



Annual Report and Form 20-F 2018



With thousands of hotels
in more than 100 countries,
our purpose is to provide
True Hospitality for everyone.



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The Strategic Report on pages 2 to 51 was approved by the Board on 18 February 2019.
George Turner, Company Secretary

IHG at a glance

We are one of the world's leading hotel companies and our purpose is to provide True Hospitality for everyone. By recognising and respecting people and creating great guest experiences, we offer hotel brands that are loved by millions of guests and preferred by owners. Through our global reach we ensure True Hospitality also extends to our people, the environment and local communities all around the world.

With our asset-light business model, we predominantly manage and franchise hotel brands, and grow our business by ensuring we have the right offer for both guests and owners, whatever their needs. Focused on high-growth industry segments and geographies, our strategy involves strengthening our established brands and capitalising on opportunities for our brand portfolio; building and leveraging scale; developing lifetime guest relationships; and delivering revenue to our hotels through the lowest-cost direct channels. Underpinning our entire strategy, our business model and partnerships is a clear commitment to operating responsibly, brought to life through our culture and talented colleagues.

Central to our success are the relationships we have with our employees, guests, and third-party hotel owners. Our focus is on: ensuring our high-quality owner proposition is competitive; operating our business with a targeted allocation of resources; and disciplined processes and risk controls. This enables us to drive sustainable growth in our profitability and deliver superior shareholder returns over the long term.

Our brands

Mainstream



Upscale



Luxury



Financial highlights

Total revenue

\$4,337m (+6.4%)

2017: \$4,075m^a

Revenue from reportable segments^b

\$1,933m (+11.7%)

2017: \$1,730m^a

Operating profit

\$566m (-22.3%)

2017: \$728m^a

Operating profit from reportable segments^b

\$816m (+7.7%)

2017: \$758m^a

Total gross revenue in IHG's System^b

\$27.4bn (+6.6%)

2017: \$25.7bn

Underlying fee revenue growth^b

+6.5%

2017: +4.7%^a

Total underlying operating profit growth^b

\$47m (+6.2%)

2017: \$56m^a

Revenue per available room (RevPAR) growth

+2.5%

2017: +2.7%

Our scale

We predominantly franchise our brands, and manage hotels on behalf of third-party hotel owners; our focus is therefore on building preferred brands and strong revenue delivery systems.

Total hotels (rooms) in the IHG System

5,603
(836,541)

2017: 5,348 (798,075)

Franchised hotels (rooms)

4,615
(576,979)

2017: 4,433 (552,834)

Managed hotels (rooms)

965
(253,566)

2017: 903 (241,370)

Owned, leased and managed lease hotels (rooms)

23
(5,996)

2017: 12 (3,871)

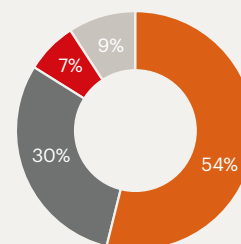
Total hotels (rooms) in the pipeline

1,859
(270,948)

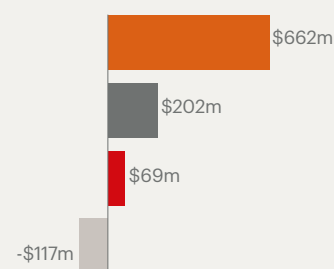
2017: 1,655 (244,146)

Where we operate

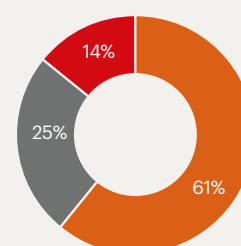
Group revenue from reportable segments 2018 (\$1,933m)^b



Group operating profit from reportable segments 2018 (\$816m)^b



Number of rooms (836,541)



Key

- Americas
- Europe, Middle East, Asia and Africa (EMEA)
- Greater China
- Central

^a restated to reflect the adoption of IFRS 15 (see pages 109 to 113) in the Financial Statements.

^b Use of Non-GAAP measures

In addition to performance measures directly observable in the Group Financial Statements (IFRS measures), additional financial measures (described as Non-GAAP) are presented that are used internally by management as key measures to assess performance. Non-GAAP measures are either not defined under IFRS or are adjusted IFRS figures. Further explanation in relation to these measures can be found on page 36, and reconciliations to IFRS figures, where they have been adjusted, are on pages 172 to 175. Total underlying operating profit growth and underlying fee revenue growth are stated at constant currency.

Chair's statement



Patrick Cescau
Chair

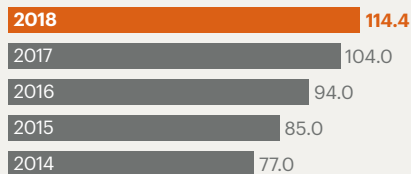
Final dividend

78.1¢

to be paid on 14 May 2019
(2017: 71.0¢)

Full-year dividend

Five-year progress (¢)



Return of funds

Since March 2003, the Group has returned over \$11 billion of funds to shareholders by way of special dividends, capital returns and share repurchase programmes.

Since 2014:

- \$500 million special dividend paid 29 January 2019
- \$400 million special dividend paid 22 May 2017
- \$1.5 billion special dividend paid 23 May 2016
- \$500 million share buyback completed in 2014
- \$750 million special dividend paid 14 July 2014

Central to IHG's long-term success has been our commitment to evolve, adapt and innovate in order to keep improving, and in 2018 we took significant steps to strengthen the execution of our strategy and lay the foundations for faster growth.

Whilst the world's changing economic, political and societal landscape means we will always operate amid challenges – from competing tensions of globalisation and nationalism, to climate change – the prospects for our industry remain strong. A growing global economy, expanding middle class, increasing disposable incomes and cheaper air travel all underpin exciting growth prospects. Ready to meet that demand is a heavily competitive marketplace vying to serve increasingly high consumer expectations around service, experience and technology.

At IHG, we are well placed to capitalise. Our successful asset-light strategy and focus on distinctive hotel brands that meet guest needs and deliver strong owner returns is a proven one. This is illustrated by our global scale, the millions of guests choosing our brands, the many long-standing owner relationships we have, and our respect within the investment community for delivering strong, consistent shareholder returns. However, as we operate in a landscape of increasing choice for consumers and investors, we continue to seek opportunities to execute our strategy in quicker, more targeted and effective ways.

This was the focus of 2018: introducing clear strategic initiatives that strengthen our brand portfolio and loyalty programme; our work with owners; how we use our scale, resources and technology to drive industry-leading net rooms growth over the medium term; and deliver our purpose of providing True Hospitality for everyone.

To enable these initiatives, we have made necessary large-scale functional, cultural and personnel changes that will transform our organisation and provide a stronger platform for future success. Encouragingly, whilst an acceleration in our growth rate is a long-term commitment, our best openings and signings performance in a decade, alongside strong financial results, shows we are already having an impact.

Focus on growth

As a Board, we want to ensure that a focus on accelerated growth adheres to the high-quality principles we uphold as a business. This means maintaining our discipline, committing resources in keeping with our strategic direction, and working with owners who share our values. Operating in this responsible way is central to IHG's long-term track record of delivering high-quality, sustainable growth for all our stakeholders.

A key role of the Board is to challenge and support the business in its corporate decision making, and we have a breadth of diversity, skills and experience to draw upon in order to add value to the decisions we make as a company. We strongly believe that different perspectives enrich a business and we recognise the importance of gender balance too, with more than a third of our Board being female and half of our committees chaired by women.

“Our focus in 2018 has been strengthening the execution of our strategy, and laying the foundation for faster growth”.

In addition to collaborating as a Board with senior leadership on the implementation of organisational changes in 2018, significant moves to strengthen our brand portfolio were also on the agenda, with the \$39 million acquisition of a 51% stake in Regent Hotels & Resorts in July, and an agreement to rebrand and operate a collection of high-quality properties in the UK. Both deals, and our recent acquisition of Six Senses Hotels Resorts Spas, illustrate IHG's commitment to strengthening our luxury presence.

In what was his first full year as Chief Executive Officer, Keith Barr has shown a great ability to lead the business and engage external stakeholders during a significant period of change. On behalf of the Board, I would like to congratulate Keith and his leadership team on injecting a fresh energy into IHG, and a renewed focus on working collectively at speed to drive growth through attractive brands and strong owner support. Illustrative of IHG's inclusive approach is a commitment to launch a share plan for corporate colleagues outside of IHG's senior leadership. The plan, which is subject to shareholder and regulatory approval, recognises the role that all corporate colleagues play in IHG's success and our promise to ensure they have the opportunity to benefit as our Company grows.

Managing risk

Operating a business in more than 100 countries requires a considered and agile approach to managing risks associated with our industry and evolving business model, actively taking opportunities to pursue growth and managing risks carefully where we have less tolerance for uncertainty. Reflecting this and the Board's responsibility to uphold the highest ethical standards and corporate governance, we regularly review areas for improvement, training and development.

In 2018, the Board attended presentations on key corporate governance, consumer, technology and cybersecurity themes, and spent time reviewing opportunities to further increase transparency and enhance IHG's trusted reputation through changes related to the 2018 UK Corporate Governance Code.

On cybersecurity in particular, an external risk assessment was undertaken, which focused on industry specific issues, our current capabilities, recent progress and a forward-looking plan that will remain in focus in 2019.

It's important to remember that our scale also brings many opportunities. Not only does it allow us to manage volatility and continue to grow our business, but it also provides a valuable platform to care for the environment and give back to local communities within which we operate. This is extremely important to IHG. Contributing to a broader social purpose is something our colleagues are passionate about, and we know the actions we take are increasingly followed by a wider range of stakeholders, from guests and corporate clients to investors.

We're proud of our commitments in this area, and whether it's by helping hotels better manage their carbon footprint, creating a chance to build a career in hospitality, or offering support in times of disaster, it's important to everyone at IHG that we help.

