and experience of the other Committee members are set out on pages 46 and 47.

At the invitation of the Committee, the Chief Executive, Chief Financial Officer, Head of Global Internal Audit (GIA) and external auditors (Ernst & Young LLP (E&Y)), attend meetings.

Responsibilities

The Board delegates authority to the Committee under five areas: internal controls and risk management, financial reporting, internal audit, external audit and compliance, whistleblowing and fraud.

The Committee's key responsibilities are set out below:

- to review the integrity of the Company's internal financial controls, internal controls and risk management systems, as well as review reports from management, GIA and the external auditors;
- to review the Group's processes for detecting and addressing fraud, misconduct and control weaknesses and consider the response to any such occurrence, including overseeing the whistleblowing process;
- to review and maintain the role and effectiveness of the internal audit function;
- to oversee the Group's relations with our external auditors and make recommendations on their appointment, reappointment, removal and independence;
- to pre-approve the external auditors' non-audit work and associated fees; and
- to oversee the Group's Code of Ethics and Business Conduct and associated procedures for monitoring adherence.

Independence of external auditors

E&Y have been the Group's independent external auditors since 2003. To ensure the auditors' independence is safeguarded, lead audit partners rotate every five years. In 2011 the lead audit partner was rotated.

The Committee reviews the relationship the Group has with E&Y annually and for the year ended 31 December 2012, the Committee was satisfied with the independence, objectivity and effectiveness of the relationship with E&Y as the external auditors.

Non-audit services

A key factor that may impair the external auditors' independence is a lack of control over the volume of non-audit services. To address this issue all proposals for non-audit work are subject to pre-approved limits and additionally there is a prohibition on the undertaking of certain services. The Committee is aware of, and sensitive to, investor body guidelines on non-audit fees. For information on fees paid to E&Y for non-audit work during 2012 see page 100.

Internal audit

The Head of GIA is responsible for reporting and ensuring findings of internal audit work are brought to the attention of local management and the Committee as appropriate. During 2012 GIA operated in all the Group's principal regions.

Key issues discussed in 2012 meetings

During 2012, the Committee considered, amongst others, the following matters:

- review of the quarterly, interim and full-year financial results in advance of their consideration by the Board;
- review of E&Y's quarterly, interim and full-year reports as well as all non-audit work carried out by E&Y to ensure audit independence and objectivity are safeguarded;
- the effectiveness of E&Y, in particular their objectivity, independence and reappointment in advance of their consideration by the Board;
- the scope of GIA's annual internal audit plan and the review of GIA's effectiveness and compliance with professional standards;
- developments in corporate governance and accounting standards in the UK and US and compliance with Sarbanes-Oxley Act 2002;
- reports from the Head of Global Risk Management on the activities of Global Risk Management;
- review of the disclosure controls and procedures operated by the Group;
- review of reports on significant incidents of fraud and whistleblowing; and
- the effectiveness of the Committee and the continuing appropriateness of its terms of reference.

Key priorities for the Committee in 2013

During 2013 the Committee will continue its role in reviewing the integrity of the Company's internal financial controls, internal controls and risk management systems.

David Kappler
Chairman of the Audit Committee
18 February 2013

Corporate Responsibility Committee Report

The Corporate Responsibility Committee takes responsibility for considering the strategy, policies, management, measurement systems and key programmes and projects for Corporate Responsibility across the Group.

Committee membership

Member	Role	Meetings attended	Appointed to Committee from	Length of tenure to 31 Dec 2012
Jennifer Laing	Chairman	3/3	Feb 2009	3 yrs 11 mths
Graham Allan	Member	1/1	(retired Jun 2012)	n/a
Luke Mayhew	Member	3/3	Jul 2011	1 yr 6 mths
Dale Morrison	Member	1/1	Nov 2012	2 mths
Richard Solomons	Member	3/3	Jun 2011	1 yr 7 mths
Ying Yeh	Member	3/3	Aug 2011	1 yr 5 mths
Total meetings held		**3**		

Governance

The Committee's 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 was in place throughout 2012.

The majority, four out of the five members, of the Committee are Non-Executive Directors as required under its terms of reference.

Responsibilities

The Board delegates authority to the Committee for all Corporate Responsibility matters. The Committee's key responsibilities are set out below:

- to review and advise the Board on Corporate Responsibility objectives and strategy;
- to review policies and approaches to sustainable development and Corporate Responsibility matters;
- to review reports on performance and progress against KPIs relating to Corporate Responsibility;
- to review internal and external audit reports on Corporate Responsibility and monitor progress towards actions; and
- to review the content of the Corporate Responsibility Report.

Key issues discussed in 2012 meetings

During 2012, the Committee considered, amongst others, the following matters:

- the Group's approach to Corporate Responsibility;
- review of the impact of the IHG Shelter in a Storm Programme including specific case studies and learnings for the future;
- review of the key Green Engage, IHG Shelter in a Storm Programme and IHG Academy 2013 objectives and 2012 achievements;
- review of the impact of the IHG Academy roll-out and its successes to date;
- further embedding of our Corporate Responsibility policies across the business;
- receive an update on competitor Corporate Responsibility strategy and execution, and the implications for IHG; and
- review stakeholder engagement and communications.

Key priorities for the Committee in 2013

Corporate Responsibility continues to be an area of great importance to IHG. During 2013 the Committee will continue to review Corporate Responsibility strategy, objectives and progress particularly with respect to rolling out key Corporate Responsibility programmes around the world.

For further information on our approach to Corporate Responsibility matters see pages 34 to 37.

Jennifer Laing
Chairman of the Corporate Responsibility Committee
18 February 2013

Nomination Committee Report

The Nomination Committee takes responsibility for considering the structure, size and composition of the Board, advising on succession planning and making appropriate recommendations to ensure the Board retains the appropriate level of skills and experience.

Committee membership

Member	Role	Meetings attended	Appointed to Committee from	Length of tenure to 31 Dec 2012
David Webster[1]	Chairman[2]	4/4	(retired Dec 2012)	n/a
Graham Allan	Member	2/2	(retired Jun 2012)	n/a
David Kappler	Member	5/5	Jun 2004	8 yrs 7 mths
Jennifer Laing	Member	5/5	Aug 2005	7 yrs 5 mths
Jonathan Linen	Member	3/5	Dec 2005	7 yrs 1 mth
Luke Mayhew	Member	5/5	Jul 2011	1 yr 6 mths
Dale Morrison	Member	5/5	Jun 2011	1 yr 7 mths
Ying Yeh	Member	5/5	Dec 2007	5 yrs 1 mth
Total meetings held		**5**		

1 Patrick Cescau was appointed as Non-Executive Chairman and Chairman of the Nomination Committee on 1 January 2013 following the retirement of David Webster on 31 December 2012.

2 The Chairman does not chair when the Committee is considering matters relating to his position. In these circumstances David Kappler, Senior Independent Director, usually acts as Chairman of the Committee.

Governance

The Committee's 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 was in place throughout 2012. All Committee members excluding the Chairman are independent as required under its terms of reference.

Responsibilities

The Committee's key responsibilities are set out below:

- to review the structure, size and composition of the Board and its Committees;
- to evaluate the balance of skills, experience, independence, knowledge and diversity on the Board, taking into account the Group's strategic priorities;
- to make recommendations on suitable candidates for approval by the Board;
- to engage external consultants, as appropriate, to identify, review and recommend candidates for Board appointments and ensure 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
- to advise the Board on succession planning for Executive and Non-Executive Directors and the Executive Committee in light of the need for progressive refreshing of the Board and the skills and experience needed in the future.

2012 Board appointments

Following notification by David Webster of his intention to retire and step down as Chairman, external search agents were engaged. The search for a new Chairman was undertaken against a detailed job specification setting out the particular skills, knowledge and experience required for this particular position. Accordingly, the Committee nominated Patrick Cescau for the position and he was subsequently appointed by the Board, with such appointment effective from 1 January 2013.

Succession planning

The Board plans for its own succession with the support of the Committee. Independent consultants are engaged for all Non-Executive Director appointment searches.

The Committee remains focussed, on behalf of the Board, on Board succession planning for both Executive and Non-Executive Directors. By way of example, since 2008 eight Directors have joined the Board and seven have left. During 2012 the Committee also considered a more detailed review of the talent pool within the business, looking to future succession planning for Executive Directors.

Diversity

The Board is committed to supporting women in reaching their full potential and we welcomed Lord Davies' Report on 'Women on Boards' and fully support its recommendations. We have announced our aspiration to continue to retain a minimum of 25% female representation on the Board.

Whilst all appointments are made on merit, we seek to ensure the Board maintains an appropriate balance through a diverse mix of skills, experience, knowledge and background. Currently, the Board includes three women (27%) and four nationalities.

Key issues discussed in 2012 meetings

During 2012, the Committee considered, amongst others, the following matters:

- search for a new Board Chairman using external consultants;
- candidates for a new Audit Committee Chairman;
- candidates for a Non-Executive Director;
- annual review of the composition, skills, diversity, knowledge and experience of the Board;
- recommendations of Directors for re-election at the 2013 AGM; and
- review of performance appraisals for members of the Executive Committee and Executive Committee succession planning.

Key priorities for the Committee in 2013

During 2013, the Committee will continue to search for a new Audit Committee Chairman and Senior Independent Director and make recommendations to ensure the Board retains the appropriate level of skills, knowledge and experience whilst taking into account the recommendations of the Davies Report.

Patrick Cescau
Chairman of the Nomination Committee
18 February 2013

Directors' Remuneration Report

Dear Shareholder

2013 is a year of transition for directors' remuneration reports. We have prepared this report before new final Government regulations on executive remuneration disclosure are issued. However, we have reflected as much as is practical of the direction and spirit of the draft regulations in both the content and structure of this report.

There is more information on areas such as how we recognise risk in our remuneration policy and our interactions with stakeholders, including data on previous shareholder votes. We have historically tried to make this report transparent and easy to read and in recent years already included, for example, the single figure for Executive Directors' remuneration and a remuneration policy summary table.

Last year, I used this introduction to set out the key elements of this report. This year, there is an overview at the start of the report itself. However, I would like to highlight the following points in particular.

Executive Director remuneration at IHG has evolved during 2012:

- the measures under the Annual Bonus Plan (ABP) have been changed for Executive Directors in 2013. To distinguish it from the previous measures, we refer to it as the Annual Performance Plan (APP). Although not a radical change, the APP does align annual incentives more closely to the key elements of our strategic priorities of Brands, People and Delivery; and
- the 2010/12 Long Term Incentive Plan (LTIP), which will vest in 2013, is the last LTIP using the previous measures. The 2011/13 LTIP, which vests in 2014, is the first LTIP including the new corporate performance measures of net rooms growth and RevPAR.

Remuneration for Executive Directors in 2012 reflects another year of strong results, as shown in the table below:

	2012	2011	2010
EBIT	**+9.8%**	+25.9%	+22.3%
Adjusted EPS*	**+21.7%**	+2.5%	+9.6%
TSR*	**+28.2%**	+29.8%	+8.0%

* Annualised three-year changes.

Remuneration has reflected these results with an ABP award just above target for 2012 and a maximum vesting of the 2010/12 LTIP cycle.

We continually keep all aspects of remuneration under review and listen to the views of shareholders, Government and other stakeholders. We believe our current approach to remuneration is responsible and appropriate as it:

- is structured to drive execution of our business strategy;
- aligns reward with the creation of shareholder value;
- allows the Company to recruit and retain talent in a competitive global sector;
- incorporates measures and safeguards to ensure that high rewards only follow strong, balanced results; and
- incentivises the delivery of long-term, sustainable business growth and shareholder value, rather than the pursuit of unsustainable short-term results.

The targets for 2013 are stretching and will require a strong corporate performance to achieve similar levels of total remuneration.

Luke Mayhew

Chairman of the Remuneration Committee
18 February 2013

Directors' Remuneration Report glossary of terms

ABP	Annual Bonus Plan
APP	Annual Performance Plan
DB	Defined Benefit
DC	Defined Contribution
DJGH index	Dow Jones Global Hotels index
EBIT	Earnings before interest and tax
EPS	Earnings per share
ICETUS	InterContinental Executive Top-up Scheme
IC Plan	InterContinental Hotels UK Pension Plan
LTIP	Long Term Incentive Plan
OPR	Overall performance rating
RevPAR	Revenue per available room
TSR	Total Shareholder Return

Contents of Directors' Remuneration Report

Overview

Report structure

In June 2012, the UK Government Department for Business, Innovation & Skills (BIS) published draft regulations setting out the proposed content of a new two-part Directors' Remuneration Report to consist of:

- a forward-looking **remuneration policy report** that sets out the parameters for directors' pay, on which shareholders will have a binding vote; and
- an **implementation report** that explains how the agreed policy has been implemented and the resulting payments, on which shareholders will have an advisory vote.

Although the new regulations do not apply to IHG's Directors' Remuneration Report until 2013, we have reflected as much as is practical of the direction and spirit of the draft BIS regulations, including the proposed structure, addressing firstly remuneration policy for 2013, and then the 2012 outcomes.

IHG, and a number of other FTSE 100 companies, worked with the Financial Reporting Council's Financial Reporting Lab in making recommendations on the composition of the single figure disclosure that will be required under the new regulations.

This report has been prepared by the Remuneration Committee and has been approved by the Board. It complies with the Companies Act 2006 and related regulations. It will be put to shareholders for approval at the 2013 Annual General Meeting (AGM).

Summary of IHG's Executive Director remuneration policy for 2013

Fixed remuneration	Variable remuneration	
Salary **Pension** **Benefits**	**Annual incentive – APP** 50% cash and 50% shares deferred for three years Linked to individual and company achievement using performance measures relating to: – Brands; – People; and – Delivery.	**Long-term incentive – LTIP** Share awards vest after three years if performance conditions are met: – 25% relative net rooms growth; – 25% relative RevPAR growth; and – 50% relative TSR v the DJGH index.
Minimum shareholding requirement		

Approach for members of the Executive Committee

Members of the Executive Committee are rewarded on the same basis as the Executive Directors, participating in the same incentive plans and with a similar split between fixed and variable remuneration, and between cash and shares.

Key executive remuneration principles

Executive remuneration should drive delivery of strategic objectives 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 senior executive team; and
- facilitating critical global assignments and relocations.

Factors taken into account in determining pay

In making decisions in relation to 2012 pay, the Committee took into account:

- the achievement of corporate performance targets under the ABP and LTIP (see pages 71 and 72);
- an appropriate mix of fixed and variable pay, with an emphasis on driving performance through approximately two-thirds of total pay being variable (see page 66);
- pay and conditions elsewhere in the Group, including the average budgeted salary increase for the employee population in the table below; and
- the corporate performance indicators in the table below.

Key changes in 2012

Changes to the annual incentive for senior executives, including the Executive Directors, were approved by the Committee for 2013, with the objective of more closely aligning reward to the delivery of our strategic objectives of Brands, People and Delivery.

Corporate performance indicators	2012	2011	2010
Operating profit before exceptional items	+9.8% $614m†	+25.9% $559m♦	+22.3% $444m
Full-year dividend (excluding any special dividends and capital returns)	64 cents (41.2p) per share	55 cents (34.5p) per share	48 cents (30.0p) per share
Three-year total TSR (annualised)	+28.2%	+29.8%	+8.0%
Three-year adjusted EPS (annualised)	+21.7%	+2.5%	+9.6%
Budgeted salary increase (US and UK corporate employees)	3.0%	3.0%	2.9%

†Includes one significant liquidated damages receipt in 2012 of $3m in The Americas.
♦Includes two significant liquidated damages receipts in 2011; $10m in The Americas and $6m in Asia, Middle East and Africa.

1. The Remuneration Committee

Committee membership

The independent Non-Executive Directors who served on the Committee during 2012 were as follows:

Member	Role	Meetings attended	Date of appointment
Luke Mayhew	Chairman	6/6	1 July 2011
David Kappler	Member	6/6	21 June 2004
Jonathan Linen	Member	6/6	1 December 2005
Ying Yeh	Member	6/6	1 December 2007
Total meetings held		**6**	

The following attended all meetings:

David Webster (Chairman of the Board until 31 December 2012); **Richard Solomons** (Chief Executive); and **Tracy Robbins** (Executive Vice President, Human Resources and Group Operations Support).

Committee meetings were also attended by the following individuals who provided advice to the Committee on remuneration proposals:

Lori Gaytan (Senior Vice President, Americas Human Resources and Global Reward) – February, May and June meetings; and **Jean-Pierre Noel** (appointed Senior Vice President, Global Reward in April 2012) – from May meeting onwards.

None of these individuals is in attendance when his/her own remuneration is being discussed.

Governance

The Committee's remit is set out in its terms of reference which are reviewed annually and were updated by the Board in December 2012. They are available on the Company's website www.ihgplc.com/investors under corporate governance/committees, or from the Company Secretary's office on request.

Responsibilities

The Committee agrees, on behalf of the Board, all aspects of the remuneration of the Executive Directors and the Executive Committee, 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.

Committee approach to managing risk

The approach to remuneration is to directly link it to IHG's strategy. Risk management is a key part of IHG being a Responsible Business and the Committee considers risk mitigation as central to the way that incentive arrangements are structured, for example:

- the APP, ABP and LTIP are all structured so as to have a balance of measures that ensure senior executives are not incentivised to behave in a way that could adversely affect the sustainable growth of the Company and the long-term interests of its shareholders. For instance, in the new APP, the drive for short-term financial results is balanced by performance measures focussed on guest satisfaction and employee engagement;
- the Committee reserves the discretion to determine that payouts in the LTIP are adjusted if they are not consistent with the Committee's assessment of earnings and the quality of the Company's financial performance over the relevant performance period; and
- for awards under the Company's incentive plans made from January 2012, clawback provisions may be used by the Committee in any situation of misconduct that causes significant damage or potential damage to IHG's prospects, finances or brand reputation, and/or actions that lead to material misstatement or restatement of accounts.

Key issues discussed in 2012 meetings

In 2012, the Committee met six times. The most significant topic of discussion was the review of annual incentives and the new APP. The Committee discussed, amongst others, the following matters:

Date	Key issues discussed
9 February	• Executive Committee performance and salary review; • 2011 Directors' Remuneration Report; • vesting of 2011 annual incentive plan and 2009/11 long-term incentive plan; and • design of 2012 annual incentive plan and 2012/14 long-term incentive plan.
3 May	• Initial review of future annual incentive structure; and • 2012 incentive measure projections.
27 June	• Key design principles for annual incentive plan for 2013 onwards (APP); and • 2012 incentive measure projections.
26 September	• Detailed structure of incentives for 2013 onwards; • 2012 incentive measure projections; and • IHG's return of capital to shareholders – effect on incentive plans.
1 November	• Design of APP measures for 2013.
12 December	• APP targets for 2013; • update on the Committee Chairman's meetings with shareholders; • executive remuneration market updates; • 2012 incentive measure projections; • approach to 2012 Directors' Remuneration Report; and • annual review of the Committee's terms of reference.

Committee interaction with stakeholders

The Committee actively engages with shareholders on remuneration matters. Major shareholders were approached prior to the 2012 AGM and offered the opportunity to discuss any aspect of our approach to remuneration. In addition, in November 2012, the Chairman of the Committee approached major shareholders outlining the changes to annual incentive arrangements for 2013. Meetings were held with many of them, as well as shareholder representative organisations, at which details of the changes, best practice stemming from the proposed regulatory changes and reporting of executive remuneration were discussed.

Votes in favour of our Directors' Remuneration Report at previous AGMs:

	% in favour
2012	95.46%
2011	96.24%

Remuneration advisers

Throughout 2012, the Committee retained PricewaterhouseCoopers LLP (PwC) as independent advisers. PwC also supported management in developing and implementing remuneration proposals and provided advice in relation to the review of annual incentive arrangements during 2012.

Adviser	Retained by	Services provided to the Committee	Other services provided
PwC	Remuneration Committee	Executive remuneration advice	Support in developing and implementing remuneration proposals; advice on employer and employee tax compliance processes for expatriate employees; advice on tax withholding obligations in relation to ABP and LTIP; and other tax and consulting services.
Towers Watson	the Company	Data on executive and employee reward levels in the Group's regional markets	None
Freshfields Bruckhaus Deringer LLP	the Company	None	Advice and information on tax and legal aspects of operating the LTIP and ABP, and other legal services to the Group.
Tapestry Compliance LLP	the Company	None	Advice and information on tax and legal aspects of operating the LTIP and ABP.