Shareholder returns

I am pleased to announce that the Board is recommending a final dividend of 78.1 cents per ordinary share, an increase of 10% on the final dividend for 2017. This results in a full-year dividend of 114.4 cents per share, up 10% on 2017. During the year, the Board also approved a \$500 million special dividend with share consolidation, which was paid to shareholders in January 2019. This takes the total funds returned to shareholders since 2003 to \$13.6 billion, representing value through both our programme of asset sales (which concluded in 2015), and the strength of our cash generative business model and ability to drive organic growth.

We continue to grow our business in a way that ensures shareholder returns do not come at the expense of other stakeholders. Guided by our successful strategy, we're able to invest in initiatives that drive growth, create a rewarding culture for our colleagues, and deliver strong returns for owners, all whilst delivering on our commitments to shareholders. As a Board, we will continue in 2019 to promote and instill the culture, values, systems and controls that make this possible.

I would like to sincerely thank all colleagues for their hard work and commitment to IHG and our brands in 2018, and our owners and investors for their continued confidence in our business.



Patrick Cescau
Chair

Chief Executive Officer's review



Keith Barr
Chief Executive Officer

Key 2018 highlights

Total room signings

98,814

The highest number in a decade

New brands

2

Regent Hotels & Resorts and voco™ added to brand portfolio

Total room openings

56,343

The highest number in a decade

IHG Concerto™

5,603

Global roll out to all hotels

In almost two decades spent with IHG, I have seen the Company reach many milestones, but the pace and scale of achievements delivered in 2018 mark a period of important change, and an ambition to ensure our already successful business is best equipped to reach its enormous potential.

As one of the world's leading hotel companies, we already have a family of much-loved brands, a strong loyalty proposition, outstanding hotels, talented teams, and long-standing owner relationships in key markets globally. These elements are the foundation upon which we have executed a clear and effective strategy, helping to significantly grow our business in recent years and create substantial returns for all our stakeholders.

When I became Chief Executive Officer in July 2017, it was with a clear vision to make our strategy work harder, by strengthening our brands, guest experiences and owner proposition. Enabling these are reorganised functions, freed-up capacity and a sharp focus on prioritised initiatives that together will further increase our competitiveness and accelerate our growth, adding more high-quality hotels to our system at a faster pace.

As a result, there has been change within our business in 2018, and it is a real testament to all our colleagues that we made such huge progress, whilst still driving strong operational and financial performance.

Accelerating our growth

As of January 2018, we combined our Asia, Middle East and Africa operating region with Europe, in order to allow us to better use our scale, share best practice, and increase investment in specific markets.

More broadly, we moved to a new organisational structure that allows us to work faster and more effectively as one global team. Two changes formed a key part of this work. Firstly, the integration of our Commercial and Technology functions to help maximise revenue delivery and bring new products and services to market faster. Secondly, the creation of a new Global Marketing Organisation which combines our brand, loyalty and marketing capabilities. This change puts our full might behind new global teams responsible for driving the growth and performance of our mainstream, upscale and luxury brands.

Using our new organisational framework, we outlined a series of strategic growth initiatives in February 2018, funded by a reinvestment of \$125 million in annual cost savings by 2020. These initiatives focus on optimising our brand portfolio; enhancing hotel revenue delivery through digital and technological innovation that enriches the guest experience; improving our owner proposition across development, hotel openings and performance; and strengthening our IHG Rewards Club loyalty programme through personalisation and powerful partnerships.

Financial performance

While our initiatives are multi-year focused, significant progress in 2018, supported by new ways of working, contributed to a strong annual performance. We delivered a 6% increase in underlying operating profit and our best performance for openings and signings in a decade, leaving us well positioned for future growth.

Our Holiday Inn® Brand Family remains IHG's growth engine, and represented almost half of total signings in 2018. Driving this demand is our continued use of consumer and owner

insights to improve experiences and returns through new designs and services. Equally, the work we are doing to strengthen Crowne Plaza in the Americas through our Accelerate programme is also driving improvements in key hotel metrics.

Another key highlight in 2018 was the growth of Kimpton Hotels & Restaurants, where we doubled signings year-on-year, and secured a presence in 14 countries, including locations in London, Bangkok, Tokyo and Mexico City. Equally impressive was the continued phenomenal demand for our newest mainstream brand, avid hotels, which has 171 hotels in the pipeline and one property already open. On top of that we celebrated openings of our 200th InterContinental, and 100th Hotel Indigo.

To help accelerate our growth, we've been clear that we will capitalise on opportunities for our portfolio too, and the acquisition of a majority stake in Regent Hotels & Resorts was a key moment. Regent is a well-respected brand at the top tier of luxury, where we know many owners want to work with IHG. We have repositioned the brand to appeal to modern luxury travellers, and we are excited about the prospect of growing its portfolio from six hotels to more than 40 in the years ahead.

“Supported by our people, strategic initiatives and positive industry trends, we are confident in our prospects.”

We also launched our new upscale brand, voco, which offers a different avenue of growth for IHG and is already attracting strong interest. The brand will principally focus on conversion opportunities and work with owners of high-quality hotels looking to quickly take advantage of a strong brand and systems to drive growth. We've already opened two hotels and have another eight in the pipeline.

Supporting growth of both our Kimpton and voco brands was the deal in May to rebrand and operate a collection of UK portfolio properties – an agreement which made IHG the leading luxury hotel operator in that market.

Continuing this momentum, in February 2019 we announced the \$300 million acquisition of Six Senses Hotels Resorts Spas, which will

sit at the very top tier of our luxury offer, and our plans to launch a new all-suites upper midscale brand into the US later this year.

Transformational technology

As well as the right brands, guests and owners want the right technology, and the global rollout in 2018 of IHG Concerto™ was a significant milestone.

This cloud-based technology platform, which includes our industry-leading Guest Reservation System, allows us to bring together all our core hotel systems, providing the right mix of technology, data and functionality needed to improve stay experiences and help owners drive revenue and performance. In 2019, we will develop a second phase focused on enhancing the reservation experience, with hotels able to highlight attributes they know guests value, from a particular room size to specific views.

Ensuring we offer the right platforms and experiences to deliver revenue to our hotels is crucial to our business. Digital revenue, which is our lowest cost booking channel, grew by 13% in 2018 to \$5.3 billion. Ensuring we find more ways to enrich everything from bookings to stays and marketing, whilst placing the utmost importance on data privacy and security, remains a significant priority for IHG.

Special culture

The scale of change achieved alongside our performance has not been without challenges but as I have travelled around our business, the enthusiasm of colleagues to embrace change encapsulates IHG's special culture, and we continue to focus heavily on keeping people informed and supported.

We are proud to have been recognised as a 2018 Aon Global Best Employer for a second consecutive year, and listed in the 2018 Hampton Alexander Review as one of the top 10 FTSE 100 companies for female representation across our Executive Committee and direct reports. We place huge importance on our diverse and inclusive culture; and several initiatives led by a newly formed Global D&I Board, which I chair, will ensure further progress.

For any company, having the right strategy, structure and growth initiatives in place is of course crucial, but we recognise that ensuring we grow in a responsible way is equally important. Embedded in our business are a range of standards, policies and programmes that engender the right culture among our hotels, offices and suppliers, and helps us have a positive impact on the environment and local communities within which we operate.

Ensuring this is achieved across our operations, we embarked on 2018-2020 Responsible Business Targets during the year, which broadens our focus to areas of environmental sustainability, community impact, our people and procurement. This ranges from providing hospitality skills training to thousands through our IHG® Academy, to helping our hotels reduce their carbon footprint and increasing the diversity of our senior leadership.

Supporting our targets around community impact, we also launched our new True Hospitality for Good programme, which gives colleagues greater involvement in the IHG charity partners they wish to support, and puts more focus on volunteering for great causes. Almost 140,000 colleagues took part in the programme in 2018, helping support charities working to offer education and skills in hospitality, or providing disaster relief efforts globally.

We were delighted to be named an industry leader in sustainability for a second consecutive year on the S&P Dow Jones Sustainability Indices, and more broadly to receive several notable awards that show the progress we continue to make as a business. These include HICAP's Merger and Acquisition of the year award for our Regent deal, and InterContinental Hotels & Resorts being named the world's leading hotel brand at the World Travel Awards for the 12th time.

Thank you

I truly appreciate the amazing work and efforts of all of our colleagues in our hotels, corporate offices, and service centres globally. The energy and passion that they have put into delivering our purpose of providing True Hospitality is extraordinary. Thank you also to our owners for their partnership and confidence in our brands.

Supported by our people, strategic initiatives and positive industry trends, our prospects for growth are strong and we look forward to 2019 with optimism.



Keith Barr
Chief Executive Officer

Industry overview

From growing consumer demand for branded hotels, to an expanding middle class and greater disposable incomes, we operate in an industry with growth potential.

The global hotel industry is a \$525bn industry, made up of 18 million rooms. 54% of rooms are affiliated with a global or regional chain ('branded'), up from 50% in 2012, and 46% are unaffiliated ('independent'). The top five hotel groups, IHG, Marriott, Hilton, Wyndham and Accor account for 25% of market share, up from 19% in 2012, and for 58% of the global development pipeline of hotels in planning or under construction.

In what is a fragmented market, competitor pressures in the branded space are intensifying as all major players pursue growth strategies through acquisitions, organic growth or diversification. As the digital landscape has evolved, consumer choice of where to stay and how to book has developed and hotel companies compete in an environment that includes Online Travel Intermediaries and alternative lodging solutions, such as peer-to-peer home rental companies and serviced apartments.

There are several metrics that recognise industry performance. RevPAR is an important indicator of the value guests ascribe to a given hotel, brand or market and grows when guests stay more often or pay higher rates. Rooms supply is significant because it is reflective of the attractiveness of investing in the hotel industry from an owner perspective and is influenced mainly by the profitability of a brand or market.

Driven by strong economic fundamentals, the global hotel industry has seen growth in both RevPAR and rooms supply for the past nine years as part of a larger travel and tourism sector. It also plays an important role economically, accounting for 1 in 10 jobs around the world.

The hotel industry is cyclical; long-term fluctuations in RevPAR tend to reflect the interplay between industry demand, supply and the macroeconomic environment. In the short term, at a local market level, political, economic and natural factors such as terrorism, oil market conditions and hurricanes can impact demand and supply.