The terms of engagement for the advisers named above are available from the Company Secretary's office on request.

PwC and Towers Watson are members of the Remuneration Consultants Group. Members of this group adhere to a voluntary Code of Conduct that sets out the role of executive remuneration consultants in the UK and the professional standards they have committed to adhere to when advising remuneration committees.

2. Policy: remuneration policy for 2013

A – Key remuneration principles

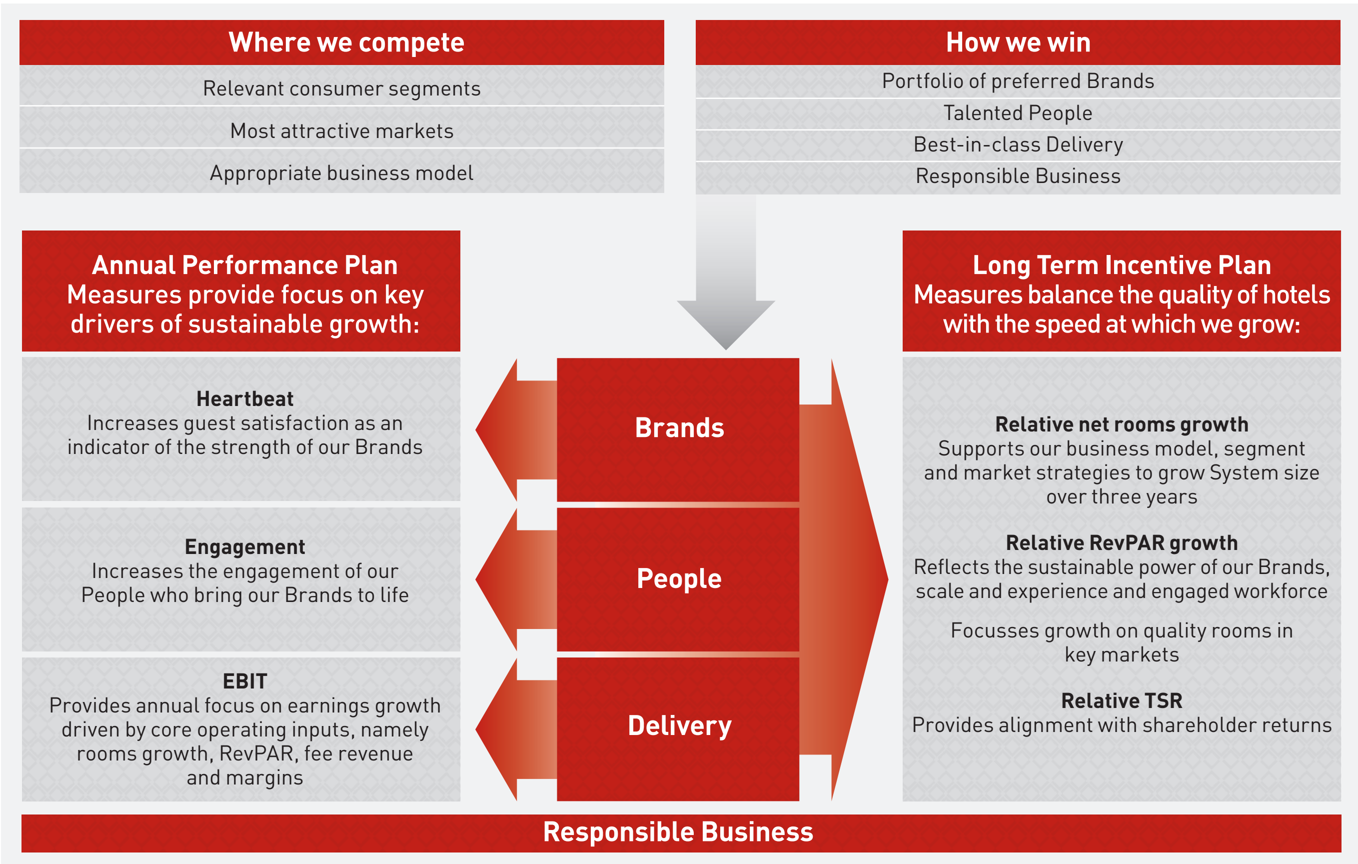
IHG's executive remuneration principles are designed to drive the delivery of strategic objectives by:

- 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 relocations.

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.

B – Link with strategy

Our strategy (summarised below) is the driver of our reward structure, and is further explained on pages 11 to 17 of this Annual Report. The current performance measures used in IHG's incentive plans are aligned with our strategic priorities, which will enable us to achieve our Vision of becoming one of the great companies in the world by creating Great Hotels Guests Love.



C – Remuneration policy summary

The following table shows a summary of the individual elements of remuneration provided to the Executive Directors for 2013. The APP replaces the ABP for senior executives from 2013.

Reward element	Purpose and link to strategy	Operation
Salary (cash)	Recognises the market value of the role and the individual's skill, performance and experience.	Reviewed annually and fixed for 12 months from 1 April. Committee considers: • business and individual performance; • current remuneration against internal and external benchmarks; and • average salary increases for the wider IHG workforce. When external benchmarking is used, the comparator groups are chosen having regard to: • size – market capitalisation, turnover, profits and the number of employees; • diversity and complexity of the business; • geographical spread of the business; and • relevance to the hotel industry.
APP (50% cash and 50% shares)	Drives and rewards annual performance against both financial and non-financial metrics. Aligns individuals and teams with key strategic priorities of Brands, People and Delivery. Aligns short-term annual performance with strategy to generate long-term returns to shareholders. Takes into account personal performance of individuals.	Reviewed annually with targets set in line with strategic objectives. Regional as well as global targets are used when appropriate. Payment is determined by the Committee, which has certain specified discretion over award levels, after the end of the year.
LTIP (shares)	Drives and rewards delivery of sustained long-term performance on measures that are aligned with the interests of shareholders.	Annual awards over IHG shares, which vest after three years, subject to the achievement of corporate performance targets. Reviewed annually with targets set in line with strategic objectives. Vesting is confirmed by the Committee after the end of the vesting period, with discretion to reduce vesting level if the quality of the underlying performance of the Company is not satisfactory.
Pension	Helps recruit and retain. Rewards long-term individual performance.	The following plans are operated: • for UK executives, the executive section of the InterContinental Hotels UK Pension Plan (the IC Plan), which has a defined benefit section (UK DB Plan) and a defined contribution section (UK DC Plan); • for UK executives, the InterContinental Executive Top-Up Scheme (ICETUS); • for US executives, a DC 401(k) Plan (US 401(k) Plan) and a DC Deferred Compensation Plan (US Deferred Compensation Plan); and • for non-UK and non-US executives, the InterContinental Hotels Group International Savings and Retirement Plan, and other local plans. A cash allowance in lieu of pension benefits is offered for UK executives.

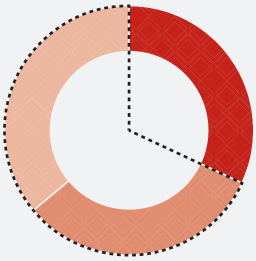
Opportunity	Performance metrics	Changes in year
Determined annually on the factors set out to the left	None	Directors' salaries increased between 2.5%-3% in 2012
Target = 115% of salary Maximum = 200% of salary	20% Brands: year-on-year improvement in guest satisfaction 10% People: year-on-year improvement in employee engagement 70% Delivery: EBIT v target All targets measured over one year	APP for senior executives from 2013
Maximum for 2013/15 LTIP cycle = 205% of salary Will not exceed three times annual salary other than in exceptional circumstances	25% relative net rooms growth and 25% relative RevPAR growth (both measured v comparator group): • 20% threshold vesting if equal to average growth of comparator group; • maximum vesting if ranked as 1st in the comparator group; and • straight-line vesting in between. 50% relative TSR (v DJGH index): • 20% threshold vesting if equal to index; • maximum vesting if 8% or more per year ahead of index; and • straight-line vesting in between. All targets measured over a three-year performance period	None in 2012
UK DB Plan: 1/30th accrual rate UK DC Plan: 7.5% employee contribution with 30% matching Company contribution US 401(k) Plan: 2%-75% employee contribution with 4% matching Company contribution US Deferred Compensation Plan: up to 75% employee contribution with 2% matching Company contribution and 4%-20% additional Company contribution if certain conditions are met	None	None in 2012 UK DB Plan will close to future accrual for existing members with effect from 1 July 2013

D – Fixed and variable pay mix

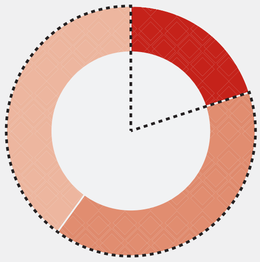
Individual reward elements for all Executive Directors and Executive Committee members are designed to provide the appropriate balance between fixed remuneration and variable 'at risk' reward, linked to both the performance of the Group and the achievements of the individual.

The usual pay mix for Executive Directors is as follows at target and maximum levels:

Target



Maximum



- Target performance assumes APP award is at target (115% of salary) and LTIP award vests at 50% of potential maximum (102.5% of salary, measured at the time of grant).
- Maximum performance assumes APP award is at maximum (200% of salary) and LTIP award vests at 100% of potential maximum (205% of salary, measured at the time of grant).
- Benefits and pensions are excluded.

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

E – Salary and benefits

- Base salary is the only element of remuneration which is pensionable.
- In addition to salary, benefits are provided to Executive Directors, who are all based in the UK or US, in accordance with local market practice.
- The overall budget for salary increases for IHG corporate employees in the UK and US, and the overall increase in the Directors' salaries for 2013 is shown below:

UK corporate employees	US corporate employees	Executive Directors
3.0%	3.0%	2.5%

Executive Director annual salaries for 2012 and 2013

Director	2013 £	2013 $	2012 £	2012 $
Richard Solomons	**739,000**		721,000	
Kirk Kinsell*		**774,000**		755,400
Tracy Robbins	**424,300**		412,000	
Tom Singer	**550,800**		540,000	

* Kirk Kinsell is paid in US dollars and his annual base salary for 2012 and 2013 is shown in US dollars above. The equivalent sterling values calculated using an exchange rate of $1=£0.63 are: 2012 – £476,562; and 2013 – £488,296.

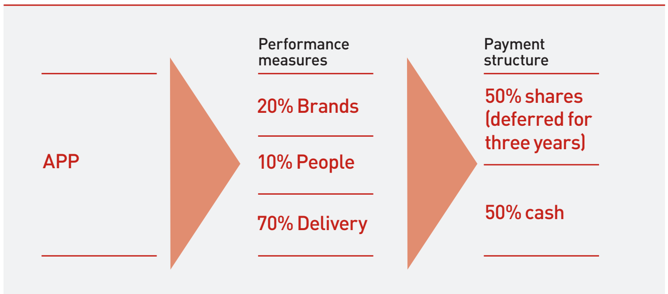
F – Annual Performance Plan

During 2012, a review of the annual incentive arrangements for the Executive Directors was carried out. As a result of this review, the APP is being launched with effect from 2013. It will apply to the Executive Directors, the Executive Committee and other senior executives from 2013, and roll-out to the rest of our eligible corporate employees is planned for 2014.

The APP is being introduced in the context of the broader growth agenda and more closely aligns the annual incentive with our strategic priorities of Brands, People and Delivery. The APP will require the achievement of challenging goals in 2013 before the target award is payable.

The measures for 2013 are focussed on the following key strategic priorities:

- Brands: Guest satisfaction as measured by the Heartbeat score – year-on-year improvement;
- People: Employee engagement score – year-on-year improvement; and
- Delivery: EBIT achievement against target.



Why do we use these measures?

Brands: Heartbeat score	People: Employee engagement score	Delivery: EBIT v target
• Heartbeat is an overall guest satisfaction score relating to hotel visits; • it is a robust measure of the strength of our brands; and • inclusion in the APP provides executive focus on this key performance metric at global and regional level.	• We measure employee engagement because our brands are, effectively, a promise kept by our People, as engaged colleagues, to deliver a great guest experience; and • a fully engaged employee agrees to five statements – pride, advocacy, job meaning, extra effort and happiness.	• EBIT is a key measure of business performance for our shareholders; • it factors in other critical measures: net rooms growth, RevPAR, fee revenue and margins; and • ensures affordability of the APP.

APP targets for 2013

- Achievement of target performance results in an award of 115% of salary and the maximum annual award an Executive Director can receive in any one year is 200% of salary.
- A combination of global and regional targets will be used. Executive Directors with global roles will have global measures. Kirk Kinsell will have partly regional measures, reflecting his regional role as President, The Americas.
- Award levels relate to achievement v target under each of the measures, as shown below:

	Heartbeat 20% of award	Employee engagement 10% of award	EBIT 70% of award	Total award % of salary
Threshold Achievement v target	50%	50%	90%	
Award level	50% of target payment 11.5% of salary	50% of target payment 5.75% of salary	50% of target payment 40.25% of salary	57.5%
Target Achievement v target	100%	100%	100%	
Award level	100% of target payment 23% of salary	100% of target payment 11.5% of salary	100% of target payment 80.5% of salary	115%
Maximum Achievement v target	200%	200%	110%	
Award level	Maximum payment 40% of salary	Maximum payment 20% of salary	Maximum payment 140% of salary	200%

For less than Threshold achievement, no award is made.

Payment is determined on a straight-line basis between Threshold and Target, and Target and Maximum.

Threshold award is subject to a global EBIT affordability gate such that:

- if global EBIT is below 85% of target, no award is made; and
- if global EBIT is between 85% and 90% of target, half of any award relating to the Brands and/or People measures is made.

The Committee has the ability to exercise certain specified discretion over the level of awards made under the 2013 APP.

G – Long Term Incentive Plan (LTIP)

The LTIP allows Executive Directors and other eligible executives to receive share awards, subject to the achievement of performance targets 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.

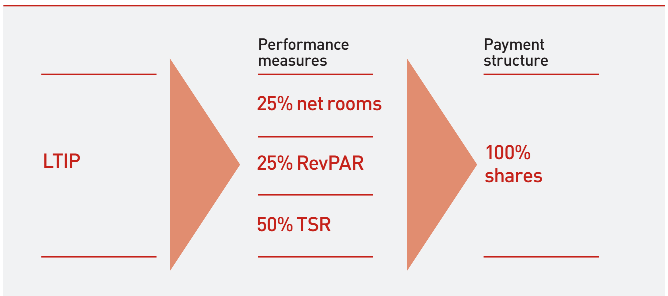
The performance measures for the 2013/15 cycle are:

- cumulative annual growth in net rooms;
- cumulative annual like-for-like RevPAR growth; and
- IHG's TSR relative to the DJGH index.

Growth in net rooms and RevPAR are measured on a relative basis against the comparator group, comprising the following major globally branded competitors: Accor, Choice, Hilton, Hyatt, Marriott, Starwood and Wyndham.

These performance measures are also used in the 2011/13 and 2012/14 LTIP cycles, granted in 2011 and 2012 respectively.

For the 2010/12 LTIP cycle, the performance measures were TSR and EPS; details of structure and outcome are set out on page 72.



Why do we use these measures?

Net rooms growth	RevPAR growth	TSR
This measures the net growth in total number of IHG hotel rooms over the duration of the cycle relative to our major global competitors. Together with the RevPAR measure, it provides focus on ensuring a balance between the quality of IHG hotels and the speed at which IHG grows.	This measures success in growing our rates for the rooms we have open for the duration of the cycle relative to the RevPAR growth of our major global competitors.	This measures the return to shareholders by investing in IHG relative to our competitors in the DJGH index.

In order to generate higher returns for our shareholders, we need to increase revenue share, improve operating efficiency and grow margins through increasing the number of rooms we have available to sell, as well as generating more RevPAR for those rooms. By focussing on both net rooms growth and RevPAR growth, we are rewarding the balanced approach to growth that will support the long-term increase in shareholder value.

Performance measure	Weighting	Threshold requirement	Threshold performance	Maximum requirement	Maximum performance
Net rooms growth v major competitors	25%	Equal to average growth of comparator group	20%	Ranked as 1st in the comparator group	100%
RevPAR growth v major competitors	25%	Equal to average growth of comparator group	20%	Ranked as 1st in the comparator group	100%
TSR growth v DJGH index	50%	Equal to index	20%	Outperform index by 8% or more per year (equivalent to 26% over three years)	100%

For the 2013/15 LTIP cycle, the Committee resolved to grant maximum awards at 205% of base salary for the Executive Directors. Vesting for points between Threshold and Maximum will be calculated on a straight-line basis.

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.

After testing the performance targets set at grant, the Committee will review the vesting outcomes of the net 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 Directors' Remuneration Report.

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

H – Pensions

IHG operates the following pension arrangements in which the Executive Directors participate:

- for UK executives, the executive section of the IC Plan, which has a DB section and a DC section (the UK DB Plan and the UK DC Plan respectively);
- for UK executives, ICETUS; this is an unfunded arrangement, but with appropriate security;
- for US executives, the DC US 401(k) Plan and the DC US Deferred Compensation Plan; and
- for executives outside the UK and US, the InterContinental Hotels Group International Savings and Retirement Plan, or other local plans.

As an alternative to the pension arrangements, a cash allowance may be taken in lieu by UK executives.

Following an extensive UK pension review and subsequent consultations with affected employees, it was announced on 29 September 2011 that the UK DB Plan would close to future accrual for existing members with effect from 1 July 2013. The UK DB 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.

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

The Executive Directors participate as follows:

- Richard Solomons participates in the UK DB Plan and the ICETUS on the same basis as other senior UK-based executives;
- Tracy Robbins participated in the executive UK DC Plan on the same basis as other senior UK-based executives until March 2012; from April 2012 she received a cash allowance in lieu of pension benefits;
- Tom Singer does not participate in any pension plan and receives a cash allowance in lieu of pension benefits; and
- Kirk Kinsell participates in the DC US 401(k) Plan and the DC US Deferred Compensation Plan.

Further details on the Executive Directors' pension arrangements are shown on pages 75 and 76.

I – 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 78.

J – Clawback in incentive plans

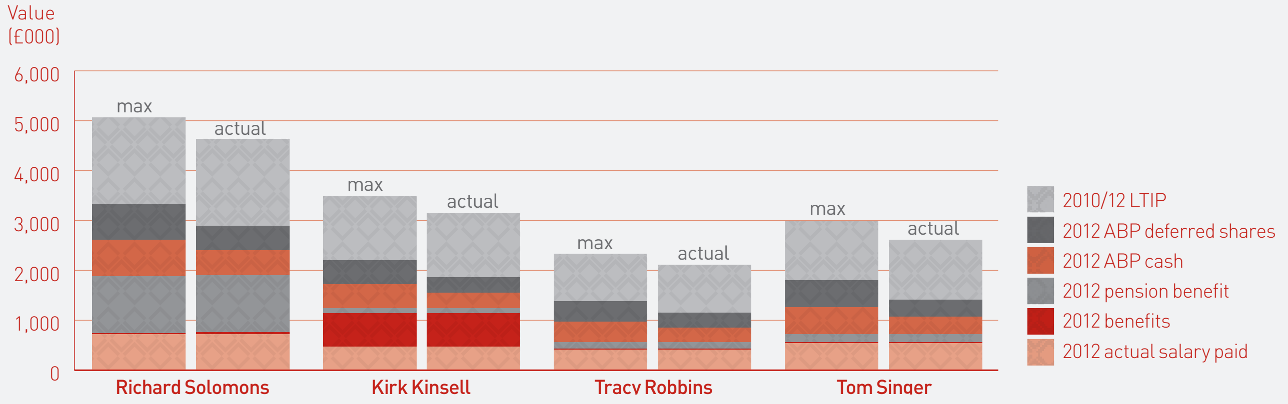
For awards made from January 2012, the ABP, APP and LTIP allow the Committee discretion to claw back unvested share awards in the following circumstances:

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

This feature helps ensure alignment between executive rewards and shareholder returns.