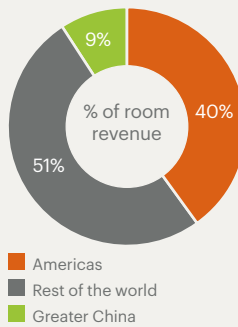
^a Source: STR, Inc

^b Source: Oxford Economics

Overview of global hotel industry

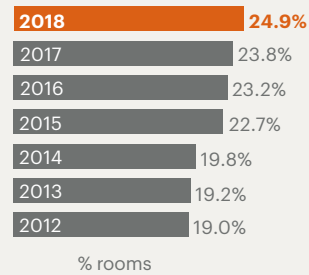
Geography

The US is the largest hotel market, whilst China continues to grow^a



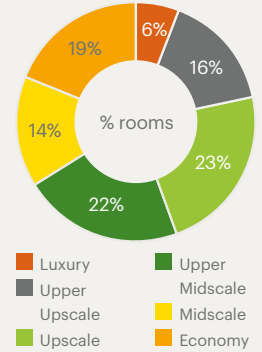
Branded hotels

The top five hotel groups have increased their market share by 6%^a



Segment

The hotel industry can be categorised by price level^a



Hotel industry growth drivers: 10-year annual growth rate

Global GDP

+2.5% CAGR^b

Indicator of economic growth - hotel performance correlates with GDP

Global household income

+2.8% CAGR^b

Growing consumer spending and leisure travel, supported by cheaper air travel

Global corporate profits

+4.2% CAGR^b

Good indicator of business travel demand - continues to grow

Global hotel industry performance

Global Industry RevPAR (\$)^a

RevPAR growth suggests solid lodging demand



Global rooms supply (m rooms)^a

Supply growth reflects the attractiveness of the hotel industry



Hotel business models

There are two principal business models used by branded hotel groups:

- Fee-based, asset-light model
 - Franchised - owned and operated by parties distinct from the brand, who pay fees to the hotel company for the use of their brand.
 - Managed - operated by a party distinct from the hotel owner, who pays management fees and, if the hotel uses a third-party brand name, fees to that third-party also.

- Owner-operated, asset-heavy model
 - Owned - operated and branded by the owner who bears all of the cost but benefits from all of the income.
 - Leased - similar to owned, except the owner-operator does not have outright ownership of the hotel but leases it from the ultimate owner.

Asset-heavy business models allow tighter control over hotel operations, whilst asset-light models enable faster growth with lower capital investment.



InterContinental Shanghai Wonderland, China

Trends shaping our industry

Demand for branded experiences

Growing consumer demand for branded experiences requires hotel companies to continue to find new ways to work with owners and partners to meet expectations.

Owners recognise the strength of a branded offer, and in addition to traditional opportunities, are looking for ways to affiliate with a brand through light-touch conversions or low-cost construction techniques, combined with features that reduce operating costs. The recent addition of multiple new brands by big-branded players illustrates the level of capacity in the market and industry appetite.

Over the last decade, IHG has added our wellness focus brand, EVEN Hotels, a brand tailored to the Chinese consumer, HUALUXE, and following acquisition, expanded Kimpton in the global luxury space. We have also launched avid hotels in the mainstream segment, upscale brand voco, which is principally focused on conversions, and acquired both Regent and Six Senses Hotels Resorts Spas in the top tier of the luxury segment. This reflects a continued strategic focus on offering more tailored experiences to a diverse guest base in the highest opportunity segments and markets.

Diverse consumer needs

The consumer landscape continues to evolve – from millennials seeking increasingly unique and authentic experiences, to baby boomers with money and time to travel, both of whom increasingly expect technology to aid, inform and enrich their stays.

From intuitive booking apps, chatbots, and mobile check-in/check-out, to smart artificial intelligence assistants and seamless wifi, today's guests expect technology to be integrated into many areas of the travel experience. To meet this trend, the ability of hotel companies to work in partnership with the right technology providers has become increasingly important.

IHG has made good progress in this area: from bespoke online payment solutions to Artificial Intelligence Smart Rooms in some of our InterContinental hotels, which allows guests to use voice commands to control opening the curtains through to ordering room service; and the development of IHG Studio with our avid brand, which allows seamless direct casting of entertainment from guest smart devices to in-room TVs.

Power of the cloud

Data generation, storage and use has never been as prevalent and important as it is today. Cloud storage has further changed the game, giving accommodation providers easy access to real-time diverse data, that enables a more personalised and efficient service.

Operationally it allows providers to use data to tailor guest experiences faster, and drive a more personalised relationship with them. With this trend comes a growing responsibility to handle data responsibly, respecting consumer preferences and rights.

IHG is a pioneer in data-centric technology innovation, from loyalty to reservations and hotel solutions. See IHG Concerto™ case study on page 21 for more details.

20+^a

New brands launched in the the last decade by the top five hotel groups

46%^b

Of predicted US business trip spending will be by millennials, by 2020

90%^c

Data in the world was generated in last two years



voco™ launched in 2018



Artificial Intelligence Smart Rooms



IHG Concerto™

^a Source: STR, Inc

^b Source: Boston Consulting Group, Inc

^c Source: Forbes Media LLC



These pages should be read together with our principal risks on pages 26 to 30 and risk factors on pages 182 to 186.

Our brands

In 2018, we evolved our marketing function to adopt a comprehensive global approach to marketing and brand development activities. This included organising our brands into mainstream, upscale and luxury segments, in order to maximise efficiencies, better focus resources and drive performance.

With a purpose to provide True Hospitality for everyone at our core, the changes we have made leave us better equipped to keep our existing brands fresh and relevant, and to broaden our portfolio as we create the optimum mix of options for both our guests and owners.

Alongside a strong loyalty proposition, innovation and technology, and enhanced operational solutions for our owners, we are providing the foundations for industry-leading net rooms growth over the medium term. Reflecting the early impact of our changes, we delivered our best openings and signings performance in a decade in 2018.

Mainstream

IHG is the clear global leader within the mainstream segment, with 16% of existing global market share by rooms and 25% of the pipeline. Our mainstream brands operate across the midscale and upper midscale market segments, from full service hotels offering full-service facilities, to extended stay hotels which offer longer term accommodation compared to a traditional hotel. We are focused on enhancing our iconic brands, launching fast-growing new ones and expanding an already strong presence in extended stay.

Building on our mainstream strength, in February 2019 we announced plans to launch into the US a new all-suites upper midscale brand, targeted at an underserved \$18 billion industry segment.

Annual industry global segment revenue

Industry revenue growth potential to 2025

\$115bn \$65bn



Holiday Inn Hotels & Resorts®

One of the world's most iconic and trusted brands, Holiday Inn is delivering warm and welcoming experiences for guests staying for business or pleasure. With a breadth of property types from urban centres to beach resorts, the brand continues to drive demand with a focus on service, improved guest room and public area designs, and new food and beverage offers.

1,224
Open hotels

288
Pipeline hotels



Holiday Inn Express®

Our Holiday Inn Express brand offers guests simpler, smarter travel experiences. Demand for our industry's largest brand by rooms continues to grow, helped by new guest room designs and an enhanced breakfast offer that are leading to greater satisfaction scores. In China, the brand's tailored franchise model has contributed to record growth in 2018, with 71 hotels signed.

2,726
Open hotels

784
Pipeline hotels



Holiday Inn Club Vacations®

More than 340,000 families now make our Holiday Inn Club Vacations brand their choice for vacation ownership. Continuing its impressive growth, the brand welcomed its 27th resort in 2018, further enhanced brand standards, renovated more than 1,000 villas, and introduced attractive benefits to enhance the member experience.

27

Open hotels

0

Pipeline hotels



Candlewood Suites®

Our US-focused extended stay brand, Candlewood Suites, continues to delight its long-term guests, and was named 2018's number one hotel for midscale extended stay by Business Travel News. The brand has more than tripled in size since it was acquired by IHG in 2004 and continues to grow strongly, with a new 2019 hotel design expected to add further momentum.

396

Open hotels

102

Pipeline hotels



Staybridge Suites®

Featuring thoughtful amenities and spacious suites that provide a break from the norms of conventional travel, our extended stay brand Staybridge Suites was ranked first in its class for guest satisfaction in 2018's J.D. Power survey for North America. Growing strongly in the US and expanding internationally, the brand will benefit from fresh new hotel designs rolling out globally.

276

Open hotels

182

Pipeline hotels



avid™ hotels

Launched in September 2017, our avid brand has enjoyed huge success, with signings in the US, Canada and Mexico, a development agreement in Germany, and one hotel already open. Priced below Holiday Inn Express, avid delivers the essentials exceptionally well at good value for guests, and provides owners with an attractive brand that's efficient to build, operate and maintain.

1

Open hotels

171

Pipeline hotels

Our brands continued

Upscale

In a broad market segment, we continue to focus on ensuring we offer attractive brands that deliver distinct experiences – from business travel to wellness-focused stays.

Improved service and modern designs will further enhance our existing brands as we grow them globally, and we are creating new opportunities for owners to quickly take advantage of our scale, systems and expertise.

Annual industry global segment revenue

\$40bn

Industry revenue growth potential to 2025

\$20bn



Crowne Plaza® Hotels & Resorts

Our Crowne Plaza brand champions a modern way of business travel through distinctive stay and meeting experiences. Recognised for award-winning innovative designs and marketing, the brand is focused on growing its small-to-mid-size meetings offer and rolling out key service and Sleep Advantage programmes that are helping deliver superior guest stays.

429

Open hotels

79

Pipeline hotels



voco™ Hotels

Launched in June 2018, our new distinctive upscale brand primarily focuses on conversion opportunities, offering owners of high-quality unbranded hotels the ability to combine the character of an individual property with rich guest experiences and IHG systems. Our first voco hotels are already open in Cardiff and on Australia's Gold Coast, with signings ahead of expectations.

2

Open hotels

8

Pipeline hotels



HUALUXE® Hotels and Resorts

The first upscale international hotel brand designed for Chinese guests, we've adapted and evolved HUALUXE using consumer and owner insight to deliver a more competitive offer. Receiving awards for best business hotel brand, HUALUXE is driving strong guest satisfaction scores, and will welcome two iconic new openings in 2019 – HUALUXE Xi'an Hi-tech Zone and HUALUXE Xi'an Tanghua.

8

Open hotels

21

Pipeline hotels



EVEN® Hotels

With every square-foot of an EVEN property designed for travellers seeking a healthier and happier stay when away from home, our wellness-focused brand is meeting an increasing demand from guests and owners. Predominantly US-based, we are expanding internationally with pipeline properties in both Greater China and New Zealand.

10

Open hotels

18

Pipeline hotels



Hotel Indigo®

Already one of the largest global boutique hotel brands by number of hotels, we celebrated our 100th hotel opening in 2018 and our estate is set to almost double in size in the next five years. Serving growing demand for authentic local neighbourhood experiences, we are increasing guest satisfaction scores and seeing new hotel signings reach record levels.

102

Open hotels

92

Pipeline hotels

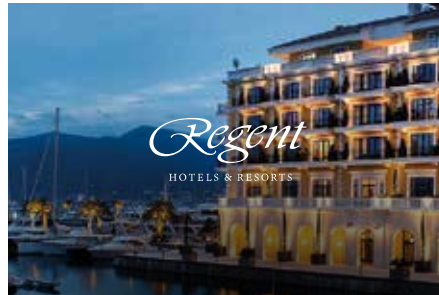
Luxury

With a strong heritage and expertise in luxury, we are growing our offer to ensure we cater for a range of needs in desirable destinations, from the top tier of the luxury segment through to boutique luxury. In February 2019, we further enhanced our offer with a \$300 million acquisition of top tier luxury operator Six Senses Hotels Resorts Spas. A comprehensive luxury proposition strengthens our loyalty offer, attracts more corporate customers and creates a broader owner base to work with.

Annual industry global segment revenue

Industry revenue growth potential to 2025

\$60bn **\$35bn**



Regent Hotels & Resorts

Our acquisition of a majority stake in the Regent brand in July 2018 gives IHG a vital presence in the top tier of luxury. For decades a benchmark for the top tier of luxury hotels, we see potential to grow the brand to more than 40 key destinations – creating a luxury halo for our entire estate. With new hallmarks, designs and service, we have evolved the brand for modern luxury travellers.

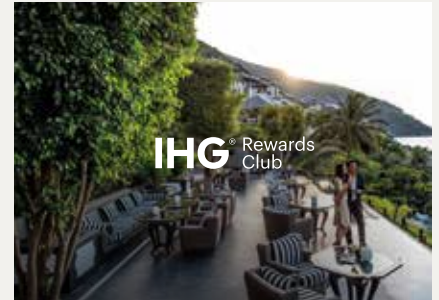
6

Open hotels

3

Pipeline hotels

Loyalty



One of the industry's leading loyalty programmes, IHG Rewards Club is our way of ensuring that travel is experienced the way it should be: personal, simple and rewarding.

IHG® Rewards Club

IHG Rewards Club helps build valuable relationships with members, strengthens their bond with our hotel brands, drives direct bookings, and encourages guests to further explore our hotel portfolio. It allows us to create experiences that truly reward guests for their custom, from promotions to partnerships, to welcome amenities and perks. We're focused on making those experiences even better.

In 2018, we launched two new US IHG Rewards Club co-branded credit cards, allowing customers to earn accelerated rewards and enjoy additional travel benefits. We also integrated Kimpton's loyalty programme, Kimpton Karma, into IHG Rewards Club, giving Kimpton members access to all IHG's brands, and IHG Rewards Club members a chance to earn points and redeem Reward Nights at our Kimpton properties.

We continue to innovate IHG Rewards Club to build stronger and deeper relationships with our guests, and to drive high value revenue across our hotel estate. Loyalty members are seven times more likely to book direct, and over the last four years we have increased loyalty room revenue contribution by 4%ppts to 43%. We are currently testing new features designed to increase member engagement with variable point pricing, for roll out during 2019.



InterContinental® Hotels & Resorts

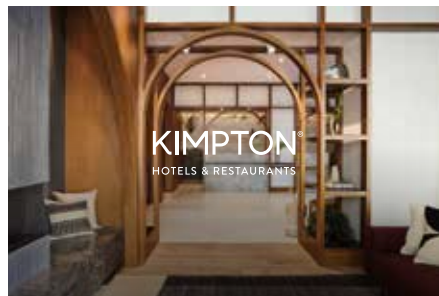
The world's first and largest luxury hotel brand celebrated its 200th opening in 2018, with new hotels including Shanghai Wonderland and San Diego, and was named the world's leading hotel brand at the World Travel Awards for a 12th time. An enhanced Club InterContinental experience, global marketing campaign, new designs and luxury B2B focus are helping drive demand.

204

Open hotels

60

Pipeline hotels



Kimpton® Hotels & Restaurants

Known in the US for its highly-personal service and playful design, our Kimpton brand is now attracting strong interest in key international markets. We finished 2018 having secured a presence in 14 countries, including openings in Toronto and London and signings in Barcelona, Tokyo and Bangkok. The brand also ranked 6th on Fortune's 100 Best Companies to Work For list.

66

Open hotels

27

Pipeline hotels



For more information on our brand portfolio see page 21.

Our business model

Through our business model, we predominantly franchise our brands and manage hotels on behalf of third-party hotel owners. As an asset-light business, we focus on growing our fee revenues and fee margins, with limited requirements for capital.


Our asset-light strategy enables us to grow our business whilst generating high returns on invested capital.

Whether we franchise or manage hotels is largely dependent on market maturity, owner preference and, in certain cases, the particular brand. For instance, in more developed markets such as the US and Europe, over 90% of IHG hotels are franchised. By contrast, in emerging markets such as Greater China, 91% of IHG hotels are managed by IHG.

Over time, we believe the Chinese market will move towards a franchised model. We successfully launched the first tailored franchised offer for Holiday Inn Express in 2016 and have since expanded this to include Holiday Inn and Crowne Plaza.

IHG's owner proposition

We focus on ensuring our brand portfolio provides a differentiated offering for both guests and owners, and we continue to invest in building a superior owner proposition. For our owners we have developed state-of-the-art technology to drive hotel demand, be it through our mobile booking app, or our cloud-based hotel solutions. Our distribution channels (call centres and booking sites, through which hotel rooms are marketed and booked), allow hotel owners to reach potential guests at a lower cost. Over the last three years, the proportion of rooms revenue booked through IHG's direct and indirect channels, has been steadily increasing. For guests, we ensure different brands deliver on their expectations, and we continually look to enhance our brand proposition and our IHG Rewards Club loyalty programme.

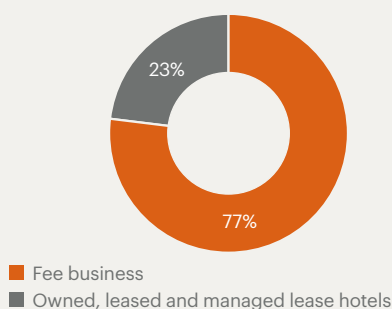
 For further information on our brands see pages 10 to 13.

While our business model means that we do not employ colleagues in franchised hotels nor do we control their day-to-day operations, policies or procedures, IHG and its franchised hotels are committed to delivering a consistent brand experience, conducting business responsibly, and delivering True Hospitality. See pages 22 to 25 for more information.

How we generate revenue and deliver value

Revenue from reportable segments

Our revenue is directly linked to the revenue generated by the hotels in our system.



Franchised
576,979
rooms

Managed
253,566
rooms

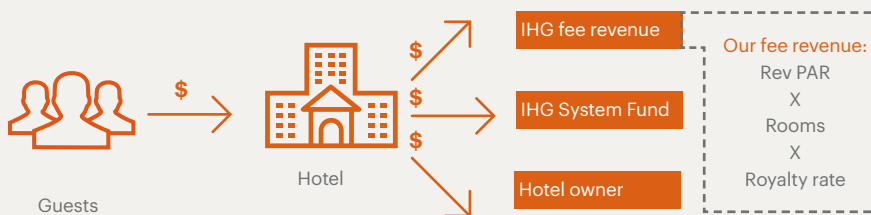
Central
Revenue is principally technology fee income see page 49

Owned, leased and managed lease
5,996
rooms

Franchised hotels

From our franchised hotels we receive a fixed percentage of the room revenue following a guest staying at the hotel. This is our fee revenue. We deliver value to our hotel owners through cultivation of hotel brands, economies of scale, access to

shared systems and resources, guest demand across the brand estate and centralised marketing activity to drive hotel guest bookings.



Managed hotels

From our managed hotels we generate revenue through a fixed percentage of the total hotel revenue and a proportion of the hotel's profit. As well as the benefits we deliver through our franchise model, we drive value to our managed hotel owners by optimising the performance of their hotels.