3. Implementation: outcomes for 2012

A – Single figure remuneration in 2012 – actual and maximum



Single Total Figure Table (£000)

Director	2012 actual salary paid	2012 benefits	2012 pension benefit	2012 ABP cash	2012 ABP deferred shares	2010/12 LTIP	Total
Richard Solomons	716	48	1,140	494	494	1,738	4,630
Kirk Kinsell*	474	663	110	306	306	1,287	3,146
Tracy Robbins	409	23	123	300	300	954	2,109
Tom Singer	540	19	162	346	346	1,194	2,607

* Kirk Kinsell is paid in US dollars and the sterling values in the chart above have been calculated using an exchange rate of $1=£0.63.

Details of elements shown:

2012 actual salary paid – salary for the year; for Kirk Kinsell this shows actual salary paid converted into sterling;

2012 ABP cash – cash portion of ABP award for 2012 performance;

2012 ABP deferred shares – value of deferred share portion of ABP award for 2012 performance (based on share price of 1,707.0p as at 31 December 2012);

2010/12 LTIP – value of LTIP award due to vest on 20 February 2013 as a result of 2010 to 2012 performance (based on share price of 1,707.0p as at 31 December 2012);

2012 benefits – all taxable benefits arising from the individual's employment in 2012; this includes the provision of a fully-expensed company car, private healthcare, financial counselling and other benefits. For Kirk Kinsell, this includes the cost of expatriate benefits related to his international assignment prior to taking up his Board appointment as President, The Americas, on 13 June 2011;

2012 pension benefit – for Richard Solomons, the increase in pension value during 2012; for other Executive Directors, the value of Company contributions to pension plans or any cash allowances paid in lieu of pension contributions. The pension benefit accruing to Richard Solomons in 2012 arose principally from his salary review when appointed Chief Executive in July 2011.

2009 ABP deferred shares – there was no vesting of ABP deferred shares relating to 2009 as no annual incentive was paid in respect of financial year 2009.

All figures are calculated in accordance with our understanding of the requirements of the draft BIS regulations on disclosure of executive pay.

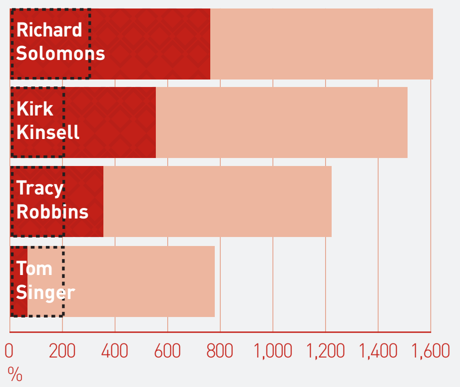
B – Executive shareholding requirement

The Committee believes that share ownership by Executive Directors and senior executives strengthens the link between the individuals' personal interests and those of the shareholders.

Executive Directors are expected to hold all shares earned (net of any share sales required to meet personal tax liabilities) until the guideline shareholding requirement is achieved.

The table below excludes share options held by Richard Solomons, details of which can be found on page 78.

Shares held by Executive Directors



Shares held outright | Total shares and awards[4] | Guideline shareholding requirement

Director	Guideline shareholding as % of salary	**Shares held outright as % of salary[1]**	ABP deferred share awards as % of salary[2]	LTIP share awards as % of salary[3]	Total shares and awards as % of salary[4]
Richard Solomons	300	**763**	153	693	1,609
Kirk Kinsell	200	**557**	180	776	1,513
Tracy Robbins	200	**355**	167	706	1,228
Tom Singer[5]	200	**66**	0	715	781

Percentages are based on share price of 1,707.0p per share as at 31 December 2012.

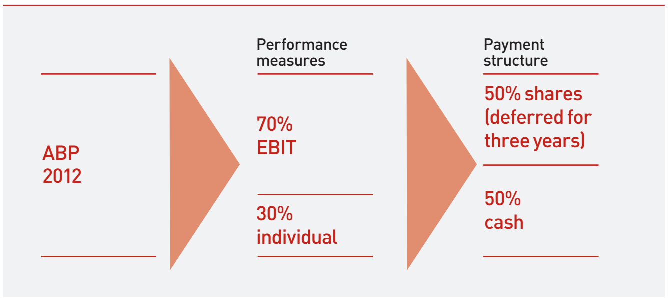
1 Shares held outright by each Executive Director with no restrictions.
2 ABP deferred share awards subject to risk of forfeiture if employment ceases.
3 LTIP share awards subject to achievement of corporate performance targets.
4 Includes shares held outright, ABP deferred shares and LTIP share awards.
5 Tom Singer joined in 2011 and did not qualify for the 2011 ABP deferred share award.

C – Annual Bonus Plan (ABP)

Structure

In 2012, Executive Directors participated in the ABP, which will be replaced from 2013 by the APP, details of which can be found on page 67.

The structure of the ABP is as follows:



The measures for 2012 were:

- Global EBIT achievement against target for 2012:
  - threshold payout: 90% of target performance;
  - maximum payout: 110% of target performance; and
  - straight-line vesting in between.
- OPR – based on achievement of specific individual objectives linked directly to strategic priorities, and an assessment against leadership competencies and behaviours. The objectives and OPRs are reviewed and agreed by the Committee.

2012 target and maximum payments

Measure	Key performance indicator	Award as % of salary: Target	Award as % of salary: Maximum
Financial	EBIT (70%)	80.5	161
Individual	OPR (30%)	34.5	69
Total for 2012		**115**	**200***

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

Outcome for 2012

2012 EBIT achieved was 101.7% of target for the year. Based on this performance, the following table shows the level of 2012 awards. 50% was paid in cash and 50% in deferred shares that will vest after three years.

Director	EBIT % award	OPR % award	Total award as % of salary
Richard Solomons	93.8	43.1	136.9
Kirk Kinsell	93.8	34.5	128.3
Tracy Robbins	93.8	51.8	145.6
Tom Singer	93.8	34.5	128.3

D – Long Term Incentive Plan (LTIP)

Structure and outcome for 2012

The award for the 2010/12 cycle had corporate performance measures based on relative TSR and EPS. The measures and outcomes are as follows:

Performance measure	Threshold performance	Maximum performance	Threshold/ maximum vesting	Weighting	Maximum award – % of salary	Outcome
2010/12 cycle						
TSR	Growth equal to the DJGH index	Growth exceeds the index by 8% per year or more	20%/100%	50%	102.5%	Growth exceeded index by 15% per year
EPS	Growth of 5% per year	Growth of 15% per year or more	20%/100%	50%	102.5%	Growth of 21.7% per year
Total vesting outcome						100% of maximum award

Current position on other outstanding awards

From 2011, the performance measures for the LTIP were changed. Details of the performance measures and potential vesting outcomes for outstanding awards as at 31 December 2012 are as follows:

Performance measure	Threshold performance	Maximum performance	Threshold/ Maximum vesting	Weighting	Maximum award – % of salary	Potential vesting outcomes
2011/13 cycle						
Net rooms growth	Average of the comparator group	1st in the comparator group	20%/100%	25%	51.25%	Improved performance needed to achieve Threshold vesting
RevPAR growth	Average of the comparator group	1st in the comparator group	20%/100%	25%	51.25%	Between Threshold and Maximum vesting if current performance maintained
TSR	Growth equal to the DJGH index	Growth exceeds the index by 8% per year or more	20%/100%	50%	102.5%	Maximum vesting if current performance maintained
2012/14 cycle						
Net rooms growth	Average of the comparator group	1st in the comparator group	20%/100%	25%	51.25%	Between Threshold and Maximum vesting if current performance maintained
RevPAR growth	Average of the comparator group	1st in the comparator group	20%/100%	25%	51.25%	Between Threshold and Maximum vesting if current performance maintained
TSR	Growth equal to the DJGH index	Growth exceeds the index by 8% per year or more	20%/100%	50%	102.5%	Maximum vesting if current performance maintained

E – Pensions

The value of Richard Solomons' DB pension arrangement as at 31 December 2012 is set out to the right. Details of this plan are included above under Section 2.H – Pensions.

Richard Solomons is eligible for the EERF, which is available to all members of the plan. This facility enables members to retire without reduction in their 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 UK DB Plan. The EERF terms require an executive to obtain the consent of the Company; the consent is discretionary but should not be unreasonably refused.

Accrued value of annual pension if retired 31 December 2012	Accrued value of annual pension at 31 December 2012, assuming retirement at normal retirement age (9 October 2021)
£245,180, of which: • £46,770 is funded • £198,410 is unfunded	£377,200, of which: • £71,950 is funded • £305,250 is unfunded

The increase in the accrued value of the pension in 2012 arises principally from Richard Solomons' salary review when appointed Chief Executive in July 2011.

4. Other matters

A – Share capital

Return of share capital

Background

In October 2012, the Company paid a special dividend to its shareholders. This was accompanied by a share consolidation in order to maintain comparability (as far as possible) of the share price before and after the payment of the special dividend. In addition, the Company commenced a share buyback programme in November 2012.

Implications for outstanding LTIP awards

LTIP award holders were not entitled to receive the special dividend. The effect of the share consolidation was broadly to preserve the value of their awards (subject to normal market fluctuations), so no adjustment was necessary to the number of shares to which awards related.

With regard to the LTIP performance targets, consideration was given by the Committee as to whether awards needed to be adjusted in relation to the EPS measure for the 2010/12 LTIP cycle, so that it remained economically equivalent to the target before the share consolidation took place. It was concluded that the maximum award target would have been exceeded by a significant margin even taking such adjustment into account and therefore no adjustment to the performance targets was required.

No adjustment was required to the TSR targets under the 2010/12, 2011/13 and 2012/14 LTIP cycles because the special dividend and share consolidation did not result in IHG's TSR being impacted (excluding any market fluctuations).

No adjustment was required to the net rooms or RevPAR targets as these did not relate to the share capital of the Company.

Implications for outstanding ABP deferred share awards

ABP award holders, other than Executive Directors and Executive Committee members, hold conditional awards and are not eligible to receive dividends on their awards prior to vesting. They were similarly not entitled to receive the special dividend. The effect of the share consolidation was broadly to preserve the value of their awards (subject to normal market fluctuations), so no adjustment was necessary to the number of shares to which the awards related.

Executive Committee members hold forfeitable shares, rather than conditional awards (subject to one exception). Accordingly, they received the special dividend and their share awards were subject to the share consolidation.

Kirk Kinsell holds one forfeitable share award and one conditional share award (upon which dividend equivalents are paid in order to ensure economic parity with the rest of the Executive Committee). In order to achieve equality of treatment for Kirk Kinsell, his conditional award was adjusted to place him in the same position as if he had held a forfeitable award, and therefore he received the special dividend and his share award was subject to the share consolidation, in the same way as other Executive Committee members.

Implications for outstanding executive share options

IHG Executive Share Option Plan share option holders were not entitled to receive the special dividend. The effect of the share consolidation was broadly to preserve the value of their awards (subject to normal market fluctuations), so no adjustment was made to the number of shares to which the options related.

Share buyback programme

In relation to the share buyback programme, the effect on LTIP awards, ABP deferred shares and share options will be to broadly preserve the value of those awards. No adjustments are required to LTIP performance targets for the same reasons as stated above.

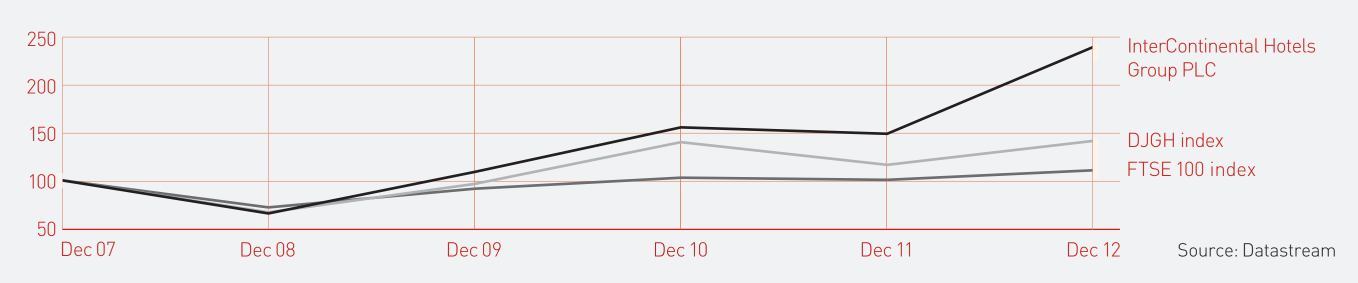
Use of share capital in incentive plans

No awards or grants over shares were made during 2012 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.

B – Performance graph

Throughout 2012, 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 2007 to 31 December 2012, assuming dividends are reinvested, compared with the TSR performance achieved by the FTSE 100 index and the DJGH index. All indices are shown in sterling. Over the five-year period, IHG's TSR performance has increased by 139%. Over the last three years, it has significantly outperformed the FTSE 100 index and the DJGH index.

TSR: InterContinental Hotels Group PLC v FTSE 100 and Dow Jones Global Hotels indices



C – Non-Executive Directors' pay policy and structure

Determination of fee levels

Non-Executive Directors are paid a fee which is agreed by the Executive Directors and the Chairman of the Board, 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 2012 an increase of approximately 3% for the Non-Executive Directors was agreed from 1 January 2013. This increase is broadly in line with anticipated salary increases for executive and senior management employees across the wider organisation.

Annual fee rates for 2012 and 2013

Non-Executive Directors	Role	1 Jan 2013 £	1 Jan 2012 £
David Webster[1]	Chairman of the Board	–	406,000
Patrick Cescau[2]	Chairman of the Board	**400,000**	
David Kappler	Senior Independent Director and Chairman of Audit Committee	**108,500**	105,060
Luke Mayhew	Chairman of Remuneration Committee	**91,000**	88,230
Jennifer Laing	Chairman of Corporate Responsibility Committee	**80,000**	77,520
Others	Non-Executive Director	**68,500**	66,300

1 David Webster retired as Chairman on 31 December 2012.
2 Patrick Cescau was appointed Chairman on 1 January 2013.

D – Service contracts

Notice periods

- The Committee's policy is for all Executive Directors to have rolling contracts with a notice period of 12 months.
- All Executive Directors have service contracts 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.

Termination

- No provisions for compensation for termination following change of control, nor for liquidated damages of any kind upon termination in any circumstances, are included in the current Directors' contracts.
- There are no provisions in Executive Directors' contracts for making a payment in lieu of notice. Instead the parties will rely on common law to assess what, if any, damages may be payable for any loss resulting from termination in breach of contract (subject to the duty to mitigate any loss).
- In the event of any early termination of an Executive Director's contract, the policy is to seek to minimise any liability.

Non-executive directorships of other companies

- 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.
- Therefore, Executive Directors are 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 would generally be authorised to retain the fees received.
- Current Executive Directors do not hold any non-executive directorships of any other company.

Non-Executive Director appointments

- Non-Executive Directors have letters of appointment.
- Patrick Cescau's appointment as Non-Executive Chairman, effective from 1 January 2013, is subject to 12 months' notice.

Details of current Directors' contracts

Executive Directors	Date of original appointment*	Notice period
Richard Solomons	10 February 2003	12 months
Kirk Kinsell	1 August 2010	12 months
Tracy Robbins	9 August 2011	12 months
Tom Singer	26 September 2011	12 months

Non-Executive Directors	Date of original appointment*	Notice period
Patrick Cescau	1 January 2013	12 months
David Kappler	21 June 2004	n/a
Jennifer Laing	25 August 2005	n/a
Jonathan Linen	1 December 2005	n/a
Luke Mayhew	1 July 2011	n/a
Dale Morrison	1 June 2011	n/a
Ying Yeh	1 December 2007	n/a

* 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.

All Directors' appointments and subsequent re-appointments are subject to election and annual re-election by shareholders at the AGM.

Biographies of each of the Directors and their main responsibilities can be found on pages 46 and 47.

5. Audited information on Directors' emoluments

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

Directors' remuneration in 2012

The following table sets out the remuneration paid or payable to the Directors in respect of the year to 31 December 2012:

	Base salaries and fees		Performance payments[1]		Benefits[2]		Total emoluments excluding pensions	
	2012 £000	2011 £000	**2012 £000**	2011 £000	**2012 £000**	2011 £000	**2012 £000**	2011 £000
Executive Directors								
Richard Solomons[3]	**716**	616	**494**	512	**48**	20	**1,258**	1,148
Kirk Kinsell[4]	**474**	449	**306**	360	**663**	334	**1,443**	1,143
Tracy Robbins[5]	**409**	159	**300**	145	**141**	39	**850**	343
Tom Singer[6]	**540**	142	**826**	–	**181**	46	**1,547**	188
Non-Executive Directors								
David Webster[7]	**406**	406	**–**	–	**12**	1	**418**	407
Graham Allan[8]	**31**	65	**–**	–	**–**	1	**31**	66
David Kappler	**105**	103	**–**	–	**2**	2	**107**	105
Jennifer Laing	**78**	76	**–**	–	**3**	–	**81**	76
Jonathan Linen	**66**	65	**–**	–	**64**	53	**130**	118
Luke Mayhew[9]	**88**	43	**–**	–	**2**	–	**90**	43
Dale Morrison[10]	**66**	38	**–**	–	**16**	13	**82**	51
Ying Yeh	**66**	65	**–**	–	**11**	6	**77**	71
Former Directors[11]	**–**	674	**–**	756	**1**	43	**1**	1,473
Total	**3,045**	2,901	**1,926**	1,773	**1,144**	558	**6,115**	5,232

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 76. Tom Singer's performance payment includes a cash payment of £480,000 which he received in March 2012 to compensate him for incentives from his previous employer that he had to forgo.

2 Benefits for Executive Directors 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. Benefits for Non-Executive Directors include, but are not limited to, travel and accommodation expenses relating to attendance at Board and Committee meetings.

3 Richard Solomons was promoted to Chief Executive on 1 July 2011.

4 Kirk Kinsell received base salary of $750,800 which equates to the figure in the above table, using an exchange rate of $1=£0.63. Benefits incorporate the cost of expatriate benefits related to his international assignment prior to taking up his Board appointment as President, The Americas, on 13 June 2011.

5 Tracy Robbins was appointed as a Director on 9 August 2011. Her benefits include receipt of a cash allowance in lieu of pension contributions of £117,700.

6 Tom Singer was appointed as a Director on 26 September 2011. His benefits include receipt of a cash allowance in lieu of pension contributions of £162,000.

7 David Webster retired as Chairman of the Board on 31 December 2012.

8 Graham Allan resigned as a Director on 15 June 2012.

9 Luke Mayhew was appointed as a Director on 1 July 2011.

10 Dale Morrison was appointed as a Director on 1 June 2011.

11 2011 amounts relate to Andrew Cosslett, James Abrahamson and Ralph Kugler, all of whom ceased to be Directors in 2011. Sir Ian Prosser retired as a Director on 31 December 2003. However, he had an ongoing healthcare benefit of £1,326 during 2012.

Directors' pension benefits

The following information relates to the pension arrangements provided for Richard Solomons under the executive UK DB Plan and the unfunded ICETUS. The executive UK DB Plan is a funded, registered, final salary, occupational pension scheme. The main features applicable 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 2012 pensions regime, these benefits are limited in the IC Plan, but the balance is provided instead by ICETUS.

The UK DB 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.

The following table sets out Richard Solomons' pension benefits under the UK DB plan:

	£
Director's contributions in the year[1]	35,000
Transfer value of accrued benefits at 1 January 2012	6,999,800
Transfer value of accrued benefits at 31 December 2012	**8,272,500**
Increase in transfer value over the year, less Director's contributions[2]	1,237,700
Absolute increase in accrued pension[3] per annum	72,900
Increase in accrued pension[4] per annum	63,500
Accrued pension at 31 December 2012[5] per annum	377,200
Age at 31 December 2012	**51**

1 Contributions paid in 2012 by Richard Solomons under the terms of the plans were 5% of full pensionable salary.
2 The increase in the transfer value of accrued benefits for Richard Solomons arises principally from the increase in salary resulting from his appointment as Chief Executive in July 2011.
3 The absolute increase in accrued pension during 2012.
4 The increase in accrued pension during 2012, excluding any increase for inflation.
5 Accrued pension is that which would be paid annually on retirement at 60, based on service to 31 December 2012.

Tracy Robbins participated in the executive UK DC Plan until March 2012. This 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 cash allowance in lieu of pension benefits);
- life assurance cover of four times pensionable salary; and
- lump sum contributions payable in the event of ill health.

From April 2012, as a result of the reduction in the Lifetime Allowance, contributions (including potential contributions payable in the event of ill health) ceased and the full value of the company matching contributions was paid as a cash allowance; life assurance cover of four times pensionable salary continued to be provided.

Employer contributions to the UK DC Plan made for Tracy Robbins amounted to £5,000. In addition, Tracy Robbins received a cash allowance in lieu of pension contributions of £117,700.

Tom Singer does not participate in any pension plan and therefore received a cash allowance in lieu of pension contributions of £162,000; life assurance cover of four times pensionable salary was also provided.

Kirk Kinsell has retirement benefits provided via the US 401(k) Plan for employees of Six Continents Hotels, Inc. and the US Deferred Compensation Plan (DCP). The US 401(k) Plan is a tax qualified plan providing benefits on a defined contribution basis, with the member and the relevant company both contributing. The US Deferred Compensation Plan is a non-tax qualified plan, providing benefits on a defined contribution basis, with the member and the relevant company both contributing.

Contributions made by, and in respect of, Kirk Kinsell in the US plans are*:

	£
Director's contributions to DCP in 2012	191,498
Director's contributions to US 401(k) in 2012	14,195
Company contribution to DCP in 2012	103,620
Company contribution to US 401(k) in 2012	6,309
Age at 31 December 2012	**57**

* Sterling values have been calculated using an exchange rate of $1=£0.63.

ABP deferred share awards

Directors' pre-tax share interests during the year were as set out below:

Directors	Financial year on which performance is based for award[1]	ABP awards held at 1 Jan 2012	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 2012[2]	Planned vesting date	Value based on share price of 1,707.0p at 31 Dec 2012 £
Richard Solomons	2008	66,549		23.2.09	472.6p	66,549	23.2.12	1,412.7p	940,138			
	2009	–										
	2010	32,295		21.2.11	1,417.0p					30,142	21.2.14	514,524
	2011		36,838	20.2.12	1,391.0p					34,382	20.2.15	586,901
Total		**98,844**	**36,838**							**64,524**		**1,101,425**
Kirk Kinsell	2008	41,427		23.2.09	472.6p	41,427	23.2.12	1,412.7p	585,239			
	2009	–										
	2010	27,375		21.2.11	1,417.0p					25,550	21.2.14	436,139
	2011		26,360	20.2.12	1,391.0p					24,602	20.2.15	419,956
Total		**68,802**	**26,360**							**50,152**		**856,095**
Tracy Robbins	2008	33,132		23.2.09	472.6p	33,132	23.2.12	1,412.7p	468,056			
	2009	–										
	2010	20,377		21.2.11	1,417.0p					19,018	21.2.14	324,637
	2011		22,889	20.2.12	1,391.0p					21,363	20.2.15	364,666
Total		**53,509**	**22,889**							**40,381**		**689,303**
Tom Singer[3]	2010	–										
	2011		–									
Total		**–**	**–**							**–**		**–**

1 For financial year 2008, the award was based on Group EBIT, net annual rooms additions and individual performance measures. For financial year 2009, no annual incentive award was paid. For financial year 2010, the award was based on Group EBIT and individual performance measures. For financial year 2011, the award was based on Group EBIT and individual performance measures.

2 InterContinental Hotels Group PLC $13\frac{29}{47}$p ordinary shares were subject to a share consolidation effective from 9 October 2012. For every 15 existing ordinary shares held at 6.00pm on 8 October 2012, shareholders received 14 new ordinary shares of $14\frac{194}{329}$p each and a special dividend of 108.4p ($1.72) per existing ordinary share. As a consequence, ABP awards held at 31 December 2012 have been reduced accordingly.

3 Tom Singer joined the Company and was appointed a Director on 26 September 2011 and did not participate in the 2011 ABP.

All Executive Directors participated in the ABP during the year ended 31 December 2012.

Special share award

Details of a special share award which vested during the year ended 31 December 2012 is set out below:

Director	Award held at 1 Jan 2012	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 2012	Planned vesting date	Value based on share price of 1,707.0p at 31 Dec 2012 £
Tom Singer*	46,635		27.9.11	1,055.0p	46,635	26.9.12	1,630.0p	760,151			
Total	**46,635**								**–**		**–**

* As part of his recruitment terms, Tom Singer received a special share award to compensate for incentives forgone from his previous employer, which vested one year from his appointment as a Director.

LTIP awards

The awards made in respect of cycles ending on 31 December 2011, 2012, 2013 and 2014 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 2011, 73.9% of the award vested on 15 February 2012. In respect of the cycle ending on 31 December 2012, the Company outperformed the DJGH index in TSR by 15 percentage points and achieved 21.7% per annum adjusted EPS growth. Accordingly, 100% of the award will vest on 20 February 2013.

Directors	End of year to which performance is based for award (31 Dec)[1]	Maximum LTIP awards held at 1 Jan 2012	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 2012	Maximum value based on share price of 1,707.0p at 31 Dec 2012 £
Richard Solomons	2011	173,096		3.4.09	604.0p	127,917	1,387.5p	1,774,848	15.2.12		
	2012	101,818		8.4.10	1,053.0p				20.2.13	101,818	1,738,033
	2013	87,234		8.4.11	1,269.0p				19.2.14	87,234	1,489,084
	2014		103,722	5.4.12	1,425.0p				18.2.15	103,722	1,770,535
Total		**362,148**	**103,722**							**292,774**	**4,997,652**
Kirk Kinsell	2011	132,256		3.4.09	604.0p	97,737	1,387.5p	1,356,101	15.2.12		
	2012	75,411		8.4.10	1,053.0p				20.2.13	75,411	1,287,266
	2013	72,872		8.4.11	1,269.0p				19.2.14	72,872	1,243,925
	2014		68,463	5.4.12	1,425.0p				18.2.15	68,463	1,168,663
Total		**280,539**	**68,463**							**216,746**	**3,699,854**
Tracy Robbins	2011	92,657		3.4.09	604.0p	68,473	1,387.5p	950,063	15.2.12		
	2012	55,873		8.4.10	1,053.0p				20.2.13	55,873	953,752
	2013	55,248		8.4.11	1,269.0p				19.2.14	55,248	943,083
	2014		59,270	5.4.12	1,425.0p				18.2.15	59,270	1,011,739
Total		**203,778**	**59,270**							**170,391**	**2,908,574**
Tom Singer	2012	69,952		27.9.11	1,055.0p				20.2.13	69,952	1,194,081
	2013	78,696		27.9.11	1,055.0p				19.2.14	78,696	1,343,341
	2014		77,684	5.4.12	1,425.0p				18.2.15	77,684	1,326,066
Total		**148,648**	**77,684**							**226,332**	**3,863,488**
Former Directors											
Andrew Cosslett[3]	2011	226,834		3.4.09	604.0p	167,630	1,387.5p	2,325,866	15.2.12		
	2012	80,403		8.4.10	1,053.0p				20.2.13	80,403	1,372,479
	2013	22,906		8.4.11	1,269.0p				19.2.14	22,906	391,005
Total		**330,143**	**–**							**103,309**	**1,763,484**

1 All details of performance targets in relation to the awards made in respect of cycles ending on 31 December 2012, 2013 and 2014 are provided on page 72.
2 This award was based on performance to 31 December 2011 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 outperformed the index in TSR by 7.9 percentage points and achieved 2.5% per annum adjusted EPS growth. Accordingly, 73.9% of the award vested on 15 February 2012.
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.

Share options

Between 2003 and 2005, grants of options were made under the IHG Executive Share Option Plan. No price was paid for the grant of these options. The performance conditions that applied to these options were satisfied when they became exercisable. No executive share options have been granted since 2005.

	Ordinary shares under option						
Directors	Options held at 1 Jan 2012	Lapsed during the year	Exercised during the year	Share price on date of exercise	Options held at 31 Dec 2012	Weighted average option price at 31 Dec 2012	Option price
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**	
Kirk Kinsell	77,110[1]		77,110	1,577.63p			494.17p
	32,040[2]		32,040	1,577.63p			619.83p
Total	**109,150**	**–**	**109,150**		**–**		

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 2012 was 1,707.0p and the range during the year was 1,157.0p to 1,725.0p per share.

The gain made by Directors in aggregate on the exercise of options during the year 2012 was £1,142,334.

This Directors' Remuneration Report was approved by the Board on 18 February 2013.

Luke Mayhew
Chairman of the Remuneration Committee

Other statutory information

Pages 1 to 80 (together with the sections of the Annual Report incorporated by reference) constitute the Directors' Report. The Directors present their report for the financial year ended 31 December 2012.

Principal activities

InterContinental Hotels Group PLC (the Company), registered and domiciled in England and Wales, with registered number 5134420, is the holding company of the InterContinental Hotels Group (the Group). The Group franchises, manages, owns and leases over 4,600 hotels with nearly 676,000 guest rooms in nearly 100 countries and territories around the world.

General

Articles of Association (Articles)

The Company's Articles may only be amended by special resolution. Subject to the Articles and any relevant legislation, all Director appointments must be ratified by the shareholders. The Articles are available on the Company's website www.ihgplc.com/investors under corporate governance.

Annual General Meeting (AGM)

The Notice convening the AGM to be held at 11.00am on Friday, 24 May 2013 is contained in a circular sent to shareholders at the same time as this Annual Report.

Board of Directors

Biographical details of Directors who served on the Board as at 18 February 2013 are shown on pages 46 and 47. The following were Directors during 2012 and held office throughout the year, unless otherwise indicated:

Executive Directors	Non-Executive Directors
Kirk Kinsell	Graham Allan[1]
Tracy Robbins	Patrick Cescau[2]
Tom Singer	David Kappler
Richard Solomons	Jennifer Laing
	Jonathan Linen
	Luke Mayhew
	Dale Morrison
	David Webster[2]
	Ying Yeh

1 Graham Allan resigned as a Non-Executive Director on 15 June 2012.
2 Patrick Cescau was appointed on 1 January 2013 following the retirement of David Webster on 31 December 2012.

Employees

IHG directly employed an average of 7,981 people worldwide during 2012, 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) more than 350,000 people worked globally across all IHG's brands at 31 December 2012.

Group Code of Ethics and Business Conduct (Group Code of Conduct)

As part of our commitment to being a Responsible Business, the Board has a Group Code of Conduct relating to the lawful and ethical conduct of business by its employees. All Directors and employees are expected to observe the high standards set out in the Group Code of Conduct and adhere to the Company values.

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 30 to 33.

Subsidiaries, joint ventures and associated undertakings

The Group has over 290 subsidiary, joint venture and associated undertakings.

Shares

Results and dividends

The operating profit before exceptional items was $614m: the Group's income statement is set out on page 84. An interim dividend of 13.5 pence per share (21.0 cents per ADR) was paid on 28 September 2012. A special dividend of 108.4 pence per share ($1.72 per ADR) was paid on 22 October 2012. The Directors are recommending a final dividend of 27.7 pence per share (43.0 cents per ADR) to be paid on 31 May 2013 to shareholders on the Register of Members at the close of business on 22 March 2013. Therefore, excluding the special dividend, the full-year dividend will be 41.2 pence per share (64.0 cents per ADR) (2011 34.5 pence per share (55.0 cents per ADR)). Total dividends relating to the year, excluding the special dividend, are expected to amount to $176m.

Share capital

The Company's issued share capital at 31 December 2012 consisted of 268,325,071 ordinary shares of $14^{194}/_{329}$ pence each. There are no special control rights or restrictions on share transfers or limitations on the holding of any class of shares. During the year, 1,365,258 new shares were issued under employee share plans and the Company completed a share consolidation and commenced a share buyback (see below).

Employee share ownership trust

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 3,219,427 shares and at 31 December 2012 it held 1,814,507 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.

2012 share awards and grants

No awards or grants over shares were made during 2012 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 AGMs to allot shares for cash without first offering such shares to existing shareholders.

Share issues and buybacks

On 7 August 2012, the Company announced a $1bn return of funds to shareholders via a special dividend of $0.5bn and share consolidation on a 14 for 15 basis and a share buyback programme of $0.5bn. The share buyback authority remains in force until the AGM in 2013, and a resolution to renew the authority will be put to shareholders at that AGM.

During the year the following transactions took place which affected the Company's issued share capital:

Period	Event	Ordinary shares
1 Jan to 31 Dec 2012	Share plan exercises	1,365,258
9 Oct 2012	14 for 15 share consolidation	n/a
12 Nov to 20 Dec 2012	Share buyback	4,143,960

Substantial shareholdings

As at 31 December 2012 and 18 February 2013, the Company had been notified of the following significant holdings in its ordinary shares:

Shareholder	As at 18 February 2013
Cedar Rock Capital Limited	5.07%
BlackRock, Inc.	5.02%
Legal & General Group plc	3.96%

Director share interests

Details of the beneficial interests in shares of the Company, held by Directors who were on the Board as at 31 December 2012 (unless otherwise indicated), are shown below. No changes to these interests occurred between the year end and the date of this Annual Report.

	As at 31 December 2012 ordinary shares[1]	As at 31 December 2011 ordinary shares[1]
Executive Directors		
Kirk Kinsell	**155,628[2]**	109,547
Tracy Robbins	**85,703**	43,108
Tom Singer	**20,846**	–
Richard Solomons	**322,379**	252,166
Non-Executive Directors		
Patrick Cescau[3]	**–**	–
David Kappler	**1,308**	1,400
Jennifer Laing	**3,148**	3,373
Jonathan Linen	**6,853[4]**	7,343
Luke Mayhew	**1,866**	2,000
Dale Morrison	**4,233[4]**	–
David Webster[3]	**33,438**	35,828
Ying Yeh	**–**	–

1 These shareholdings include all beneficial interests and those held by Directors' spouses and other connected persons. None of the Directors have 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 Directors' Remuneration Report on pages 59 to 78.

2 155,034 ordinary shares and 594 American Depositary Receipts.

3 Patrick Cescau was appointed as a Non-Executive Chairman on 1 January 2013 following the retirement of David Webster on 31 December 2012.

4 Held in the form of American Depositary Receipts.

Finance

Charitable and political donations

In 2012, the Group donated $760,000 (2011 $1,540,000) in support of community initiatives and charitable causes. In addition, IHG employees and guests made contributions during 2012 to a variety of causes through IHG facilitated channels. Taking all these contributions into account, total donations in 2012 are estimated at $1,015,000 (2011 $2,040,000).

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 29 and in notes 21 to 23 to the Group Financial Statements on pages 111 to 117.

Significant agreements and change of control provisions

The Group is a party to the following arrangements which could be terminated upon a change of control of the Company and which 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;
- the terms of the £250m seven-year bond issued by the Company on 9 December 2009, under which, if the bond's credit rating was downgraded in connection with a change of control, the bond holders would have the option to require the Company to redeem or, at the Company's option repurchase the outstanding notes together with interest accrued; and
- the terms of the £400m 10-year bond issued by the Company on 28 November 2012, under which, if the bond's credit rating was downgraded in connection with a change of control, the bond holders would have the option to require the Company to redeem or, at the Company's option, repurchase the outstanding notes together with interest accrued.

Business relationships

During 2012, the Group entered into a five-year technology outsourcing agreement with International Business Machines Corporation (IBM), pursuant to which IBM operates and maintains the infrastructure of the Group's reservations system. Otherwise, there are no specific individual contracts or arrangements considered to be essential to the business of the Group as a whole.

Policy on payment of suppliers

The Company 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.

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 9 to 44. Information on the Group's treasury management policies can be found in note 21 to the Group Financial Statements on pages 111 to 115. The Group refinanced its bank debt in November 2011 and put in place a five-year $1.07bn facility. In December 2009 the Group issued a seven-year £250m sterling bond and, in November 2012, a 10-year £400m sterling bond. At the end of 2012 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, 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.

Events after the reporting period

As explained in note 34 to the Group Financial Statements on page 128, the Group is expected to receive a liquidated damages payment of $31m in February 2013.

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 are aware of any relevant audit information which has not been disclosed to the auditors.

Auditor reappointment

Ernst & Young LLP have expressed their willingness to continue in office as auditors of the Company and their reappointment will be put to shareholders at the 2013 AGM.

By order of the Board
George Turner
General Counsel and Company Secretary
18 February 2013

Group Financial Statements

In this section we present the Statements of Directors' responsibilities, the independent Auditor's Report and the Consolidated Financial Statements of the Group for 2012.

Staybridge Suites London-Stratford City, UK

Statements of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Group Financial Statements in accordance with applicable law, regulations and International Financial Reporting Standards as adopted by the European Union.

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 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 in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, and then 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.

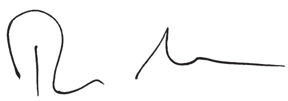
Disclosure and Transparency Rules

The Annual Report, including the Group Financial Statements, complies with the Disclosure and Transparency Rules in respect of the requirement to produce an annual financial report.

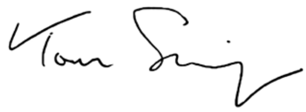
The Annual Report and the Group Financial Statements are the responsibility of, and have been approved by, the Directors. The Directors confirm that to the best of their knowledge:

- 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
18 February 2013



Tom Singer
Chief Financial Officer
18 February 2013

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 2012 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 35. 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 82, 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 2012 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 matter 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 80, 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 matter

We have reported separately on the Parent Company Financial Statements of InterContinental Hotels Group PLC for the year ended 31 December 2012 and on the information in the Directors' 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
18 February 2013

Notes:

1. The maintenance and integrity of the InterContinental Hotels Group PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group income statement

For the year ended 31 December 2012	Note	2012 Before exceptional items $m	2012 Exceptional items (note 5) $m	2012 Total $m	2011 Before exceptional items $m	2011 Exceptional items (note 5) $m	2011 Total $m
Revenue	2	1,835	–	1,835	1,768	–	1,768
Cost of sales		(772)	–	(772)	(771)	–	(771)
Administrative expenses		(363)	(16)	(379)	(350)	(31)	(381)
Other operating income and expenses		8	(11)	(3)	11	46	57
		708	(27)	681	658	15	673
Depreciation and amortisation	2	(94)	–	(94)	(99)	–	(99)
Impairment	2	–	23	23	–	20	20
Operating profit	2	614	(4)	610	559	35	594
Financial income	6	3	–	3	2	–	2
Financial expenses	6	(57)	–	(57)	(64)	–	(64)
Profit before tax		560	(4)	556	497	35	532
Tax	7	(153)	142	(11)	(120)	48	(72)
Profit for the year from continuing operations		407	138	545	377	83	460
Attributable to:							
Equity holders of the parent		406	138	544	377	83	460
Non-controlling interest		1	–	1	–	–	–
		407	138	545	377	83	460
Earnings per ordinary share	9						
Continuing and total operations:							
Basic				189.5¢			159.2¢
Diluted				186.3¢			155.4¢
Adjusted		141.5¢			130.4¢		
Adjusted diluted		139.0¢			127.4¢		

Notes on pages 90 to 128 form an integral part of these Financial Statements.

Group statement of comprehensive income

For the year ended 31 December 2012	2012 $m	2011 $m
Profit for the year	**545**	460
Other comprehensive income		
Available-for-sale financial assets:		
Gains on valuation	**1**	15
Losses reclassified to income on impairment	**–**	3
Cash flow hedges:		
Reclassified to financial expenses	**1**	4
Defined benefit pension plans:		
Actuarial gains/(losses), net of related tax charge of $1m (2011 credit of $13m)	**–**	(19)
Change in asset restriction on plans in surplus and liability in respect of funding commitments, net of related tax credit of $7m (2011 $7m)	**(18)**	(4)
Exchange differences on retranslation of foreign operations, including related tax credit of $3m (2011 charge of $3m)	**24**	(21)
Tax related to pension contributions	**19**	2
Other comprehensive income/(loss) for the year	**27**	(20)
Total comprehensive income for the year	**572**	440
Attributable to:		
Equity holders of the parent	**571**	439
Non-controlling interest	**1**	1
	572	440

Notes on pages 90 to 128 form an integral part of these Financial Statements.