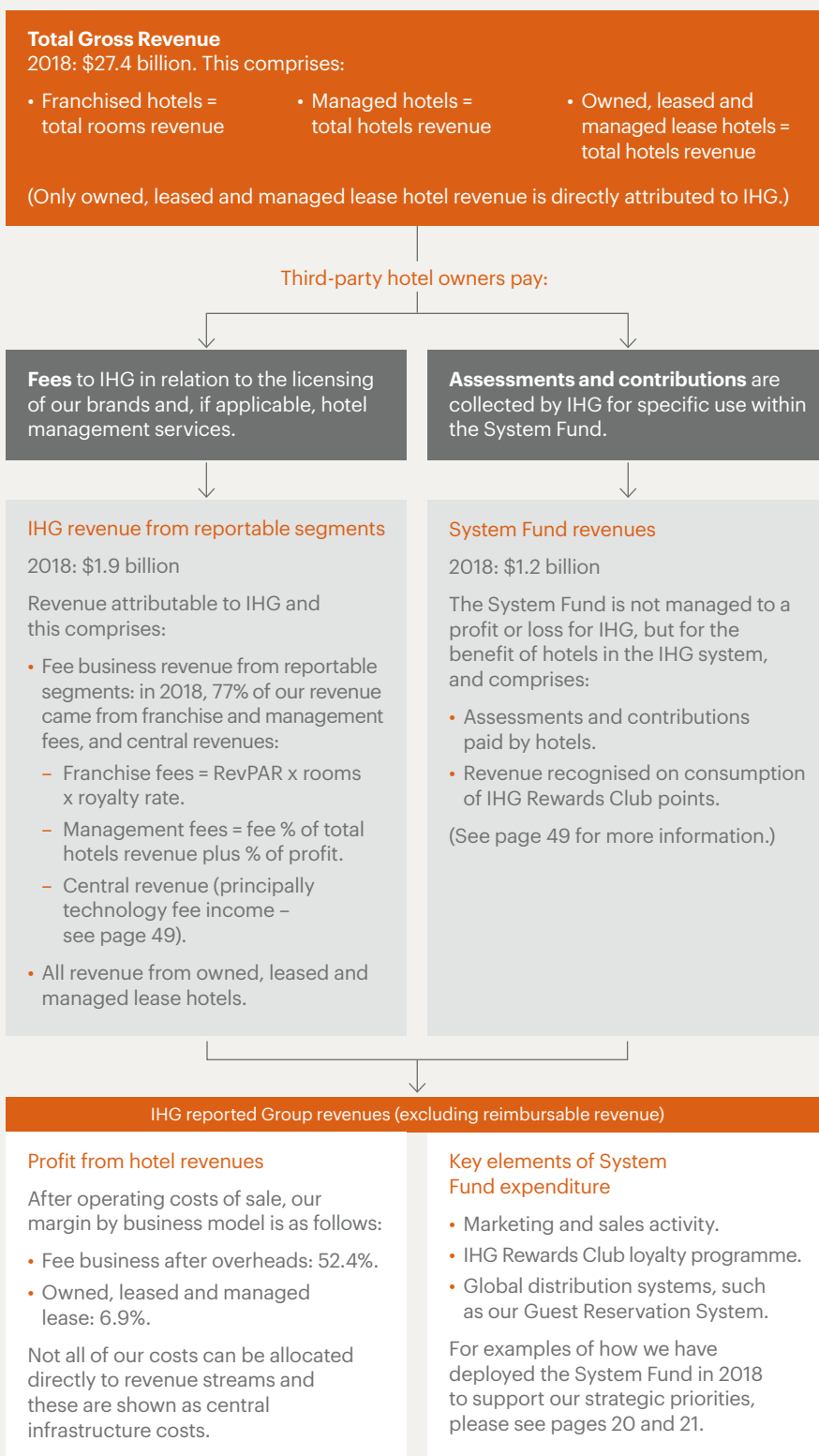
Owned, leased and managed lease hotels

For hotels which we own or lease, we record the entire revenue and profit of the hotel in our financial statements. Our owned, leased and managed lease hotels have reduced from over 180 hotels 17 years ago, to 23 hotels at 31 December 2018.

IHG revenue from reportable segments and the System Fund

System Fund

IHG manages a System Fund on behalf of our third-party hotel owners, who pay a contribution into it. In addition, the System Fund also receives proceeds from the sale of IHG Rewards Club points. The System Fund is managed by IHG for the benefit of hotels within the IHG system, and is run at no profit or loss over the long-term. In 2018 IHG recognised \$1.2 billion of revenue in the System Fund. Key elements of System Fund expenditure included marketing and sales activity, technology investments including our Guest Reservation System and our IHG Rewards Club loyalty programme.



Our business model continued

Disciplined approach to capital allocation

Our asset-light business model is highly cash generative and enables us to invest in our brands. We have a disciplined approach to capital allocation ensuring that the business is appropriately invested in whilst maintaining an efficient balance sheet.

Beyond this, we look to return surplus cash to shareholders through ordinary and special dividends and share buybacks.

Our objective is to maintain an investment grade credit rating. One of the measures we use to monitor this is net debt:EBITDA and we aim for a ratio of 2.0-2.5x. The ratio at 31 December 2018 was 1.7x. Following the adoption of IFRS 16 'Leases' (see page 115), from 1 January 2019 we will aim to maintain a net debt:EBITDA ratio of 2.5-3.0x, which is equivalent to our guidance under the previous accounting standard.

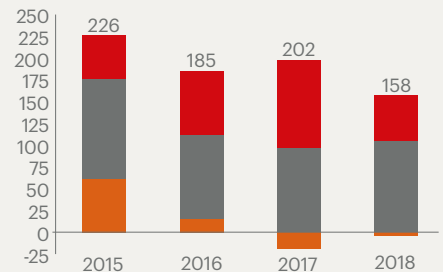
Our priorities for the uses of cash are consistent with previous years and comprise of:



1. Invest in the business

Through strategic investments and our day-to-day capital expenditures we continue to drive growth.

Capital investments net (\$m)



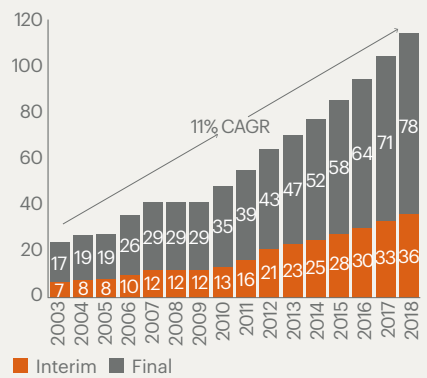
- Maintenance capex, key money and selective investments
- System fund capital investments
- Recyclable investments



2. Maintain sustainable growth in the ordinary dividend

IHG has a progressive dividend policy which means we look to grow the dividend per ordinary share each year.

Ordinary dividend progression (¢)



- Interim
- Final

Final dividend

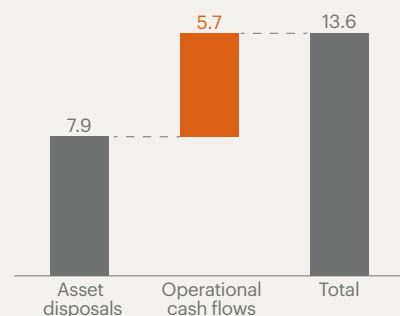
The Board has proposed a final dividend per ordinary share of 78.1¢. With the interim dividend per ordinary share of 36.3¢, the full-year dividend per ordinary share for 2018 will total 114.4¢.



3. Return surplus funds

In October 2018, we announced a \$500m capital return to shareholders via a special dividend and share consolidation. The special dividend was paid on 29 January 2019.

Shareholder returns 2003-18 (\$bn)



Dividend policy

The Board constantly reviews the Group's approach to capital allocation and seeks to maintain an efficient balance sheet and investment grade credit rating. IHG has a progressive dividend policy and excellent track record of returning funds to shareholders through ordinary

and special dividends, and share buybacks, with the ordinary dividend seeing 11% CAGR since 2003. This is in addition to special returns of funds detailed on page 198.

When reviewing dividend recommendations, the Directors also take into account

stakeholder interests, the long-term sustainable success of the Company and ensure that there are sufficient, distributable reserves.



For more details on our dividend policy and approach, see pages 4 and 50.

IHG's outlook on capital expenditure

Capital expenditure incurred by IHG can be summarised as follows.

Type	What is it?	Recent examples
Maintenance capital expenditure, key money and selective investment to access strategic growth.	<p>Maintenance capital expenditure is devoted to the maintenance of our owned, leased and managed lease hotels, which has reduced as we have become increasingly asset-light.</p> <p>Key money is expenditure used to access strategic opportunities, particularly in high-quality and sought-after locations when returns are financially and/or strategically attractive.</p>	<p>Examples of maintenance spend includes maintenance of our offices, systems and our owned, leased and managed lease hotels.</p> <p>Examples of key money include investments to secure representation for our brands in prime city locations.</p>
Recyclable investments to drive the growth of our brands and our expansion in priority markets.	<p>Recyclable investments is capital used to acquire real estate or investment through joint ventures or equity capital. This expenditure is strategic to help build brand presence.</p> <p>Over time, we would look to divest these investments at an appropriate time and reinvest the proceeds elsewhere across the business.</p>	<p>Examples of recent recyclable investments in prior years include our EVEN Hotel brand, where we used our capital to build three hotel properties in the US and established a joint venture in a third to showcase the brand. Over time we expect to divest our interest in these hotels.</p>
System Fund capital investments for strategic investment to drive growth at hotel level.	<p>The development of tools and systems that hotels use to drive performance. This is charged back to the System Fund over the life of the asset.</p>	<p>Recently we rolled out our new pioneering cloud-based Guest Reservation System, one of IHG Concerto's comprehensive set of capabilities, which we developed with Amadeus.</p>

Our strategy for high-quality growth

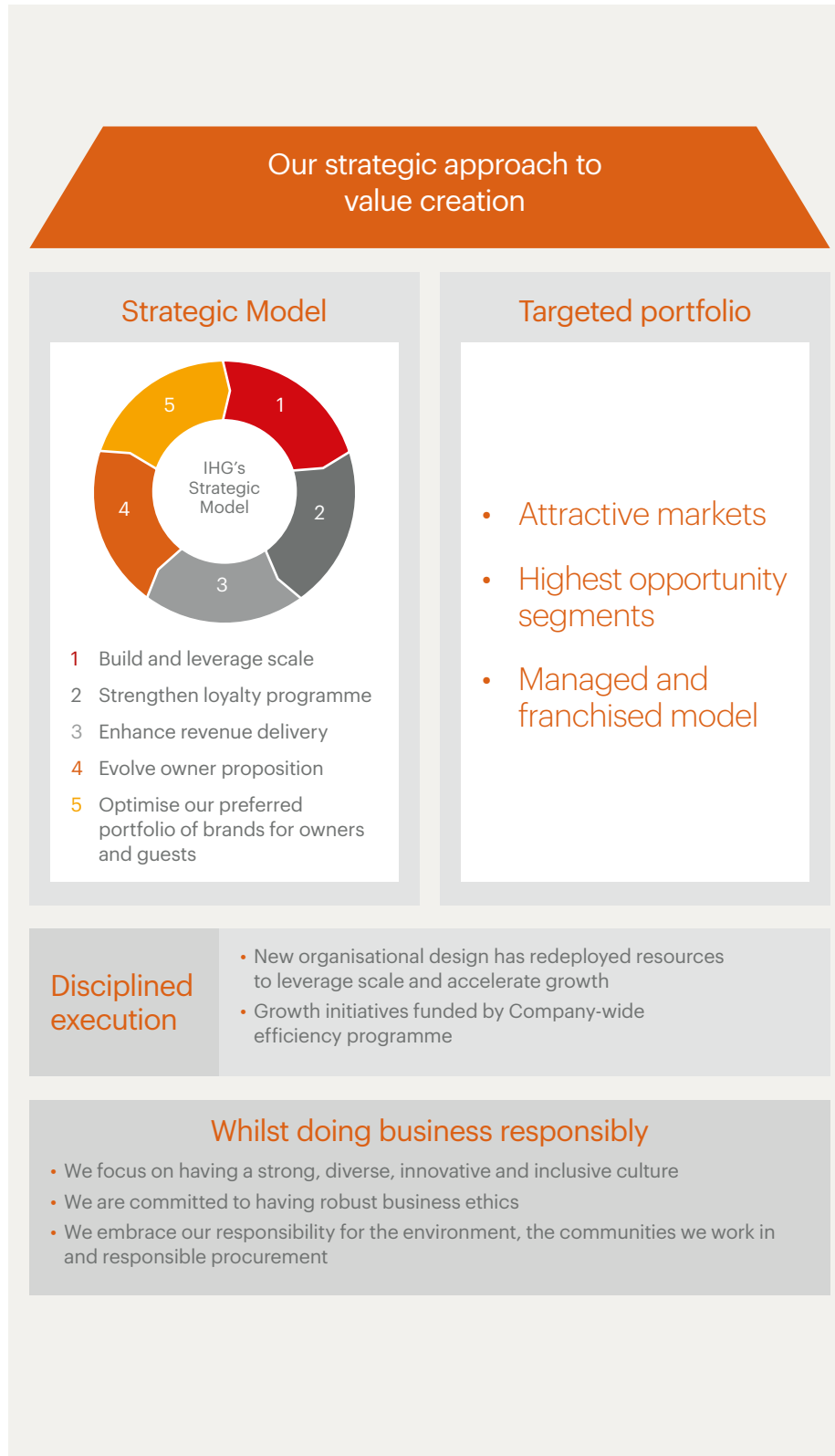
We have a clearly defined strategy designed to drive superior shareholder returns. Our focus is on delivering high-quality growth, which means consistent, sustained growth in cash flows and profits over the long-term. The execution of our strategy is underpinned by a strong culture, talented people and a commitment to the environment and our stakeholders.

Overview of strategy

Our Strategic Model focuses on value-creation by building preferred brands, delivering a superior owner proposition, strengthening our loyalty programme, leveraging scale and generating revenue through the lowest-cost direct channels. Our targeted portfolio, together with disciplined execution of our strategy and a commitment to doing business responsibly, are designed to achieve industry-leading net rooms growth over the medium term.

Whilst executing our strategy we target the most attractive markets and segments, prioritising our resources and investments based on growth potential, strategic importance and IHG's ability to build scale. This reflects our ambition to accelerate our growth trajectory and build on our strong global competitive position. Our brands operate in the mainstream, upscale and luxury segments which in our view are the highest opportunity segments based on guest needs. In addition, we focus on key countries and cities in markets where there is high growth potential, and look to invest ahead of demand.

Our strategy is executed through a strong set of values, business behaviours and talented people.



Our strategy should be read together with our culture, key stakeholders and doing business responsibly (pages 22 to 25), and our principal risks and uncertainties (pages 26 to 30).

For further information on our strategy, go to www.ihgplc.com/about-us under Our strategy.

Strategic Model

Since becoming a stand-alone company 16 years ago our Strategic Model has delivered superior shareholder returns. Our ambition is to accelerate our growth further, delivering industry-leading net rooms growth over the medium term, whilst doing business responsibly and delivering True Hospitality for all.

The individual components of IHG's Strategic Model are at the heart of our success and continue to align our organisation to focus on the most important strategic initiatives and deliver our commitment to True Hospitality. This approach helps us create value for our stakeholders and deliver high-quality growth for our shareholders.

Build and leverage scale



Scale provides significant advantages in the hospitality industry at both global and national level. IHG uses the breadth of its portfolio, combined with our depth in attractive markets and focus on the highest opportunity segments, to drive significant efficiencies, leading to increased operating leverage and ultimately higher margins.

- We achieved 4.8% net system size growth in 2018.
- In 2018 signings grew by 18% to 98,814 rooms, the highest in a decade.
- We have built a strategic position in Greater China with a domestic business that has continued to outperform the market.



For further information see our accelerating our growth case study on page 20.

Strengthen loyalty programme



Having an attractive, differentiated loyalty offering tailored to our guests' needs is critical to IHG's continuing success. We are continually innovating IHG Rewards Club to build lifetime relationships with our guests. This creates a sustainable long-term revenue source and transforms previously unaffiliated travellers into powerful advocates for our brands.

- Over the past four years we have increased our loyalty contribution by 4%ppts to 43%.



For further information on loyalty and IHG Rewards Club see page 13.

Enhance revenue delivery



By striving to drive business through our direct channels, IHG maximises returns for our owners, as these channels are less costly than alternatives such as third-party intermediaries. Digital and technological innovation, alongside strong brands and compelling loyalty, is key in ensuring IHG continues to manage revenue delivery effectively.

- 13% growth in room revenues delivered through digital (web and mobile) channels to \$5.3bn.
- Successful roll out of IHG Concerto™, including the Guest Reservation System.



For further information on IHG Concerto see page 21.

Evolve owner proposition



Within our asset-light business model, maintaining positive relationships with long-standing owners and constantly forging new owner relationships is vital for IHG. Our outstanding operational support, preferred brands, industry-leading franchise offer and continued investment in innovation delivers a compelling owner proposition and strong returns.

- We invest in our hotel lifecycle capabilities, providing strong support for our owners from signing to opening a hotel, to future refurbishments.



For further information on how we evolve our owner proposition see our accelerating our growth case study on page 20.

Optimise our preferred portfolio of brands for owners and guests



As competition intensifies, distribution channels proliferate and consumers become more demanding, actively building a strong portfolio of distinctive, preferred brands for both our owners and guests is fundamental to IHG's success and future growth.

- We have successfully launched two new brands, avid and voco, during the last two years, and acquired Regent Hotels.
- Continuing this momentum, in February 2019 we announced the \$300 million acquisition of Six Senses Hotels Resorts Spas, which will sit at the top tier of our luxury offer, and our plans to launch a new all-suites upper midscale brand into the US later this year.



For further information on our brands see pages 10 to 13.

Our Strategic Model in action

In 2018, we took important steps to ensure our business is best placed to execute our strategy at pace, and we made progress on executing against our strategic initiatives.



To see our regional highlights, please go to pages 40, 43 and 46.

Accelerating our growth

We have consistently executed a clearly defined strategy and delivered market outperformance over the past 16 years, whilst returning \$13.6bn to shareholders. To continue to outperform in a changing and competitive environment, we set out a series of strategic initiatives in 2018.

These initiatives redirected our focus and resources to areas where we can enhance our proven business model, and deliver industry-leading net rooms growth over the medium term.

To capitalise on the opportunities ahead, we initiated a comprehensive efficiency programme to realise ~\$125m in annual savings by 2020, for reinvestment to drive growth.

Build and leverage scale

From January 2018, we adopted a new organisational structure, which redeployed our resources to better leverage our scale and accelerate our growth. We made these main changes:

New regional operating structure:

Our Europe and Asia, Middle East and Africa regions have merged to become Europe, Middle East, Asia and Africa (EMEA), allowing us to leverage scale to share best practice and increase investment in markets with the highest growth potential.

Integrating Commercial and Technology:

The combination of our Commercial and Technology functions brings together our sales, channels, revenue management and technology capabilities, allowing us to maximise revenue delivery and bring new products and services to market faster.

Global Marketing organisation:

A new global function brings together our brand, loyalty and marketing capabilities to drive greater agility and efficiencies. Brands are organised globally by mainstream, upscale and luxury to drive clear accountability for brand performance and growth.

Outsourcing:

Following the outsourcing of our Central Reservation Office in the UK in 2017, we have now also completed the outsource of our call-centre capabilities in the US. IHG continues to leverage opportunities with strategic supplier relationships to accelerate our technology roadmap.

Strengthen loyalty programme

Our IHG Rewards Club loyalty programme is well positioned as one of the industry leaders but we are focused on creating a more personalised and differentiated offer, leveraging the right partnerships for our members. See page 13 for more information.

Enhance revenue delivery

To further enhance our strong digital and technology platform, we are prioritising innovations that increase direct revenues. See our IHG Concerto case study for more information.

Evolve owner proposition

IHG's enterprise is designed to deliver an industry-leading owner proposition, and optimising owner returns remains at the heart of our strategy. To unlock further growth, we are enhancing our offer by increasing investment in development and owner support, and extending our leading franchise offer in key markets with specific brands.

Optimise our preferred portfolio of brands for owners and guests

We are focused on delivering high-impact enhancements to our existing brands and using a targeted, insight-driven approach to further broaden our portfolio for guests and owners. See our brand portfolio case study, on the next page, for more information.



Holiday Inn Express
Hong Kong Kowloon East, China

On the left, in the background: Crowne Plaza
Hong Kong Kowloon East, China

IHG Concerto™

IHG Concerto provides our hotels with the most sophisticated cloud-based technology platform in the industry.

A pivotal point in IHG's ambitious technology roadmap, the global roll out of IHG Concerto was completed in 2018, with additional functionality set to be introduced in a phased launch later in 2019.