Group statement of changes in equity

	Equity share capital $m	Capital redemption reserve $m	Shares held by employee share trusts $m	Other reserves $m	Unrealised gains and losses reserve $m	Currency translation reserve $m	Retained earnings $m	IHG shareholders' equity $m	Non-controlling interest $m	Total equity $m
At 1 January 2012	**162**	**10**	**(27)**	**(2,893)**	**71**	**189**	**3,035**	**547**	**8**	**555**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**544**	**544**	**1**	**545**
Other comprehensive income:										
Gains on valuation of available-for-sale financial assets	–	–	–	–	1	–	–	1	–	1
Amounts reclassified to financial expenses on cash flow hedges	–	–	–	–	1	–	–	1	–	1
Change in asset restriction on pension plans in surplus and liability in respect of funding commitments	–	–	–	–	–	–	(18)	(18)	–	(18)
Exchange differences on retranslation of foreign operations	–	–	–	–	(1)	25	–	24	–	24
Tax related to pension contributions	–	–	–	–	–	–	19	19	–	19
Total other comprehensive income	**–**	**–**	**–**	**–**	**1**	**25**	**1**	**27**	**–**	**27**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**1**	**25**	**545**	**571**	**1**	**572**
Issue of ordinary shares	10	–	–	–	–	–	–	10	–	10
Repurchase of shares	(1)	–	–	–	–	–	(106)	(107)	–	(107)
Transfer to capital redemption reserve	–	1	–	–	–	–	(1)	–	–	–
Transaction costs relating to shareholder returns	–	–	–	–	–	–	(2)	(2)	–	(2)
Purchase of own shares by employee share trusts	–	–	(84)	–	–	–	–	(84)	–	(84)
Release of own shares by employee share trusts	–	–	63	–	–	–	(63)	–	–	–
Equity-settled share-based cost	–	–	–	–	–	–	27	27	–	27
Tax related to share schemes	–	–	–	–	–	–	20	20	–	20
Equity dividends paid	–	–	–	–	–	–	(679)	(679)	–	(679)
Share of reserve in equity accounted investment	–	–	–	–	–	–	5	5	–	5
Exchange adjustments	8	–	–	(8)	–	–	–	–	–	–
At 31 December 2012	**179**	**11**	**(48)**	**(2,901)**	**72**	**214**	**2,781**	**308**	**9**	**317**

All items above are shown net of tax.

Notes on pages 90 to 128 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 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 90 to 128 form an integral part of these Financial Statements.

Group statement of financial position

31 December 2012	Note	2012 $m	2011 $m
ASSETS			
Property, plant and equipment	10	1,056	1,362
Goodwill	12	93	92
Intangible assets	13	354	308
Investment in associates and joint ventures	14	84	87
Retirement benefit assets	25	99	21
Other financial assets	15	155	156
Non-current tax receivable		24	41
Deferred tax assets	26	204	106
Total non-current assets		2,069	2,173
Inventories	16	4	4
Trade and other receivables	17	422	369
Current tax receivable		31	20
Derivative financial instruments	23	2	3
Other financial assets	15	6	–
Cash and cash equivalents	18	195	182
Total current assets		660	578
Non-current assets classified as held for sale	11	534	217
Total assets	2	3,263	2,968
LIABILITIES			
Loans and other borrowings	22	(16)	(21)
Trade and other payables	19	(709)	(707)
Provisions	20	(1)	(12)
Current tax payable		(54)	(120)
Total current liabilities		(780)	(860)
Loans and other borrowings	22	(1,242)	(670)
Derivative financial instruments	23	(19)	(39)
Retirement benefit obligations	25	(187)	(188)
Trade and other payables	19	(563)	(497)
Provisions	20	(1)	(2)
Deferred tax liabilities	26	(93)	(97)
Total non-current liabilities		(2,105)	(1,493)
Liabilities classified as held for sale	11	(61)	(60)
Total liabilities	2	(2,946)	(2,413)
Net assets		317	555
EQUITY			
Equity share capital	28	179	162
Capital redemption reserve	28	11	10
Shares held by employee share trusts	28	(48)	(27)
Other reserves	28	(2,901)	(2,893)
Unrealised gains and losses reserve	28	72	71
Currency translation reserve	28	214	189
Retained earnings		2,781	3,035
IHG shareholders' equity		308	547
Non-controlling interest		9	8
Total equity		317	555

Signed on behalf of the Board

Tom Singer
18 February 2013

Notes on pages 90 to 128 form an integral part of these Financial Statements.

Group statement of cash flows

For the year ended 31 December 2012	2012 $m	2011 $m
Profit for the year	545	460
Adjustments for:		
Net financial expenses	54	62
Income tax charge	11	72
Depreciation and amortisation	94	99
Impairment	(23)	(20)
Other exceptional operating items	27	(15)
Equity-settled share-based cost	22	25
Other items	(2)	–
Operating cash flow before movements in working capital	728	683
Increase in trade and other receivables	(50)	(11)
Net change in loyalty programme liability and System Fund surplus	57	66
Increase/(decrease) in other trade and other payables	26	(20)
Utilisation of provisions	(12)	(19)
Retirement benefit contributions, net of cost	(104)	(44)
Cash flows relating to exceptional operating items	(6)	(32)
Cash flow from operations	639	623
Interest paid	(50)	(56)
Interest received	2	1
Tax paid on operating activities	(119)	(89)
Net cash from operating activities	472	479
Cash flow from investing activities		
Purchase of property, plant and equipment	(44)	(55)
Purchase of intangible assets	(84)	(48)
Investment in other financial assets	(2)	(50)
Investment in associates and joint ventures	(3)	(41)
Disposal of assets, net of costs	4	142
Proceeds from other financial assets	4	15
Tax paid on disposals	(3)	(1)
Net cash from investing activities	(128)	(38)
Cash flow from financing activities		
Proceeds from the issue of share capital	10	8
Purchase of own shares	(107)	–
Purchase of own shares by employee share trusts	(84)	(75)
Dividends paid to shareholders	(679)	(148)
Transaction costs relating to shareholder returns	(2)	–
Issue of long-term bonds	632	–
Decrease in other borrowings	(99)	(119)
Net cash from financing activities	(329)	(334)
Net movement in cash and cash equivalents in the year	15	107
Cash and cash equivalents at beginning of the year	182	78
Exchange rate effects	(2)	(3)
Cash and cash equivalents at end of the year	195	182

Notes on pages 90 to 128 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 2012 were authorised for issue in accordance with a resolution of the Directors on 18 February 2013. InterContinental Hotels Group PLC (the Company) is incorporated and domiciled 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 2012, the Group has implemented the following amendments to accounting standards. Neither of these have had any impact on the Group's financial performance or position during the year and there has been no requirement to restate prior year comparatives.

- IFRS 7 (Amendment) 'Financial Instruments: Disclosures', 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', 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.

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 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 at deemed cost as permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

Goodwill

Goodwill arises on consolidation and is recorded at cost, being the excess of the cost of acquisition over the fair value at the date of acquisition of the Group's share of identifiable assets, liabilities and contingent liabilities. 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 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, in which case they are capitalised and amortised over the estimated useful 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. 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 or jointly 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 and other movements in the investee's reserves. 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.

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 recognised in 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 either financial income or expenses 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.

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 these 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 surpluses and deficits 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. 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 as set out below. 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.

- 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 option to defer recognition of some actuarial gains and losses ('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 impact of calculating the expected return on plan assets (after relevant asset restrictions) using the same interest rate as applied to discounting the benefit obligations is expected to result in a higher operating profit charge of approximately $3m in 2013 compared with the 2012 charge under the current version of IAS 19.
- IAS 28 (Amendment) 'Investments in Associates and Joint Ventures', which will be adopted by the Group from 1 January 2013, has been renamed as a consequence of the new IFRS 11 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 will be adopted by the Group 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. Based on the preliminary analyses performed, IFRS 10 is not expected to have any material impact on the investments held by the Group.
- IFRS 11 'Joint Arrangements', which will be adopted by the Group 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 Interests in Other Entities', which will be adopted by the Group 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 fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value when fair value is required or permitted. Based on the preliminary analyses performed, IFRS 13 is not expected to have a material impact on the Group's Financial Statements.
- IFRS 9 'Financial Instruments: Classification and Measurement', which is effective from 1 January 2015, introduces new requirements for classifying and measuring financial assets and financial liabilities and, when finalised, will address hedge accounting and impairment of financial assets. The Group will assess the impacts when the final standard is issued.

Note: with the exception of IFRS 9, all of the above will be adopted by the Group with effect from 1 January 2013. IAS 28 (Amendment), IFRS 10, IFRS 11 and IFRS 12 have been endorsed for adoption by the EU with effect from 1 January 2014 and are therefore being adopted early by the Group.

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=£0.63 (2011 $1=£0.62). In the case of the euro, the translation rate is $1=€0.78 (2011 $1=€0.72).

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=£0.62 (2011 $1=£0.65). In the case of the euro, the translation rate is $1=€0.76 (2011 $1=€0.77).

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.

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 activities and income taxes are managed on a group basis and are not allocated to reportable segments.

Year ended 31 December 2012	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Revenue						
Franchised	541	91	18	3	–	653
Managed	97	147	152	89	–	485
Owned and leased	199	198	48	138	–	583
Central	–	–	–	–	114	114
	837	**436**	**218**	**230**	**114**	**1,835**

	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Segmental result						
Franchised	466	65	12	4	–	547
Managed	48	32	90	51	–	221
Owned and leased	24	50	6	45	–	125
Regional and central	(52)	(32)	(20)	(19)	(156)	(279)
Reportable segments' operating profit	486	115	88	81	(156)	614
Exceptional operating items (note 5)	23	(4)	(5)	–	(18)	(4)
Operating profit	**509**	**111**	**83**	**81**	**(174)**	**610**

		Group $m
Reportable segments' operating profit		614
Exceptional operating items (note 5)		(4)
Operating profit		**610**
Net finance costs		(54)
Profit before tax		556
Tax	(11)	
Profit for the year		**545**

All items above relate to continuing operations.

2. Segmental information continued

31 December 2012	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Assets and liabilities						
Segment assets	725	626	282	390	250	2,273
Non-current assets classified as held for sale	232	302	–	–	–	534
	957	928	282	390	250	2,807
Unallocated assets:						
Non-current tax receivable						24
Deferred tax assets						204
Current tax receivable						31
Derivative financial instruments						2
Cash and cash equivalents						195
Total assets						**3,263**
Segment liabilities	(403)	(249)	(58)	(61)	(690)	(1,461)
Liabilities classified as held for sale	(61)	–	–	–	–	(61)
	(464)	(249)	(58)	(61)	(690)	(1,522)
Unallocated liabilities:						
Current tax payable						(54)
Deferred tax liabilities						(93)
Loans and other borrowings						(1,258)
Derivative financial instruments						(19)
Total liabilities						**(2,946)**

Year ended 31 December 2012	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Other segmental information						
Capital expenditure (see below)	25	19	6	7	76	133
Non-cash items:						
Depreciation and amortisation*	20	23	14	15	22	94
Reversal of previously recorded impairment	(23)	–	–	–	–	(23)
Write-off of software	–	–	–	–	18	18
Demerger liability released	–	–	–	–	(9)	(9)
Share-based payments cost	–	–	–	–	22	22
Share of profit of associates and joint ventures	–	–	(3)	–	–	(3)

* Included in the $94m of depreciation and amortisation is $31m relating to administrative expenses and $63m relating to cost of sales.

Year ended 31 December 2012	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Reconciliation of capital expenditure						
Capital expenditure per management reporting	25	19	6	7	76	133
Timing differences	(1)	–	–	2	–	1
Capital expenditure per the Financial Statements	**24**	**19**	**6**	**9**	**76**	**134**
Comprising additions to:						
Property, plant and equipment	15	9	2	9	6	41
Non-current assets classified as held for sale	5	–	–	–	–	5
Intangible assets	2	8	4	–	70	84
Investments in associates and joint ventures	2	–	–	–	–	2
Other financial assets	–	2	–	–	–	2
	24	19	6	9	76	134

2. Segmental information continued

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
	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 (note 5)		35
Operating profit		**594**
Net finance costs		(62)
Profit before tax		532
Tax	(72)	
Profit for the year		**460**

All items above relate to continuing operations.

31 December 2011	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Assets and liabilities						
Segment assets	691	816	276	388	228	2,399
Non-current assets classified as held for sale	217	–	–	–	–	217
	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	(427)	(247)	(53)	(54)	(625)	(1,406)
Liabilities classified as held for sale	(60)	–	–	–	–	(60)
	(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)**

2. Segmental information continued

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.

Year ended 31 December 2011	Americas $m	Europe $m	AMEA $m	Greater China $m	Central $m	Group $m
Reconciliation of capital expenditure						
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

Geographical information

	Year ended 31 December 2012 $m	Year ended 31 December 2011 $m
Revenue		
United Kingdom	**152**	139
United States	**769**	740
People's Republic of China (including Hong Kong)	**238**	210
Rest of World	**676**	679
	1,835	1,768

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 2012 $m	31 December 2011 $m
Non-current assets		
United Kingdom	**78**	361
United States	**590**	559
France	**329**	328
People's Republic of China (including Hong Kong)	**333**	331
Rest of World	**257**	270
	1,587	1,849

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.

3. Staff costs and Directors' emoluments

	2012 $m	2011 $m
Staff		
Costs:		
Wages and salaries	547	550
Social security costs	44	43
Pension and other post-retirement benefits:		
Defined benefit plans* (note 25)	4	8
Defined contribution plans	22	22
	617	623

* Before exceptional items.

	2012	2011
Average number of employees, including part-time employees:		
Americas	2,552	2,895
Europe	1,866	1,574
Asia, Middle East and Africa	1,195	1,195
Greater China	1,051	1,000
Central	1,317	1,292
	7,981	7,956

The costs of the above employees are borne by IHG. In addition, the Group employs 5,018 (2011 4,462) people who work in managed hotels or directly on behalf of the System Fund and whose costs of $353m (2011 $307m) are borne by those hotels or by the Fund.

	2012 $m	2011 $m
Directors' emoluments		
Base salaries, fees, performance payments and benefits	9.7	8.3

More detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Directors' Remuneration Report on pages 59 to 78.

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

	2012 $m	2011 $m
Group audit fees	2.8	1.9
Audit fees in respect of subsidiaries	1.5	1.5
Tax fees	0.5	0.7
Interim review fees	0.3	0.3
Other services pursuant to legislation	0.2	0.4
Other	1.9	1.4
	7.2	6.2

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

The Audit Committee has a process to ensure that any non-audit services do not compromise the independence and objectivity of the external auditor and that relevant UK and US professional and regulatory requirements are met. A number of criteria are applied when deciding whether pre-approval for such services should be given. These include the nature of the service, the level of fees and the practicality of appointing an alternative provider, having regard to the skills and experience required to supply the service effectively. Cumulative fees for audit and non-audit services are presented to the Audit Committee on a quarterly basis for review. The Audit Committee is responsible for monitoring adherence to the pre-approval policy.

5. Exceptional items

	Note	2012 $m	2011 $m
Exceptional operating items			
Administrative expenses:			
Litigation provision	a	–	(22)
Resolution of commercial dispute	b	–	(37)
Pension curtailment gain	c	–	28
Reorganisation costs	d	(16)	–
		(16)	(31)
Other operating income and expenses:			
(Loss)/gain on disposal of hotels (note 11)		(2)	37
Write-off of software (note 13)		(18)	–
Demerger liability released	e	9	–
VAT refund	f	–	9
		(11)	46
Impairment:			
Impairment charges:			
Property, plant and equipment (note 10)		–	(2)
Other financial assets (note 15)		–	(3)
Reversals of previously recorded impairment:			
Property, plant and equipment (note 10)		23	23
Associates (note 14)		–	2
		23	20
		(4)	35
Tax			
Tax on exceptional operating items		1	5
Exceptional tax credit	g	141	43
		142	48

All items above relate to continuing operations.

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

a Related to a lawsuit filed against the Group in the Americas region, for which the final balance was paid in March 2012.

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

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

d Arises from a reorganisation of the Group's support functions together with a restructuring within the AMEA region.

e Release of a liability no longer required relating to the demerger of the Group from Six Continents PLC.

f Arose in the UK relating to periods prior to 1996.

g Represents the recognition of $104m of deferred tax assets, principally relating to pre-existing overseas tax losses, whose value has become more certain as a result of a change in law and the resolution of prior period tax matters, together with the associated release of $37m of provisions. In 2011, related to a $30m revision of the estimated tax impacts of an internal reorganisation completed in 2010 together with the release of $13m of provisions.

6. Finance costs

	2012 $m	2011 $m
Financial income		
Interest income on deposits	2	1
Unwinding of discount on other financial assets	1	1
	3	2
Financial expenses		
Interest expense on borrowings	37	42
Interest rate swaps fair value transferred from equity	1	4
Finance charge payable under finance leases	19	18
	57	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 $2m (2011 $1m) 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	2012 $m	2011 $m
Income tax			
UK corporation tax at 24.5% (2011 26.5%):			
Current period		22	30
Adjustments in respect of prior periods	a	(34)	(25)
		(12)	5
Foreign tax:	b		
Current period		170	98
Benefit of tax reliefs on which no deferred tax previously recognised		(31)	(16)
Adjustments in respect of prior periods	a	(27)	(65)
		112	17
Total current tax		100	22
Deferred tax:			
Origination and reversal of temporary differences		8	73
Changes in tax rates		(2)	(2)
Adjustments to estimated recoverable deferred tax assets		(105)	(12)
Adjustments in respect of prior periods		10	(9)
Total deferred tax		(89)	50
Total income tax charge for the year		11	72
Further analysed as tax relating to:			
Profit before exceptional items		153	120
Exceptional items (note 5):			
Exceptional operating items		(1)	(5)
Exceptional tax credit	c	(141)	(43)
		11	72

All items above relate to continuing operations.

a Includes $37m (2011 $39m) of exceptional credits 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.

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

c Represents the recognition of $104m of deferred tax assets, principally relating to pre-existing overseas tax losses, whose value has become more certain as a result of a change in law and the resolution of prior period tax matters, together with the associated release of $37m of provisions. In 2011 related to a $30m revision of the estimated tax impacts of an internal reorganisation completed in 2010 together with the release of $13m of provisions.

7. Tax continued

	Total[a]		Before exceptional items[b]	
	2012 %	2011 %	2012 %	2011 %
Reconciliation of tax charge, including gain on disposal of assets				
UK corporation tax at standard rate	**24.5**	26.5	**24.5**	26.5
Non-deductible expenditure and non-taxable income	**2.0**	1.9	**1.0**	2.6
Net effect of different rates of tax in overseas businesses	**9.7**	8.9	**9.7**	9.8
Effect of changes in tax rates	**(0.3)**	(0.5)	**(0.1)**	(0.4)
Benefit of tax reliefs on which no deferred tax previously recognised	**(5.5)**	(3.0)	**(5.5)**	(3.2)
Effect of adjustments to estimated recoverable deferred tax assets	**(19.0)**	(2.3)	**(0.2)**	(0.3)
Adjustment to tax charge in respect of prior periods	**(9.7)**	(18.9)	**(2.4)**	(12.1)
Other	**0.3**	0.9	**0.4**	1.3
	2.0	13.5	**27.4**	24.2

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 $122m (2011 $90m) comprises $119m (2011 $89m) paid in respect of operating activities and $3m (2011 $1m) paid in respect of investing activities.

Tax paid represents an effective rate of 22% (2011 17%) on total profits and is lower than the effective income statement tax rate of 27% 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.

UK corporation tax of $6m was paid in the year in settlement of prior period liabilities. Corporation tax liabilities are not expected to arise in respect of 2012 or for a number of years thereafter due to expenses and associated tax losses attributable principally to employment matters, in particular additional shortfall contributions to the UK pension plan (see note 25).

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 29.

8. Dividends paid and proposed

	2012 cents per share	2011 cents per share	2012 $m	2011 $m
Paid during the year:				
Final (declared for previous year)	**39.0**	35.2	**113**	102
Interim	**21.0**	16.0	**61**	46
Special (note 28)	**172.0**	–	**505**	–
	232.0	51.2	**679**	148
Proposed (not recognised as a liability at 31 December):				
Final	**43.0**	39.0	**115**	113

The final dividend of 27.7p (43.0¢ converted at the closing exchange rate on 15 February 2013) is proposed for approval at the Annual General Meeting (AGM) on 24 May 2013 and is payable on the shares in issue at 22 March 2013.

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.

Continuing and total operations	2012	2011
Basic earnings per ordinary share		
Profit available for equity holders ($m)	**544**	460
Basic weighted average number of ordinary shares (millions)	**287**	289
Basic earnings per ordinary share (cents)	**189.5**	159.2
Diluted earnings per ordinary share		
Profit available for equity holders ($m)	**544**	460
Diluted weighted average number of ordinary shares (millions)	**292**	296
Diluted earnings per ordinary share (cents)	**186.3**	155.4
Adjusted earnings per ordinary share		
Profit available for equity holders ($m)	**544**	460
Adjusting items (note 5):		
Exceptional operating items ($m)	**4**	(35)
Tax on exceptional operating items ($m)	**(1)**	(5)
Exceptional tax credit ($m)	**(141)**	(43)
Adjusted earnings ($m)	**406**	377
Basic weighted average number of ordinary shares (millions)	**287**	289
Adjusted earnings per ordinary share (cents)	**141.5**	130.4
Adjusted diluted earnings per ordinary share		
Adjusted earnings ($m)	**406**	377
Diluted weighted average number of ordinary shares (millions)	**292**	296
Adjusted diluted earnings per ordinary share (cents)	**139.0**	127.4

	2012 millions	2011 millions
Diluted weighted average number of ordinary shares is calculated as:		
Basic weighted average number of ordinary shares	**287**	289
Dilutive potential ordinary shares – employee share options	**5**	7
	292	296

10. Property, plant and equipment

	Land and buildings $m	Fixtures, fittings and equipment $m	Total $m
Cost			
At 1 January 2011	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
Additions	8	33	41
Net transfers to non-current assets classified as held for sale	(265)	(99)	(364)
Reclassification to intangible assets	–	(25)	(25)
Disposals	–	(12)	(12)
Exchange and other adjustments	15	10	25
At 31 December 2012	**995**	**824**	**1,819**
Depreciation and impairment			
At 1 January 2011	(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 reversal (see below)	23	–	23
Disposals	9	8	17
Exchange and other adjustments	–	1	1
At 31 December 2011	(174)	(618)	(792)
Provided	(11)	(46)	(57)
Net transfers to non-current assets classified as held for sale	16	42	58
Reclassification to intangible assets	–	2	2
Impairment reversals (see below)	23	–	23
Disposals	–	11	11
Exchange and other adjustments	–	(8)	(8)
At 31 December 2012	**(146)**	**(617)**	**(763)**
Net book value			
At 31 December 2012	**849**	**207**	**1,056**
At 31 December 2011	1,063	299	1,362
At 1 January 2011	1,335	355	1,690

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.

In 2012, a previously recorded impairment charge relating to a North American hotel was reversed in full following a re-assessment of its recoverable amount, based on the market value of the hotel as determined by an independent professional property valuer.

Of the impairment reversal in 2011, $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 2012 was $187m (2011 $190m).

No borrowing costs were capitalised during the current or prior year.

Charges over one hotel totalling $89m exist as security provided to the Group's pension plans.

11. Assets sold and held for sale

Assets sold

During the year ended 31 December 2012, the Group sold an interest in a hotel in the Europe region.

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 related 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.

	2012 $m	2011 $m
Consideration		
Current year disposals:		
Cash consideration, net of costs paid	4	142
Management contract value	–	2
	4	144
Net assets disposed of	(6)	(107)
(Loss)/gain on disposal of assets from continuing operations	(2)	37
Net cash inflow		
Current year disposals:		
Cash consideration, net of costs paid	4	142
Tax	–	(1)
Prior year disposals:		
Tax	(3)	–
	1	141

Assets held for sale

Two hotels, the InterContinental New York Barclay and the InterContinental London Park Lane, and one associate investment met the held for sale criteria of IFRS 5 at 31 December 2012. The InterContinental New York Barclay was held for sale at 31 December 2011.

	2012 $m	2011 $m
Assets and liabilities held for sale		
Non-current assets classified as held for sale:		
Property, plant and equipment	524	217
Associates	10	–
	534	217
Liabilities classified as held for sale:		
Deferred tax (note 26)	61	60

12. Goodwill

	2012 $m	2011 $m
Cost		
At 1 January	**233**	233
Exchange adjustments	**1**	–
At 31 December	**234**	233
Impairment		
At 1 January and 31 December	**(141)**	(141)
Net book value		
At 31 December	**93**	92
At 1 January	**92**	92

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	
	2012 $m	2011 $m	2012 $m	2011 $m
Asia Australasia franchised and managed operations	**93**	92	**93**	92
Americas managed operations	**141**	141	**–**	–
	234	233	**93**	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 2012, the recoverable amount of the CGU has been assessed based on the approved budget for 2013 and strategic plans covering a five-year period, a perpetual growth rate of 3.5% (2011 3.5%) and a discount rate of 14.3% (2011 13.9%).

Impairment was not required at either 31 December 2012 or 31 December 2011 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.

13. Intangible assets

	Software $m	Management contracts $m	Other intangibles $m	Total $m
Cost				
At 1 January 2011	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
Additions	70	–	14	84
Reclassification from property, plant and equipment	25	–	–	25
Disposals	(21)	–	(3)	(24)
Exchange and other adjustments	(1)	4	2	5
At 31 December 2012	**325**	**235**	**151**	**711**
Amortisation and impairment				
At 1 January 2011	(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)
Provided	(17)	(10)	(10)	(37)
Reclassification from property, plant and equipment	(2)	–	–	(2)
Disposals	2	–	3	5
Exchange and other adjustments	(8)	–	(2)	(10)
At 31 December 2012	**(163)**	**(126)**	**(68)**	**(357)**
Net book value				
At 31 December 2012	**162**	**109**	**83**	**354**
At 31 December 2011	114	115	79	308
At 1 January 2011	83	125	58	266

Software disposals in 2012 include an exceptional write-off of $18m resulting from a re-assessment of the ongoing value of elements of the technology infrastructure.

Borrowing costs of $0.3m (2011 $0.4m) were capitalised during the year in respect of software projects.

The weighted average remaining amortisation period for management contracts is 19 years (2011 20 years).

14. Investment in associates and joint ventures

	Associates $m	Joint ventures $m	Total $m
Cost			
At 1 January 2011	48	–	48
Additions	11	31	42
Share of profit/(loss)	2	(1)	1
Dividends	(1)	–	(1)
At 31 December 2011	60	30	90
Reclassification	4	(4)	–
Additions	–	2	2
Transfer to non-current assets classified as held for sale	(10)	–	(10)
Share of profit/(loss)	3	–	3
Dividends	(3)	–	(3)
Share of reserve movement	5	–	5
At 31 December 2012	**59**	**28**	**87**
Impairment			
At 1 January 2011	(5)	–	(5)
Impairment reversal (see below)	2	–	2
At 31 December 2011 and 31 December 2012	**(3)**	**–**	**(3)**
Net book value			
At 31 December 2012	**56**	**28**	**84**
At 31 December 2011	57	30	87
At 1 January 2011	43	–	43

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	
	2012 $m	2011 $m	2012 $m	2011 $m	2012 $m	2011 $m
Share of statement of financial position						
Current assets	22	9	1	3	23	12
Non-current assets	59	70	27	27	86	97
Current liabilities	(6)	(7)	–	–	(6)	(7)
Non-current liabilities	(11)	(15)	–	–	(11)	(15)
Non-controlling interests	(8)	–	–	–	(8)	–
Net assets	56	57	28	30	84	87
Share of revenue and profit						
Revenue	30	28	–	–	30	28
Profit/(loss)	3	2	–	(1)	3	1
Related party transactions						
Revenue from related parties	5	5	–	–	5	5
Amounts owed by related parties	2	1	–	–	2	1
Loans from related parties	–	(2)	–	–	–	(2)

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

	2012 $m	2011 $m
Current		
Loans and receivables	6	–
Non-current		
Equity securities available-for-sale	112	112
Loans and receivables	43	44
	155	156

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 2012, $18m (2011 $15m) were listed securities and $94m (2011 $97m) unlisted; $59m (2011 $61m) were denominated in US dollars, $24m (2011 $23m) in Hong Kong dollars and $29m (2011 $28m) 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 the International Private Equity and Venture Capital Valuation Guidelines, using either the earnings multiple or net assets methodology as appropriate. Listed equity share valuations are based on observable market prices. Dividend income from available-for-sale equity securities of $5m (2011 $11m) is reported as other operating income and expenses in the Group income statement.

Loans and receivables consist of trade deposits and restricted cash which are held at amortised cost. A deposit of $37m was made in 2011 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 $11m (2011 $10m); the discount will unwind to the income statement within financial income over the period to repayment. Restricted cash of $29m (2011 $27m) 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:

	2012 $m	2011 $m
At 1 January	(25)	(26)
Provided – exceptional items	–	(3)
Reclassification	(1)	3
Amounts written off	–	1
At 31 December	(26)	(25)

The amount provided as an exceptional item in 2011 related to an available-for-sale equity investment and arose as a result of a significant and prolonged decline in its 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.

16. Inventories

	2012 $m	2011 $m
Finished goods	2	2
Consumable stores	2	2
	4	4

17. Trade and other receivables

	2012 $m	2011 $m
Trade receivables	344	299
Other receivables	18	28
Prepayments	60	42
	422	369

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:

	2012 $m	2011 $m
Americas	186	170
Europe	83	69
Asia, Middle East and Africa	64	61
Greater China	29	27
	362	327

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

	2012			2011		
	Gross $m	Provision $m	Net $m	Gross $m	Provision $m	Net $m
Not past due	223	–	223	201	(1)	200
Past due 1 to 30 days	74	(3)	71	73	(2)	71
Past due 31 to 180 days	69	(3)	66	59	(3)	56
Past due more than 180 days	43	(41)	2	40	(40)	–
	409	(47)	362	373	(46)	327

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

	2012 $m	2011 $m
At 1 January	(46)	(58)
Provided	(18)	(15)
Amounts written back	10	7
Amounts written off	7	20
At 31 December	**(47)**	(46)

18. Cash and cash equivalents

	2012 $m	2011 $m
Cash at bank and in hand	57	51
Short-term deposits	138	131
	195	182

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

Cash and cash equivalents includes $7m (2011 $2m) that is not available for use by the Group due to local exchange controls.

19. Trade and other payables

	2012 $m	2011 $m
Current		
Trade payables	**117**	126
Other tax and social security payable	**35**	35
Other payables	**268**	262
Accruals	**289**	284
	709	707
Non-current		
Other payables	**563**	497

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

Other payables include $623m (2011 $578m) relating to the future redemption liability of the Group's loyalty programme, of which $108m (2011 $105m) is classified as current and $515m (2011 $473m) as non-current.

20. Provisions

	Onerous management contracts $m	Litigation $m	Total $m
At 1 January 2011	10	–	10
Provided	1	22	23
Utilised	(8)	(11)	(19)
At 31 December 2011	3	11	14
Utilised	(1)	(11)	(12)
At 31 December 2012	**2**	**–**	**2**

	2012 $m	2011 $m
Analysed as:		
Current	**1**	12
Non-current	**1**	2
	2	14

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 was charged in the income statement as an exceptional item in 2011 (see note 5) and related to an action brought against the Group in the Americas region. The final balance was settled in March 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.

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 $2.8m (2011 $3.3m) and increase net assets by an estimated $1.8m (2011 decrease of $10.4m). Similarly, a five cent fall in the euro:US dollar rate would reduce the Group's profit before tax by an estimated $2.3m (2011 $1.9m) and decrease net assets by an estimated $16.1m (2011 $10.3m).

Interest rate exposure is managed within parameters that stipulate that fixed rate borrowings should normally account for no less than 25% and no more than 75% of net borrowings for each major currency. This is 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 in major currencies were fixed rate debt at 31 December 2012.

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. Medium and long-term borrowing requirements are met through the $1.07bn Syndicated Facility which expires in November 2016, through the £250m 6% bonds that are repayable on 9 December 2016 and through the £400m 3.875% bonds repayable on 28 November 2022. The $1.07bn Syndicated Facility was undrawn at the year end. The £400m 3.875% bonds, which were issued during the year under the Group's £750m Medium Term Notes programme, extend the maturity profile and diversify the sources of the Group's debt. 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). 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 $195m which is predominantly 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, although $7m (2011 $2m) is held in a country 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 $1,382m at 31 December 2012 (2011 $1,085m). 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's debt is monitored on the basis of a cash flow leverage ratio, being net debt divided by EBITDA, with the objective of maintaining an investment grade credit rating.

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 2012. At 31 December 2012, the Group did not hold any interest rate swaps (2011 notional principals held of $100m swapping floating for fixed). 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 2012 or 31 December 2011.

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 2012, the Group held currency swaps with a principal of $415m (2011 $415m) and short dated foreign exchange swaps with principals of EUR75m (2011 EUR75m) and USD170m (2011 USD nil) (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 (2011 $415m) and short dated foreign exchange swaps with principals of EUR75m (2011 EUR100m) and USD350m (2011 USD100m).

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 2012					
Non-derivative financial liabilities:					
Secured bank loans	–	–	5	–	5
£250m 6% bonds 2016	24	24	453	–	501
£400m 3.875% bonds 2022	25	25	75	772	897
Finance lease obligations	16	16	48	3,316	3,396
Trade and other payables	709	154	191	285	1,339
Provisions	1	1	–	–	2
Derivative financial liabilities:					
Forward foreign exchange contracts	(2)	–	–	–	(2)
Currency swaps – outflows	26	26	467	–	519
– inflows	(24)	(24)	(453)	–	(501)

	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 2016	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)

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

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

Credit risk

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

	2012 $m	2011 $m
Equity securities available-for-sale	112	112
Derivative financial instruments	2	3
Loans and receivables:		
Cash and cash equivalents	195	182
Other financial assets	49	44
Trade and other receivables, excluding prepayments	362	327
	720	668

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	2012 Carrying value $m	2012 Fair value $m	2011 Carrying value $m	2011 Fair value $m
Financial assets					
Equity securities available-for-sale*	15	112	112	112	112
Derivatives*	23	2	2	3	3
Loans and receivables:					
Cash and cash equivalents	18	195	195	182	182
Other financial assets	15	49	49	44	44
Trade and other receivables, excluding prepayments	17	362	362	327	327
Financial liabilities					
£250m 6% bonds 2016	22	(403)	(456)	(384)	(411)
£400m 3.875% bonds 2022	22	(638)	(652)	–	–
Finance lease obligations	22	(212)	(268)	(209)	(268)
Other borrowings	22	(5)	(5)	(98)	(98)
Trade and other payables	19	(1,272)	(1,272)	(1,204)	(1,204)
Derivatives*	23	(19)	(19)	(39)	(39)
Provisions	20	(2)	(2)	(14)	(14)

* 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 bonds, approximates book value as interest rates reset to market rates on a frequent basis. The fair value of the £250m and £400m bonds is based on their 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.

	2012 Level 1 $m	2012 Level 2 $m	2012 Level 3 $m	2012 Total $m	2011 Level 1 $m	2011 Level 2 $m	2011 Level 3 $m	2011 Total $m
Assets								
Equity securities available-for-sale	18	–	94	112	15	–	97	112
Derivatives	–	2	–	2	–	3	–	3
Liabilities								
Derivatives	–	(19)	–	(19)	–	(39)	–	(39)

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:

	2012 $m	2011 $m
At 1 January	97	84
Additions	–	1
Repaid	(1)	(3)
Valuation (losses)/ gains recognised in other comprehensive income	(2)	16
Impairment*	–	(1)
At 31 December	94	97

* The impairment charge recognised in the income statement in 2011 (see note 5) included $2m 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 or by reference to share of net assets. A 10% increase in the average P/E ratio would result in a $5m increase (2011 $5m) in the fair value of the investments and a 10% decrease in the average P/E ratio would result in a $5m decrease (2011 $5m) in the fair value of the investments. A 10% increase in net assets would result in a $2m increase (2011 $3m) in the fair value of the investments and a 10% decrease in net assets would result in a $2m decrease (2011 $3m) in the fair value of the investments.

22. Loans and other borrowings

	2012			2011		
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Secured bank loans	–	5	5	5	–	5
Finance lease obligations	16	196	212	16	193	209
£250m 6% bonds 2016	–	403	403	–	384	384
£400m 3.875% bonds 2022	–	638	638	–	–	–
Unsecured bank loans	–	–	–	–	93	93
Total borrowings	16	1,242	1,258	21	670	691
Denominated in the following currencies:						
Sterling	–	1,041	1,041	–	384	384
US dollars	16	196	212	16	286	302
Other	–	5	5	5	–	5
	16	1,242	1,258	21	670	691

Secured bank loans

The New Zealand dollar mortgage is secured on the hotel property to which it relates.

Non-current amounts include $5m (2011 $nil) repayable by instalments.

Finance lease obligations

Finance lease obligations, which relate to the 99-year lease (of which 93 years remain) on the InterContinental Boston, are payable as follows:

	2012		2011	
	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	3,316	148	3,332	145
	3,396	212	3,412	209
Less: amount representing finance charges	(3,184)	–	(3,203)	–
	212	212	209	209

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.

22. Loans and other borrowings continued

£250m 6% bonds 2016

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).

£400m 3.875% bonds 2022

The 3.875% fixed interest sterling bonds were issued on 28 November 2012 and are repayable on 28 November 2022. Interest is payable annually on 28 November in each year commencing 28 November 2013 to the maturity date. The bonds were initially priced at 98.787% of face value and are unsecured.

Unsecured bank loans

Unsecured bank loans are borrowings under the Group's Syndicated Facility and its short-term bilateral loan and overdraft facilities. The Syndicated Facility comprises a $1.07bn five-year revolving credit facility that matures in November 2016. 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 facility was undrawn at the year end.

Facilities provided by banks

	2012			2011		
	Utilised $m	Unutilised $m	Total $m	Utilised $m	Unutilised $m	Total $m
Committed	5	1,070	1,075	105	970	1,075
Uncommitted	–	96	96	–	79	79
	5	1,166	1,171	105	1,049	1,154

	2012 $m	2011 $m
Unutilised facilities expire:		
Within one year	96	79
After two but before five years	1,070	970
	1,166	1,049

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

	2012 $m	2011 $m
Currency swaps	19	39
Forward foreign exchange contracts	(2)	(3)
	17	36
Analysed as:		
Current assets	(2)	(3)
Non-current liabilities	19	39
	17	36

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.

23. Derivative financial instruments continued

Currency swaps

At 31 December 2012, the Group held currency swaps with a principal of $415m (2011 $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: $11m (2011 $29m) relating to the repayment of the underlying principal and $8m (2011 $10m) 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.

Interest rate swaps

At 31 December 2012, the Group did not hold any interest rate swaps (2011 notional principals held of $100m). These swaps were 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 were designated as cash flow hedges.

Forward foreign exchange contracts

At 31 December 2012, the Group held short dated foreign exchange swaps with principals of Đ75m and $170m (2011 Đ75m). The swaps are used to manage sterling surplus cash and reduce euro and US dollar borrowings whilst maintaining operational flexibility. The foreign exchange swaps have been designated as net investment hedges.

24. Net debt

	2012 $m	2011 $m
Cash and cash equivalents	**195**	182
Loans and other borrowings – current	**(16)**	(21)
– non-current	**(1,242)**	(670)
Derivatives hedging debt values (note 23)	**(11)**	(29)
Net debt	**(1,074)**	(538)
Movement in net debt		
Net increase in cash and cash equivalents	**15**	107
Add back cash flows in respect of other components of net debt:		
Issue of long-term bonds	**(632)**	–
Decrease in other borrowings	**99**	119
(Increase)/decrease in net debt arising from cash flows	**(518)**	226
Non-cash movements:		
Finance lease obligations	**(3)**	(3)
Exchange and other adjustments	**(15)**	(18)
(Increase)/decrease in net debt	**(536)**	205
Net debt at beginning of the year	**(538)**	(743)
Net debt at end of the year	**(1,074)**	(538)

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.