IHG Concerto brings together a comprehensive set of capabilities, including IHG's industry-leading Guest Reservation System and an enhanced Revenue Management System, into one single, seamless hotel management tool. In 2018, hotel feedback has been overwhelmingly positive with regards to the simplicity and ease of navigation of the new system, the modern intuitive interface, and the ease of the General Manager's dashboard, which enables them to better manage a hotel's performance.

As IHG Concerto enters the next phase of its development and we continue to evolve our industry-leading Guest Reservation System, we will deliver an even richer guest experience, with better presented content and attributes that guests value, such as views and room sizes, highlighted for ease.

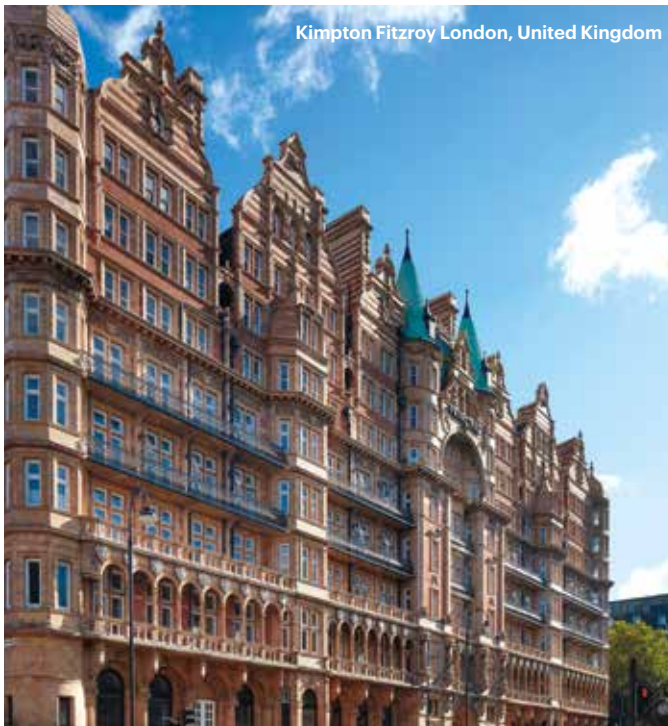
IHG Concerto adding value:

- Thanks to a more efficient management system, hotel colleagues have more time to deliver richer experiences to guests;
- Owners benefit from smarter revenue management tools; and
- In the future, guests will be able to customise their stay based on features they find important – made possible by new ways of classifying and selling room inventory.



5,603 hotels

Global roll out of IHG Concerto™ to all hotels



For further information about our Brands see pages 10 to 13.

Enhancing our brand portfolio

IHG's continued success relies on ensuring our existing brands remain fresh and relevant to changing guest and owner needs, and that we add new brands in areas of high demand.

We made significant progress in 2018, including:

- Continued roll out of new room and public space designs and service enhancements for our Holiday Inn and Holiday Inn Express brands.
- Extending our franchise offer in Greater China to our Holiday Inn and Crowne Plaza brands, following the rapid success of our tailored Holiday Inn Express Franchise Plus model.
- Continued international expansion of Kimpton Hotels & Restaurants in key destinations including Tokyo, Barcelona, Frankfurt and London.
- Agreement to rebrand and operate a collection of UK portfolio properties – a deal which made IHG the UK's leading luxury hotel operator.
- In mainstream: our first avid property is open in Oklahoma, US; we have 171 properties in our pipeline; and we've signed a Multi Development Agreement in Germany.
- In upscale we launched our voco brand in June, with two hotels already open and another eight in the pipeline across our EMEAA region.
- In the top tier of luxury we acquired a majority stake in the Regent Hotels & Resorts brand. Following a brand repositioning, we have signed three hotels since acquisition in Kuala Lumpur, Bali and Chengdu.
- Continuing this momentum, in February 2019 we announced the \$300 million acquisition of Six Senses Hotels Resorts Spas, which will sit at the top tier of our luxury offer, and our plans to launch a new all-suites upper midscale brand into the US later this year.

Our culture, key stakeholders and doing business responsibly

Our focus on doing business responsibly and the way we interact with our stakeholders, helps create a diverse, healthy and inclusive culture.



Our culture

Creating and reinforcing a culture of strong leadership, diversity and inclusion, robust business ethics and respect for the environment and society, underpins our ability to deliver our purpose and strategy. It is essential to our long-term success that we have an excellent reputation and are a trusted company.

Commitment starts at the top, with our Board focused on promoting a healthy and responsible culture across the business, and our CEO and senior executives accountable for embedding and reinforcing our unique culture. The Board receives regular updates on employee matters and culture from the Chief Human Resources Officer, whilst our CEO ensures our culture is aligned with our Company purpose.


Our growth behaviours and values

During 2018 as part of our strategic initiatives programme, we enhanced our culture by reviewing and updating our corporate behaviours. Our growth behaviours encourage our corporate employees to be decisive, work at pace, be collaborative, develop talent and focus on performance.


These behaviours are being brought to life through virtual learning summits, which are a chance for our people to hear from IHG leaders, peers and external thought leaders. It also brings opportunities to exchange views and ideas with others, to explore and apply tools and to enhance their understanding.

Our growth behaviours are aligned to our values, which provide a lasting strong sense of shared purpose and are critical to providing True Hospitality for everyone.


Our Values




Do the right thing




Aim higher



Show we care



Work better together



Celebrate difference

Our Code of Conduct

The bedrock of our culture is our Code of Conduct, (Code), which sets out our commitment to operating honestly and with the highest ethical standards. The Code principles help us to act responsibly and set out the value we place on being trusted by our colleagues and guests, those who do business with us, and the communities we work in. The Code is an introduction to our key global policies, including anti-bribery, diversity and inclusion, environment, confidential reporting and human rights. It is reviewed annually by the Audit Committee and Board to ensure it reflects and responds to changes in the external environment, and supports our purpose and strategy. All colleagues working in IHG corporate offices, reservation centres and managed hotels must comply with the Code and the policies and procedures it refers to. The principles, spirit, and purpose of the Code are also relevant to our franchised hotels, which are independently operated.

In 2018 we launched our refreshed Code, updated our e-learning module and reminded colleagues where to go for further details. The module is for colleagues working in IHG corporate offices, reservation centres and managed hotels.

Human rights and modern slavery

Helping combat human rights abuses, including modern slavery, is an important part of our commitment to responsible business. We have procurement targets to increase ethical supplier awareness, and policies and procedures applicable to employees, suppliers, and managed hotels.

- All our Board and Executive Committee, along with colleagues across the organisation, have affirmed their commitment to the Code of Conduct.
- IHG Human Rights policy available in 40+ languages – all IHG hotels must adopt the policy (or an equivalent one).
- Human Rights e-learning module available for corporate and hotel colleagues.
- Commitment to the International Tourism Partnership's Principles on Forced Labour.
- Vendor Code of Conduct – minimum standards under which IHG suppliers are expected to operate, including human rights and modern slavery.

In 2018 we undertook a human rights impact assessment across IHG's operations, covering our supply chains, hotels and corporate offices. The findings, presented to senior leaders in early 2019, will help us develop our human rights programme, which includes a focus on human trafficking, labour risks, forced labour and modern slavery.

Bribery and financial crime

Bribery and financial crime, including improper payments, money laundering and tax evasion, are not permitted at IHG under any circumstances. This also applies to any agents, consultants and other service providers who do work on IHG's behalf.

Our Anti-Bribery policy sets out IHG's zero tolerance approach and is applicable to all Directors, IHG employees and our managed hotels. It is accompanied by a mandatory anti-bribery e-learning module. Our Gifts and Entertainment Policy supports our approach to anti-bribery and corruption. It sets out reporting and approval thresholds for gifts and entertainment given or received, and applies to all Directors, IHG employees and our managed hotels. The policy and guidance was updated in 2018.

As a member of the Business Integrity Forum, IHG participated in Transparency International UK's Corporate Anti-Corruption Benchmark in 2018. IHG is using the results from this exercise to identify areas for improvement in its anti-bribery and corruption programme.

We carry out risk-based due diligence checks on new third parties with whom we enter into hotel agreements. A committee of senior management reviews any material issues identified.

Information security and data protection

It is everyone's responsibility at IHG to safeguard information, to follow legal requirements and comply with IHG's information security and personal data policies, standards and procedures. In 2018 we updated training for colleagues on handling information responsibly. We continue to enhance our privacy programme to address evolving privacy requirements and best practice including the EU General Data Protection Regulation. The Board and Audit Committee regularly reviews information security risk and controls, including our approach to incidents. (see pages 27, 61, 66, 157 and 185).



Our people

Highlights

400,000+

Colleagues worldwide

12,812

Number of employees whose costs were borne by the Group or the System Fund. As we franchise 82% of our hotels globally, we do not employ the vast majority of people working in IHG branded hotels.

We are a business on the move, with a new organisational structure, new behaviours and a sharper focus on accelerating our growth – we can only succeed by working as one team. Our people are key to delivering our purpose of True Hospitality and our strategic initiatives and ambition to accelerate our growth. We look to employ talented people, develop and train them, and provide a diverse and inclusive culture in which they can thrive. The Board has overarching responsibility for the Company's direct employee policies and activities, whilst senior management have day-to-day responsibility for people issues. Both the CEO and Chief Human Resources Officer have 'people' goals, and whilst the CEO chairs a Diversity and Inclusion Board, the Chief Human Resources Officer updates the Board on workforce matters and culture. Our progress against our 'people' 2018-2020 Responsible Business Target is monitored by the Corporate Responsibility Committee. More information, along with details of our other targets, is available on our website; please find a link at the bottom of page 24. We are currently assessing the most appropriate long-term approach to enhance Board engagement with the workforce; please see page 69 for more details.

Engagement, diversity and inclusion

IHG is a global business with a global outlook. Working in hotels and offices in more than 100 countries, our colleagues represent multiple nationalities, as well as many cultures, religions, races, sexualities, backgrounds and beliefs. It makes for a diverse, innovative and inclusive culture which we are proud of, and it's why our purpose to provide True Hospitality is for everyone. Our employee engagement is measured through a bi-annual survey,

(Colleague HeartBeat); Corporate, managed hotel and customer reservations office employees take part. Available in 30+ languages, this year our overall engagement score was 86%.