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 598 (2011 545) employees, of which 119 (2011 125) are in the defined benefit section and 479 (2011 420) 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 allowances which will also close to future accrual from 1 July 2013. 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	
	2012 $m	2011 $m	2012 $m	2011 $m	2012 $m	2011 $m	2012 $m	2011 $m
Current service cost	5	6	1	1	–	–	6	7
Interest cost on benefit obligation	25	28	9	10	1	1	35	39
Expected return on plan assets	(28)	(29)	(9)	(9)	–	–	(37)	(38)
Operating profit before exceptional items	2	5	1	2	1	1	4	8
Exceptional items – curtailment gain	–	(28)	–	–	–	–	–	(28)
	2	(23)	1	2	1	1	4	(20)

The curtailment gain in 2011 arose 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	
	2012 $m	2011 $m	2012 $m	2011 $m	2012 $m	2011 $m	2012 $m	2011 $m
Actual return on plan assets	34	53	18	4	–	–	52	57
Less: expected return on plan assets	(28)	(29)	(9)	(9)	–	–	(37)	(38)
Actuarial gains/(losses) on plan assets	6	24	9	(5)	–	–	15	19
Actuarial (losses)/gains on plan liabilities	(3)	(22)	(16)	(26)	5	(3)	(14)	(51)
Total actuarial gains/(losses)	3	2	(7)	(31)	5	(3)	1	(32)
Change in asset restriction and liability in respect of funding commitments*	(25)	(11)	–	–	–	–	(25)	(11)
	(22)	(9)	(7)	(31)	5	(3)	(24)	(43)

* 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	
	2012 $m	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Retirement benefit assets								
Fair value of plan assets	**695**	551	**17**	16	**–**	–	**712**	567
Present value of benefit obligations	**(507)**	(471)	**(15)**	(12)	**–**	–	**(522)**	(483)
Surplus in schemes	**188**	80	**2**	4	**–**	–	**190**	84
Asset restriction and liability in respect of funding commitments*	**(91)**	(63)	**–**	–	**–**	–	**(91)**	(63)
Total retirement benefit assets	**97**	17	**2**	4	**–**	–	**99**	21
Retirement benefit obligations								
Fair value of plan assets	**–**	–	**132**	117	**–**	–	**132**	117
Present value of benefit obligations	**(62)**	(54)	**(232)**	(221)	**(25)**	(30)	**(319)**	(305)
Total retirement benefit obligations	**(62)**	(54)	**(100)**	(104)	**(25)**	(30)	**(187)**	(188)
Total fair value of plan assets	**695**	551	**149**	133	**–**	–	**844**	684
Total present value of benefit obligations	**(569)**	(525)	**(247)**	(233)	**(25)**	(30)	**(841)**	(788)

* 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 $2m (2011 $4m) relates to a defined benefit pension scheme in Hong Kong. Included within the 'US and other' deficit is $2m (2011 $1m) relating to a defined benefit pension plan in the Netherlands.

Assumptions

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

	Pension plans					
	UK		US		Post-employment benefits	
	2012 %	2011 %	**2012 %**	2011 %	**2012 %**	2011 %
Wages and salaries increases	**4.5**	4.6	**–**	–	**4.0**	4.0
Pensions increases	**3.0**	3.1	**–**	–	**–**	–
Discount rate	**4.5**	4.7	**3.5**	4.1	**3.5**	4.1
Inflation rate	**3.0**	3.1	**–**	–	**–**	–
Healthcare cost trend rate assumed for next year:						
Pre 65 (ultimate rate reached in 2021)					**9.0**	9.5
Post 65 (ultimate rate reached in 2024)					**11.8**	12.8
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 1.25% 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 @ 2013 Non-Annuitant/Annuitant healthy tables for males and females.

Accordingly, assumed life expectancy at retirement age is as follows:

		Pension plans			
		UK		US	
		2012 Years	2011 Years	**2012 Years**	2011 Years
Current pensioners at 65[a]	– male	**24**	24	**19**	19
	– female	**27**	27	**21**	21
Future pensioners at 65[b]	– male	**27**	26	**21**	21
	– female	**30**	29	**22**	22

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

b Relates to assumptions based on longevity (in years) relating to an employee retiring in 2032.

The assumptions allow for expected increases in longevity.

25. Retirement benefits continued

Sensitivities

Changes in assumptions used for determining retirement benefit costs and obligations may have a material impact on the income statement and the statement of financial position. The main assumptions are the discount rate, the rate of inflation and the assumed mortality rate. The following table provides an estimate of the potential impact of each of these variables on the principal pension plans.

		UK		US	
		Higher/(lower) pension cost $m	Increase/ (decrease) in liabilities $m	Higher/(lower) pension cost $m	Increase/ (decrease) in liabilities $m
Discount rate	– 0.25% decrease	1.4	20.7	0.2	7.2
	– 0.25% increase	(1.0)	(19.1)	(0.2)	(6.8)
Inflation rate	– 0.25% increase	1.1	17.9	–	–
	– 0.25% decrease	(0.6)	(15.8)	–	–
Mortality rate	– one year increase	0.5	8.2	0.3	10.1

A one percentage point increase/(decrease) in assumed healthcare costs trend rate would increase/(decrease) the accumulated post-employment benefit obligations as at 31 December 2012 by approximately $2.4m (2011 $2.8m).

	Pension plans							
	UK		US and other		Post-employment benefits		Total	
Movement in benefit obligation	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Benefit obligation at 1 January	**525**	512	**233**	209	**30**	27	**788**	748
Current service cost	**5**	6	**1**	1	**–**	–	**6**	7
Members' contributions	**1**	1	**–**	–	**–**	–	**1**	1
Interest expense	**25**	28	**9**	10	**1**	1	**35**	39
Benefits paid	**(14)**	(13)	**(12)**	(13)	**(1)**	(1)	**(27)**	(27)
Curtailment gain	**–**	(28)	**–**	–	**–**	–	**–**	(28)
Actuarial loss/(gain) arising in the year	**3**	22	**16**	26	**(5)**	3	**14**	51
Exchange adjustments	**24**	(3)	**–**	–	**–**	–	**24**	(3)
Benefit obligation at 31 December	**569**	525	**247**	233	**25**	30	**841**	788
Comprising:								
Funded plans	**507**	471	**193**	181	**–**	–	**700**	652
Unfunded plans	**62**	54	**54**	52	**25**	30	**141**	136
	569	525	**247**	233	**25**	30	**841**	788

	Pension plans							
	UK		US and other		Post-employment benefits		Total	
Movement in plan assets	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Fair value of plan assets at 1 January	**551**	475	**133**	130	**–**	–	**684**	605
Company contributions	**97**	40	**10**	11	**1**	1	**108**	52
Members' contributions	**1**	1	**–**	–	**–**	–	**1**	1
Benefits paid	**(14)**	(13)	**(12)**	(13)	**(1)**	(1)	**(27)**	(27)
Expected return on plan assets	**28**	29	**9**	9	**–**	–	**37**	38
Actuarial gain/(loss) arising in the year	**6**	24	**9**	(5)	**–**	–	**15**	19
Exchange adjustments	**26**	(5)	**–**	1	**–**	–	**26**	(4)
Fair value of plan assets at 31 December	**695**	551	**149**	133	**–**	–	**844**	684

25. Retirement benefits continued

The plan assets are comprised as follows:

	2012		2011	
	Value $m	%	Value $m	%
UK pension plans				
Liability matching investment funds	**243**	**35**	290	53
Bonds	**232**	**33**	74	13
Equities	**62**	**9**	93	17
Hedge funds	**31**	**5**	56	10
Cash and other	**127**	**18**	38	7
Total market value of assets	**695**	**100**	551	100
US pension plans				
Equities	**60**	**48**	58	53
Fixed income	**60**	**48**	52	47
Other	**4**	**4**	–	–
Total market value of assets	**124**	**100**	110	100

The expected overall rates of return on assets, being 4.2% (2011 4.8%) for the UK plan and 6.8% (2011 7.3%) 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 3.5% (2011 3.3%) for liability matching funds and bonds and 6.4% (2011 7.4%) for equities and other return seeking assets. The UK plan is currently implementing a de-risking strategy which is resulting in a move out of return seeking assets into liability matching funds and bonds.

Funding commitments

The most recent actuarial valuation of the InterContinental Hotels UK Pension Plan was carried out as at 31 March 2012 and showed a deficit of £132m on a funding basis. Under the recovery plan agreed with the trustees, the Group aims to eliminate this deficit by 31 July 2014 principally through additional Company contributions of £130m. In respect of these additional Company contributions, £10m was paid in July 2012, £45m was paid in October 2012, £30m is due for payment in July 2013, £15m is due for payment in July 2014 and £30m will be paid into a funding trust on release of a trustee charge over a hotel asset. The amount in the funding trust may be available for release to the plan on 31 July 2014 to the extent that a funding deficit remains at that time. The plan is formally valued every three years, or earlier with the agreement of the Company and trustees, and future valuations could lead to changes in the amounts payable by the Company.

Company contributions are expected to be $62m in 2013, including known UK additional contributions of £30m.

History of experience gains and losses	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m
UK pension plans					
Fair value of plan assets	**695**	551	475	426	437
Present value of benefit obligations	**(569)**	(525)	(512)	(461)	(411)
Surplus/(deficit) in the plans	**126**	26	(37)	(35)	26
Experience adjustments arising on plan liabilities	**(3)**	(22)	(49)	(44)	55
Experience adjustments arising on plan assets	**6**	24	21	(14)	(57)
US and other pension plans					
Fair value of plan assets	**149**	133	130	126	112
Present value of benefit obligations	**(247)**	(233)	(209)	(197)	(185)
Deficit in the plans	**(98)**	(100)	(79)	(71)	(73)
Experience adjustments arising on plan liabilities	**(16)**	(26)	(13)	(13)	3
Experience adjustments arising on plan assets	**9**	(5)	3	14	(38)
US post-employment benefits					
Present value of benefit obligations	**(25)**	(30)	(27)	(20)	(19)
Experience adjustments arising on plan liabilities	**5**	(3)	(7)	(1)	1

The cumulative amount of net actuarial losses recognised since 1 January 2004 in the Group statement of comprehensive income is $284m (2011 $285m). 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.

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 2011	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
Income statement	12	(26)	(74)	6	(6)	(1)	(89)
Statement of comprehensive income	–	–	–	(6)	–	1	(5)
Statement of changes in equity	–	–	–	(4)	–	(1)	(5)
Exchange and other adjustments	3	3	(8)	–	1	(1)	(2)
At 31 December 2012	**236**	**114**	**(215)**	**(63)**	**33**	**(155)**	**(50)**

	2012 $m	2011 $m
Analysed as:		
Deferred tax assets	**(204)**	(106)
Deferred tax liabilities	**93**	97
Liabilities held for sale	**61**	60
	(50)	51

Deferred gains on loan notes includes $55m (2011 $55m) which is expected to fall due for payment in 2016.

The deferred tax asset recognised in respect of losses of $215m (2011 $133m) includes $78m (2011 $104m) in respect of capital losses available to be utilised against the realisation of capital gains which are recognised as a deferred tax liability and $137m (2011 $29m) in respect of revenue tax losses. Deferred tax assets of $22m (2011 $44m) 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 $272m (2011 $358m), including capital losses with a value of $140m (2011 $134m), have not been recognised. These losses may be carried forward indefinitely with the exception of $11m which expires after four years and $1m which expires after eight years (2011 $11m which expires after five years and $1m which expires after six years). Deferred tax assets with a net tax value of $32m (2011 $29m) in respect of employee benefits, up to $34m (2011 $34m) in respect of foreign tax credits and $53m (2011 $52m) 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 2012, 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. The tax which would arise upon reversal of the temporary differences is not expected to exceed $20m (2011 $20m).

Other short-term temporary differences relate primarily to provisions, accruals, amortisation 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 plan, a fixed percentage of the bonus is awarded in the form of shares with no voluntary deferral and no matching shares. The awards in all of the plans are conditional on the participants remaining in the employment of a participating company 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 340,924 (2011 528,213) shares 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 2,698,714 (2011 3,257,364) 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 2012 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, when operational, 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 2012 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 2012 and at 31 December 2012 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 2012, 352,115 (2011 397,943) such options were exercised and 106,699 (2011 45,655) lapsed, leaving no such options outstanding at 31 December 2012 (2011 458,814).

27. Share-based payments continued

The Group recognised a cost of $22m (2011 $25m) in operating profit and $1m (2011 $nil) 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 $10m (2011 $8m).

The following table sets forth awards and options granted during 2012. 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 2012	**340,924**	**2,698,714**

The Group uses separate option pricing models and assumptions depending on the plan. The following tables set out information about awards granted in 2012 and 2011:

	ABP	LTIP
2012		
Valuation model	Binomial	Monte Carlo Simulation and Binomial
Weighted average share price	1,440.0p	1,440.0p
Expected dividend yield	2.95%	2.99%
Risk-free interest rate		0.59%
Volatility*		31%
Term (years)	3.0	3.0

	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

* 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 2011	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
Granted	341	2,699
Vested	(643)	(2,621)
Share capital consolidation	(18)	–
Lapsed or cancelled	(8)	(1,948)
Outstanding at 31 December 2012	**622**	**7,160**
Fair value of awards granted during the year		
2012	**2,199.8¢**	**792.5¢**
2011	2,141.1¢	819.7¢
Weighted average remaining contract life (years)		
At 31 December 2012	**1.6**	**1.2**
At 31 December 2011	0.9	1.0

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 2011	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
Exercised	(1,365)	308.5-619.8	492.8
Lapsed or cancelled	(107)	434.2	434.2
Outstanding at 31 December 2012	**698**	**438.0-619.8**	**514.8**
Options exercisable			
At 31 December 2012	**698**	**438.0-619.8**	**514.8**
At 31 December 2011	2,170	308.5-619.8	497.0

Included within the options outstanding under the Executive Share Option Plan are options over nil (2011 458,814, 2010 902,412) 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 1,409.5p. The closing share price on 31 December 2012 was 1,707.0p and the range during the year was 1,157.0p to 1,725.0p per share.

Summarised information about options outstanding at 31 December 2012 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			
438.0	66	0.4	438.0
491.8 to 494.2	487	1.2	493.9
619.8	145	2.3	619.8
	698	1.3	514.8

28. Issued share capital and reserves

Equity share capital	Number of shares millions	Nominal value $m	Share premium $m	Equity share capital $m
Allotted, called up and fully paid				
At 1 January 2011 (ordinary shares of $13\frac{29}{47}$p)	289	61	94	155
Issued on exercise of share options	1	–	8	8
Exchange adjustments	–	–	(1)	(1)
At 31 December 2011 (ordinary shares of $13\frac{29}{47}$p)	290	61	101	162
Share capital consolidation	(19)	–	–	–
Issued on exercise of share options	1	1	9	10
Repurchased and cancelled under repurchase programme	(4)	(1)	–	(1)
Exchange adjustments	–	2	6	8
At 31 December 2012 (ordinary shares of $14\frac{194}{329}$p each)	**268**	**63**	**116**	**179**

On 7 August 2012, the Group announced a planned $1bn return to shareholders comprising a $0.5bn special dividend with share consolidation and a $0.5bn share repurchase programme. The share consolidation was approved on 8 October 2012 at a General Meeting (GM) of the Company and became effective on 9 October 2012 on the basis of 14 new ordinary shares of $14\frac{194}{329}$p each for every 15 existing ordinary shares of $13\frac{29}{47}$p each. The special dividend of 172.0¢ per share was paid to shareholders on 22 October 2012 at a total cost of $505m. Under the authority granted by shareholders at the GM held on 8 October 2012, the share repurchase programme commenced in November 2012 resulting in the repurchase of 4,143,960 shares in the period to 31 December 2012 for a total consideration of $107m. Transaction costs relating to shareholder returns of $2m, net of tax, have been charged to retained earnings.

No shares were repurchased in 2011.

The authority given to the Company at the GM held on 8 October 2012 to purchase its own shares was still valid at 31 December 2012. A resolution to renew the authority will be put to shareholders at the AGM on 24 May 2013.

The balance classified as equity share capital includes the total net proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising $14\frac{194}{329}$p shares. The share premium reserve represents the amount of proceeds received for shares in excess of their nominal value.

The Company no longer has an authorised share capital.

The nature and purpose of the other reserves shown in the Group statement of changes in equity on pages 86 and 87 of the Financial Statements is as follows:

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

Shares held by employee share trusts
Comprises $48.0m (2011 $26.5m) in respect of 1.8m (2011 1.5m) InterContinental Hotels Group PLC ordinary shares held by employee share trusts, with a market value at 31 December 2012 of $50m (2011 $26m).

Other reserves
Comprises the merger and revaluation reserves previously recognised under UK GAAP, together with the reserve arising as a consequence of the Group's capital reorganisation in June 2005. Following the change in presentational currency to the US dollar in 2008 (see page 90), this reserve also includes exchange differences arising on the retranslation to period-end exchange rates of equity share capital, the capital redemption reserve and shares held by employee share trusts.

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

The fair value of cash flow hedging instruments outstanding at 31 December 2012 was $nil (2011 $nil).

Currency translation reserve
This reserve records the movement in exchange differences arising from the translation of foreign operations and exchange differences on foreign currency borrowings and derivative instruments that provide a hedge against net investments in foreign operations. On adoption of IFRS, cumulative exchange differences were deemed to be $nil as permitted by IFRS 1.

The fair value of derivative instruments designated as hedges of net investments in foreign operations outstanding at 31 December 2012 was a $17m net liability (2011 $36m).

The currency translation reserve includes a cumulative loss of $35m relating to non-current assets classified as held for sale.

29. Operating leases

During the year ended 31 December 2012, $64m (2011 $64m) 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 $19m (2011 $18m).

Future minimum lease payments under non-cancellable operating leases are as follows:

	2012 $m	2011 $m
Due within one year	47	46
One to two years	34	41
Two to three years	25	32
Three to four years	22	23
Four to five years	22	21
More than five years	237	255
	387	418

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 (2011 19 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 $10m (2011 $14m).

30. Capital and other commitments

	2012 $m	2011 $m
Contracts placed for expenditure on property, plant and equipment and intangible assets not provided for in the Group Financial Statements	81	14

The Group has also committed to invest up to $60m in two investments accounted for under the equity method of which $37m had been spent at 31 December 2012.

31. Contingencies

	2012 $m	2011 $m
Contingent liabilities not provided for in the Group Financial Statements	1	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 $50m (2011 $42m).

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. In particular, the Group is currently subject to an Office of Fair Trading enquiry in the UK and class action law suits in the US. 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, it is not possible to quantify any loss to which these proceedings or claims under these warranties may give rise, however, as at the date of reporting, the Group does not believe that the outcome of these matters will have a material effect on the Group's financial position.

32. Related party disclosures

	2012 $m	2011 $m
Total compensation of key management personnel		
Short-term employment benefits	20.0	18.8
Post-employment benefits	0.8	0.8
Termination benefits	0.6	1.4
Equity compensation benefits	8.6	8.1
	30.0	29.1

There were no other transactions with key management personnel during the year ended 31 December 2012 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.

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 94 of the Financial Statements.

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

	2012 $m	2011 $m
Income:*		
Assessment fees and contributions received from hotels	**1,106**	1,025
Proceeds from sale of Priority Club Rewards points	**144**	128
Key elements of expenditure:*		
Marketing	**250**	203
Priority Club	**250**	232
Payroll costs	**221**	182
Net surplus for the year*	**12**	19
Interest payable to the Fund	**2**	1

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

The payroll costs above relate to 4,431 (2011 3,885) employees whose costs are borne by the Fund.

The following liabilities relating to the Fund are included in the Group statement of financial position:

	2012 $m	2011 $m
Cumulative short-term net surplus	**51**	39
Loyalty programme liability	**623**	578
	674	617

The net change in the loyalty programme liability and Fund surplus contributed an inflow of $57m (2011 $66m) to the Group's cash flow from operations.

34. Events after the reporting period

On 22 January 2013, the Group announced that it will receive $31m in liquidated damages under an agreement with a hotel owner that will result in eight hotels leaving the IHG System on 1 March 2013. The payment is expected at the end of February 2013.

35. 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.

Parent Company Financial Statements

In this section we present the balance sheet of our parent company, InterContinental Hotels Group PLC, and the related notes supporting the parent company balance sheet for 2012.

Holiday Inn Resort Kandooma Maldives

Parent company balance sheet

31 December 2012	Note	2012 £m	2011 £m
Fixed assets			
Investments	3	**2,951**	2,934
Current assets			
Debtors	4	**16**	18
Creditors: amounts falling due within one year	5	**(1,440)**	(1,960)
Net current liabilities		**(1,424)**	(1,942)
Total assets less current liabilities		**1,527**	992
Creditors: amounts falling due after one year	5	**(644)**	(249)
Net assets		**883**	743
Capital and reserves			
Called up share capital	6	**39**	39
Share premium account	7	**72**	66
Capital redemption reserve	7	**7**	6
Share-based payment reserve	7	**184**	167
Profit and loss account	7	**581**	465
Equity shareholders' funds		**883**	743

Signed on behalf of the Board

Tom Singer
18 February 2013

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 £610m (2011 £264m).

Notes on pages 131 to 133 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 deemed capital contributions arising from share-based payment transactions 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 123 to 125.

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 111 and 112.

Capital risk management

The Group's capital risk management policy is set out in note 21 of the Group Financial Statements on page 112.

Related party transactions

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

2. Directors

	2012	2011
Average number of Non-Executive Directors	7	8

	2012 £m	2011 £m
Remuneration costs	1	1

Detailed information on the emoluments, pensions, option holdings and shareholdings for each Non-Executive Director is shown in the Directors' Remuneration Report on pages 59 to 78.

3. Investments

	£m
At 1 January 2012	2,934
Share-based payments capital contribution	17
At 31 December 2012	**2,951**

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

4. Debtors

	2012 £m	2011 £m
Amounts due from subsidiary undertakings	5	5
Corporate taxation	11	13
	16	18

5. Creditors

	2012 £m	2011 £m
Amounts falling due within one year		
Amounts due to subsidiary undertakings	1,440	1,960
Amounts falling due after more than one year		
£250m 6% bonds 2016	249	249
£400m 3.875% bonds 2022	395	–
	644	249

5. Creditors continued

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.

The 3.875% fixed interest sterling bonds were issued on 28 November 2012 and are repayable on 28 November 2022. Interest is payable annually on 28 November in each year commencing 28 November 2013 to the maturity date. The bonds were initially priced at 98.787% of face value and are unsecured.

6. Share capital

	Number of shares millions	£m
Allotted, called up and fully paid		
At 1 January 2012 (ordinary shares of $13\frac{29}{47}$p each)	290	39
Share capital consolidation	(19)	–
Issued on exercise of share options	1	1
Repurchased and cancelled under repurchase programme	(4)	(1)
At 31 December 2012 (ordinary shares of $14\frac{194}{329}$p each)	**268**	**39**

On 7 August 2012, the Group announced a planned $1bn return to shareholders comprising a $0.5bn special dividend with share consolidation and a $0.5bn share repurchase programme. The share consolidation was approved on 8 October 2012 at a General Meeting (GM) of the Company and became effective on 9 October 2012 on the basis of 14 new ordinary shares of $14\frac{194}{329}$p each for every 15 existing ordinary shares of $13\frac{29}{47}$p each. The special dividend of 108.4p per share was paid to shareholders on 22 October 2012 at a total cost of £315m (see note 9). Under the authority granted by shareholders at the GM held on 8 October 2012, the share repurchase programme commenced in November 2012 resulting in the repurchase of 4,143,960 shares in the period to 31 December 2012 for a total consideration of £67m. Transaction costs relating to shareholder returns of £1m, net of tax, have been charged to retained earnings.

No shares were repurchased in 2011.

The authority given to the Company at the GM held on 8 October 2012 to purchase its own shares was still valid at 31 December 2012. A resolution to renew the authority will be put to shareholders at the Annual General Meeting (AGM) on 24 May 2013.

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 £7m (2011 £5m).

	Thousands
Options to subscribe for ordinary shares	
At 1 January 2012	2,170
Exercised*	(1,365)
Lapsed or cancelled	(107)
At 31 December 2012	**698**
Option exercise price per ordinary share (pence)	438.0-619.8
Final exercise date	4 April 2015

* The weighted average option price was 492.8p for shares exercised under the Executive Share Option Plan.

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 2012	66	6	167	465
Premium on allotment of ordinary shares	6	–	–	–
Repurchase of shares	–	–	–	(66)
Transfer to capital redemption reserve	–	1	–	(1)
Transaction costs relating to shareholder returns	–	–	–	(1)
Profit after tax	–	–	–	610
Share-based payments capital contribution	–	–	17	–
Dividends	–	–	–	(426)
At 31 December 2012	**72**	**7**	**184**	**581**

8. Reconciliation of movements in shareholders' funds

	2012 £m	2011 £m
Earnings available for shareholders	**610**	264
Dividends	**(426)**	(92)
	184	172
Issue of ordinary shares	**7**	5
Repurchase of shares	**(67)**	–
Transaction costs relating to shareholder returns	**(1)**	–
Share-based payments capital contribution	**17**	19
Net movement in shareholders' funds	**140**	196
Shareholders' funds at 1 January	**743**	547
Shareholders' funds at 31 December	**883**	743

9. Profit and dividends

Profit on ordinary activities after tax amounts to £610m (2011 £264m).

A final dividend, declared in the previous year, of 24.7p (2011 22.0p) per share was paid during the year, amounting to £72m (2011 £63m). An interim dividend of 13.5p (2011 9.8p) per share was paid during the year, amounting to £39m (2011 £29m). A special interim dividend of 108.4p per share was paid during the year, amounting to £315m. A final dividend of 27.7p (2011 24.7p) per share, amounting to £74m (2011 £71m), is proposed for approval at the AGM. The proposed final dividend is payable on shares in issue at 22 March 2013.

The audit fee of £0.02m (2011 £0.02m) was borne by a subsidiary undertaking in both years.

10. Contingencies

Contingent liabilities of £nil (2011 £65m) 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 Parent Company Financial Statements.

The Directors are responsible for preparing the Parent Company Financial Statements and Directors' Remuneration Report in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice (UK GAAP).

The Directors are required to prepare 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 Parent 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 2012 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 133, 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 2012;
- 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 Directors' 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 Directors' 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 2012.

Alison Duncan (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
18 February 2013

Notes:

1. The maintenance and integrity of the InterContinental Hotels Group PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Other information

In this section we present a glossary of terms used in the Annual Report and Financial Statements 2012 and some analyses of our share ownership at the end of 2012.

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.

Crowne Plaza Changi Airport, Singapore

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.

capital expenditure purchases of property, plant and equipment, intangible assets, associate and joint venture investments and other financial assets.

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.

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.

constant currency a current year value translated using the previous year's exchange rates.

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).

fee based margins operating profit as a percentage of revenue, excluding revenue and operating profit from owned and leased hotels, managed leases and significant liquidated damages.

fee revenue Group revenue excluding revenue from owned and leased hotels, managed leases and significant liquidated damages.

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.

managed leases properties structured for legal reasons as operating leases but with the same characteristics as management contracts.

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, The Holiday Inn brand family).

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.

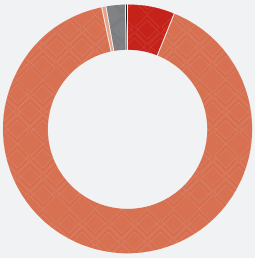
working capital the sum of inventories, receivables and payables of a trading nature, excluding financing and taxation items.

Other information

Shareholder profiles

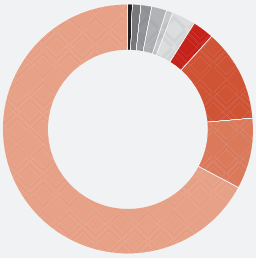
Shareholder profile by type as at 31 December 2012

Category of shareholdings	Number of shareholders	Percentage total of shareholders	Number of ordinary shares	Percentage of issued share capital See chart→
Private individuals	47,077	94.46	17,059,256	6.36
Nominee companies	2,383	4.78	242,910,573	90.53
Limited and public limited companies	221	0.44	1,421,014	0.53
Other corporate bodies	145	0.30	6,731,137	2.51
Pension funds, insurance companies and banks	12	0.02	203,091	0.07
Total	49,838	100	268,325,071	100



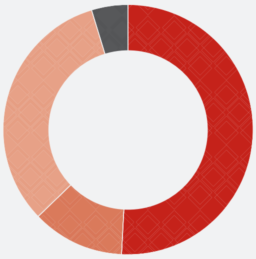
Shareholder profile by size as at 31 December 2012

Range of shareholdings	Number of shareholders	Percentage total of shareholders	Number of ordinary shares	Percentage of issued share capital See chart→
1 – 199	31,692	63.59	2,032,132	0.76
200 – 499	9,528	19.12	3,050,566	1.14
500 – 999	4,508	9.05	3,153,476	1.17
1,000 – 4,999	3,168	6.36	5,896,590	2.20
5,000 – 9,999	260	0.52	1,830,791	0.68
10,000 – 49,999	355	0.71	8,068,630	3.00
50,000 – 99,999	97	0.19	7,311,296	2.72
100,000 – 499,999	145	0.29	32,377,070	12.07
500,000 – 999,999	33	0.07	24,839,873	9.26
1,000,000 and above	52	0.10	179,764,647	67.00
Total	49,838	100	268,325,071	100



Shareholder profile by geographical location as at 31 December 2012

Country/Jurisdiction	Percentage of issued share capital[1] See chart→
UK	51.0
Rest of Europe	11.8
USA (including ADRs)	32.6
Rest of World	4.6
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 89.3% of total issued share capital. Therefore, the known percentage distributions have been multiplied by 100/89.3 (1.120) 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 offers discounted hotel stays (subject to availability) for registered shareholders through a dedicated, controlled access website. For further details please contact the Company Secretariat department on 01895 512 000 or email companysecretariat@ihg.com

Corporate Responsibility Report

IHG updates its online Corporate Responsibility Report regularly, covering progress on a range of environmental, social and community issues. This can be viewed at www.ihgplc.com/responsibility

IHG Shelter in a Storm Programme

The IHG Shelter in a Storm Programme enables IHG to support our hotels and surrounding communities, employees and guests when a disaster strikes, by providing immediate and vital assistance.

If you would like to make a donation to the programme, you can do so online via a secure payment page www.ihgshelterinastorm.com

Registrar

For information on a range of shareholder services including enquiries concerning individual shareholdings, notification of a shareholder's change of address and amalgamation of shareholder accounts (in order to avoid duplicate mailing of shareholder communications), shareholders should 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

Dividend Reinvestment Plan (DRIP)

The Company offers a 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 at www.shareview.co.uk/products/pages/applyforadrip.aspx

Bank mandate

We encourage shareholders to have their dividends paid directly into their UK bank or building society account to ensure efficient payment and funds being cleared on the payment date

Shareholders who would like their dividends to be paid directly into their account should contact our Registrar.

Overseas payment service

It is also 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/shareholders/pages/overseaspayments.aspx

Out of date/unclaimed dividends

If you think that you have out of date dividend cheques or unclaimed dividend payments please contact our Registrar.

Individual Savings Account (ISA)

Equiniti offers a Stocks and Shares ISA where IHG shares can be invested. For further information please contact Equiniti on 0871 384 2244†*.

Share dealing services

Equiniti offers the following share dealing facilities:

Postal dealing

For more information call 0871 384 2248†*.

Telephone dealing

Call 0845 603 7037†•.

Internet dealing

Log on to www.shareview.co.uk

Changes to the base cost of IHG shares

Details of all the changes to the base cost of IHG shares held since April 2003 to December 2012, for UK Capital Gains Tax purposes, may be found on the Company's website www.ihgplc.com/investors under shareholder centre/tax information.

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 '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 ADR depositary bank (contact details shown on page 140).

Form 20-F

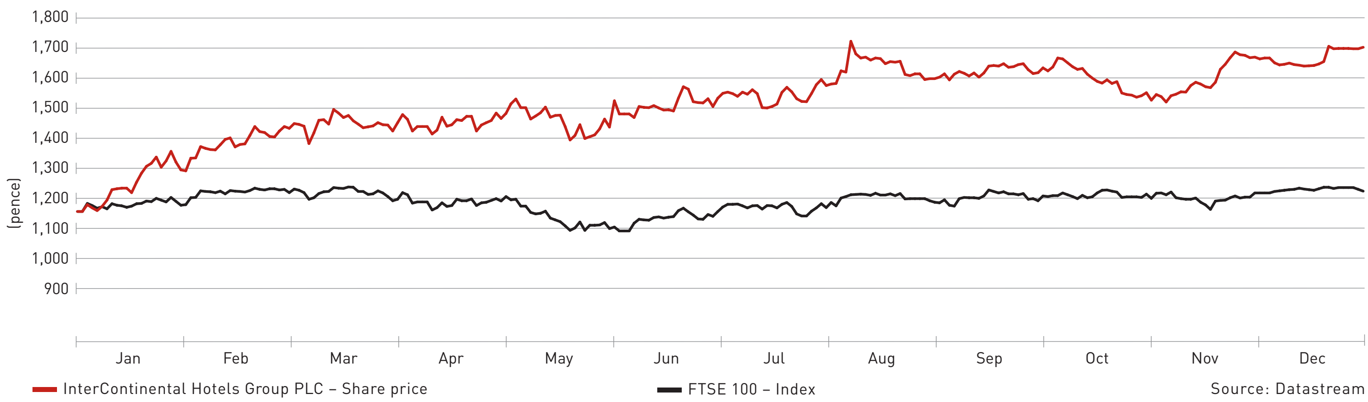
The Company is subject to the reporting requirements of the Securities and Exchange Commission (SEC) in the US and files with the SEC an Annual Report on Form 20-F. The Form 20-F can be found on the Company's website www.ihgplc.com/investors under shareholder centre/ADR holders or by visiting the SEC's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

† Calls cost 8p per minute plus network extras.
* Lines are open from 8.30am to 5.30pm Monday to Friday, excluding UK public holidays.
• Lines are open from 8.00am to 4.30pm Monday to Friday, excluding UK public holidays.

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 2012: 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), excluding special dividends and capital returns, paid by IHG since 2003.

	Interim dividend		Final dividend		Total dividend	
	pence	cents	pence	cents	pence	cents
2012	**13.50**	**21.0**	**27.70**	**43.0**	**41.20**	**64.0**
2011	9.80	16.0	24.70	39.0	34.50	55.0
2010	8.00	12.8	22.00	35.2	30.00	48.0
2009	7.30	12.2	18.70	29.2	26.00	41.4
2008*	6.40	12.2	20.20	29.2	26.60	41.4
2007	5.70	11.5	14.90	29.2	20.60	40.7
2006	5.10	9.6	13.30	25.9	18.40	35.5
2005	4.60	8.1	10.70	18.7	15.30	26.8
2004	4.30	7.7	10.00	19.1	14.30	26.8
2003	4.05	6.8	9.45	17.4	13.50	24.2

* 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

	2012 Total operations $m	2011 Total operations $m	2010 Total operations $m	2009 Total operations $m	2008 Total operations $m
Revenue	**1,835***	1,768†	1,628	1,538	1,897
Operating profit before exceptional items	**614***	559†	444	363	549
Profit/(loss) before tax	**556**	532	397	(64)	316
Basic earnings per share from total operations (cents)	**189.5**	159.2	101.7	74.7	91.3
Adjusted earnings per share from total operations (cents)	**141.5**	130.4	98.6	102.8	120.9

* Includes one significant liquidated damages receipt in 2012 of $3m in The Americas.

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

Financial calendar

		2012
Interim dividend of 13.5p per share (21.0¢ per ADR):	Payment date	28 September
Special dividend of 108.4p per share ($1.72 per existing ADR):	Payment date	22 October
Financial year end		31 December
		2013
Preliminary announcement of annual results		19 February
Final dividend of 27.7p per share (43.0¢ per ADR):	Ex-dividend date	20 March
	Record date	22 March
Announcement of first quarter interim management statements		8 May
Annual General Meeting		24 May
Final dividend of 27.7p per share (43.0¢ per ADR):	Payment date	31 May
Announcement of interim results		6 August
Interim dividend:	Payment date	October
Announcement of third quarter interim management statements		5 November
Financial year end		31 December
		2014
Preliminary announcement of annual results		February

Contacts

Registered office
Broadwater Park
Denham
Buckinghamshire
UB9 5HR

Telephone +44 (0) 1895 512 000

Fax +44 (0) 1895 512 101

www.ihgplc.com

For general information about the Group's business please contact the Corporate Affairs department at the above address. For all other enquiries please contact the Company Secretariat department at the above address.

Registrar
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone 0871 384 2132*† (UK calls)
+44 (0) 121 415 7034 (non-UK calls)

www.shareview.co.uk

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

†Calls cost 8p per minute plus network extras. Lines are open from 8.30am to 5.30pm Monday to Friday, excluding UK public holidays.

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St. Paul
MN 55164-0504
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+1 651 453 2128 (non-US calls)

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jpmorgan.adr@wellsfargo.com

www.adr.com

Auditors
Ernst & Young LLP

Investment bankers
Bank of America Merrill Lynch
Goldman Sachs

Solicitors
Freshfields Bruckhaus Deringer LLP

Stockbrokers
Bank of America Merrill Lynch
Goldman Sachs

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Forward-looking statements

Both the Annual Report and Financial Statements 2012 and the Annual Review and Summary Financial Statement 2012 contain certain forward-looking statements as defined under US legislation (Section 21E of the Securities Exchange Act of 1934) with respect to the financial condition, results of operations and business of InterContinental Hotels Group and certain plans and objectives of the Board of Directors of InterContinental Hotels Group PLC with respect thereto. Such statements include, but are not limited to, statements made in the Chairman's Statement and in the Chief Executive's Review. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. These statements are based on assumptions and assessments made by InterContinental Hotels Group's management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed in, or implied by, such forward-looking statements, including, but not limited to: the risks of the effect of political and economic developments; the risk of events that adversely impact domestic or international travel; the risks of the hotel industry supply and demand cycle; the Group's dependency on a wide range of external stakeholders and business partners; the risks related to identifying, securing and retaining franchise and management agreements; the risks in relation to changing technology and systems; the Group's reliance on the reputation of its brands and the protection of its intellectual property rights; the risks involved in the Group's reliance upon its proprietary reservations system and the risk of its failure and increased competition in reservations infrastructure; the risks related to information security and data privacy; the risks associated with safety, security and crisis management; the ability to acquire and retain the right people, skills and capability to manage growth and change; compliance with existing and changing regulations across numerous countries, territories and jurisdictions; the risk of litigation; the risks related to corporate responsibility; the risks associated with the Group's financial stability and its ability to borrow and satisfy debt covenants; the risks associated with funding risks in relation to the defined benefits under the Group's pension plans; and the risks associated with the Group's ability to maintain adequate insurance.

The main factors that could affect the business and financial results are described in the Business Review of the Annual Report and Financial Statements 2012 and also in the Company's Annual Report on Form 20-F.

¤The Holiday Inn® brand received the highest numerical score among mid-scale full service hotels in the proprietary J.D. Power and Associates 2011-2012 North America Hotel Guest Satisfaction Index Study^{SM}. Study based on responses from 61,716 guests measuring seven mid-scale full service hotels and measures opinions of guests who stayed in a hotel June 2011-May 2012. Proprietary study results are based on experiences and perceptions of consumers surveyed August 2011-May 2012. Your experiences may vary. Visit jdpower.com.

Designed and produced by **Corporate Edge**

Print management by **H H Associates Ltd**

Printed by **CPI Colour**

This Report is printed on Satimatt Green which is manufactured with 75% recycled fibre and 25% virgin fibre, FSC® certified. Our printer is also FSC and Carbon Neutral accredited.

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