In 2018 we launched our Diversity and Inclusion Board, led by the CEO and senior leaders across IHG. As part of our 2018-2020 Responsible Business targets we have committed to increasing the level of diversity among IHG's senior leadership in terms of gender and nationality or ethnicity. We also have committed to increasing the number of females working in General Manager and operations roles within managed hotels.

- Listed by the Hampton Alexander Review in the top 10 of FTSE 100 companies for female representation.
- 100% rating in the Human Rights Campaign's Corporate Equality Index – making IHG a best place to work for LGBTQ equality in the US for the last four years.
- Aon Hewitt Global Best Employer for two years running.
- Top Employer in the UK by the Top Employers Institute for the fourth year running, for providing an exceptional environment for employees to develop.

Attracting, building and retaining talent is dependent on a diverse and inclusive culture. We are committed to rolling out programmes to areas of the business where they are needed the most. For example Rise, IHG's mentoring initiative that supports female General Managers, will roll out in Europe, the Americas and Greater China in 2019. This scheme is already established in Australia, Japan, South East Asia and Korea.

To further strengthen our diverse and inclusive culture, we are focused on increasing our employees' awareness of our Global Diversity and Inclusion policy through focused events and communications, colleague programmes, inclusive leadership and unconscious bias training and taking our existing employee resource groups global.

We are committed to a continual review of our practices and policies such as reducing bias at all levels in our hiring processes, and reviewing flexible working processes and policies. We have signed up to the Diversity in Hospitality, Travel and Leisure Charter, a 10-point action plan that ensures diversity

and inclusion not only remain a priority but that we openly track progress towards our goals. And we support the UN LGBTI Standards for Business, which focuses on tackling discrimination against lesbian, gay, bi, trans and intersex people.

As at 31 December 2018	Male	Female	Total
Directors	7	4	11
Executive Committee	7	2	9
Executive Committee Direct Reports	38	26	64
Senior Managers (including directors of subsidiaries)	71	23	94
All employees (whose costs were borne by the Group or the System Fund)	5,467	7,345	12,812

Attracting, rewarding and developing talent

We took steps in 2018 to evolve our talent and employee development practices. We launched our new approach to performance, and initiated frequent 'check-in conversations', giving our people more opportunities to gather feedback on their performance, as well as discussing their development and career aspirations.

We are also establishing forums to help identify and retain top talent, and add rigour to our succession planning, ensuring we are developing a diverse pipeline of talent for the future. In 2018 we launched a new toolkit to help individuals navigate their careers. We are also investing in our leadership development programmes, including Leading Others and Career Insights, to ensure we are developing the next generation of leaders.

Case study

To support IHG's fast expansion in Greater China, our Greater China team launched a new virtual development centre in 2018 that helps us assess and prepare c100 hotel leaders on a yearly basis, with the potential to increase that number three-fold in the future.

Our culture, key stakeholders and doing business responsibly continued

IHG's purpose and strategy go beyond a simple hotel stay and shareholder returns; it also includes the impact we have on the environment and the communities we work in.

We embrace our responsibility to focus on ensuring that the growth of our business contributes towards the objectives of the UN Sustainable Development Goals and we drive a positive contribution towards seven of the 17 goals, (see our website link at the bottom of the page). We recognise it is imperative that we continue to review our impact on the world and use a materiality matrix to align our responsible business priorities with IHG's strategic approach and principal risks. Our Corporate Responsibility team lead our day-to-day activities, with the Corporate Responsibility Committee reviewing the Company's approach and reporting to the Board. During 2018 we initiated a review of our approach to help identify a new set of targets to take us beyond 2020, building on our 2018-2020 targets.



Community and our impact on society

We aim to maximise the positive contribution we make by creating shared value in our communities. By working in partnerships, we look closely at issues such as skills shortages, infrastructure development, community resilience and disaster relief support, in areas where we operate.

We create real-life, career-building opportunities through the IHG® Academy. Our hotels and corporate offices partner with local education providers and community groups to train and educate local people.

Since 2016 we supported communities and charitable giving through the IHG® Foundation, an independent charity. In 2018, IHG switched its support to our newly created True Hospitality for Good programme. This new programme for communities and charitable giving, provides colleagues in our hotels and offices with a greater say in how we support important causes around the world. Our aim is to help change lives for the better through building skills and education in hospitality, and supporting communities when disasters strike.



Environmental sustainability

It is important to us that our corporate offices and hotels are mindful of the resources they use and opportunities to protect the environment, particularly in areas of water stress and environmental preservation. We continually work to understand our impact, taking into account our business model, as well as the markets in which we operate, to help us set targets and guidance for our partners, hotels and their owners. Our environmental policy is available in 40+ languages and sets out our approach.

Key to helping us reduce our environmental impact is our digital sustainability platform, the IHG Green Engage™ system. A global standard across the Group, it helps hotels manage and report their energy, carbon, water and waste use through more than 200 'Green Solutions' and implementation plans, driving profitability for owners, whilst minimising environmental impact.

In 2018, we made good progress against our new environmental targets. Working with our hotels and owners to reduce our carbon footprint per occupied room globally, we achieved a 2.2% reduction. And building on our previous risk mapping exercise, we launched the first two of our water stewardship projects in London and Delhi, which aim to help us identify a best practice water stewardship strategy that can be implemented across our estate.

IHG is aware of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and of the need for companies to align efforts to cut greenhouse gas emissions with climate science (science based targets). We will be taking this into consideration as part of our wider strategy refresh.

As part of our broader efforts to reduce plastic waste, in 2018 IHG committed to remove single-use plastic straws from our global estate by the end of 2019 – eliminating annually an average of 50 million straws from our hotels.



Responsible procurement

Supported by corporate responsibility and procurement functions, a Supply Chain Risk Council and oversight from the Chief Financial Officer, IHG seeks to work with partners and suppliers who share our commitment to responsible business. Our Vendor Code of Conduct, available in 40+ languages, sets out the requirements, principles and practices IHG has adopted to promote ethical conduct in the workplace, safe working conditions in the supply chain, treatment of persons with respect and dignity and environmentally responsible practices. They are the minimum standards by which IHG suppliers are expected to operate.

In 2018 we built a new responsible procurement function to drive our responsible business agenda across our supply chain. We also established a Strategic Supplier Management Office, who work with our strategic suppliers to maximise realised supplier value and minimise risk through effective supplier relationship management.

We previously commissioned external providers to undertake supply chain audit pilots in high-risk locations. In 2018 we partnered with the British Standards Institute (BSI) and participated in their Supplier Assurance Programme, the aim of which is to gain insight into risks associated with IHG's supply chain.

New suppliers joining our procurement system are required to complete due diligence questions and adhere to the UN Global Compact Principles on human rights, labour, environment, and anti-corruption.

Non-financial information statement

Non-financial information described above and in the preceding pages, should be read together with the description of our business model on pages 14 to 17, risk descriptors and initiatives to mitigate them on pages 26 to 30, KPIs on pages 31 to 35, and Board and Committee Reports on pages 60 to 69.



Copies of our policies, including diversity and inclusion, reports, responsible business targets, statements, commitment to the UN Sustainable Development Goals and further information are available on our website www.ihgplc.com/responsible-business

Stakeholders

The long-term sustainable success of IHG is determined by our ability to identify and foster relationships with our key stakeholders, not only at Board level but throughout the organisation. The following information should be read in conjunction with the description of Board activities on pages 60 to 62 and stakeholder information in our Responsible Business Report, available on our website www.ihgplc.com/responsible-business

Shareholders and investors

Our commitment to good governance means taking our shareholder and investor concerns about the environment, employee relations, executive remuneration, long-term financial performance and corporate governance seriously. We engage with shareholders and investors through a variety of mechanisms including the AGM, meetings with the Chair and Committee Chairs, Investor Relations, investor presentations and regular correspondence. We welcome their feedback and over the course of 2018 have engaged across a broad range of topics including remuneration, the environment and data privacy.



Shareholders

Employees

Employing and retaining talented people ensures that we can deliver against our purpose and strategy. We engage in a number of ways with our direct employees including conferences, colleague surveys, 'Town Halls', skip level feedback, newsletters and blogs. We are aware of the issues that concern them such as wellbeing, diversity and inclusion, training and development. During 2018 we prioritised our diverse and inclusive culture, launched a well-being programme for our leaders, announced a new Colleague Share Plan for our employees and reviewed our UK gender pay gap. In addition we held a series of engagements with employees on our new organisation design and re-designed processes and ways of working. Employee matters were a regular Board and Executive Committee agenda item.



Employees

Hotel owners

Through the IHG Owners Association, which represents the interests of more than 3,400 hotel owners and operators worldwide, we share and implement our purpose and culture. It's important for the Company's reputation and long-term success to have a strong relationship with our hotel owners and we ensure this through regular meetings, surveys and regional conferences. Of particular note in 2018, together we launched the Renovation Donation Initiative in the US, a programme to donate old hotel fixtures and fittings to charity. For more information on the IHG Owners Association see www.owners.org



Hotel owners

Guests and corporate clients

We engage with hotel guests and corporate clients through our corporate and brand websites, IHG Rewards Club, surveys, guest relations and our social media channels. We know they value our green credentials, such as our policies on water stewardship, but also look for consistent brand service and reward for their loyalty. Over half of our corporate clients ask questions about our environmental and social governance approach before they book with us. Our shared commitment means we continually review our approach to responsible business.



Guests

Society including suppliers

We work with a broad range of NGOs, community organisations and suppliers who share our commitment to doing business responsibly and who we work with and respond to. We engage with them to ensure that we take care of the environment, support local communities, have strong payment practices, clear vendor guidelines and robust business ethics. We do this through the IHG® Academy, charitable work and procurement practices. In September 2018 we had a 'Giving for Good month', where 130,000 colleagues participated in fund-raising activities for 11 charity partners.



Society including Suppliers

Risk management

We continue to assess our risk management system, ensuring it remains appropriate to support our growth ambitions and decision making in line with our appetite and tolerance for risk.

Strategy and risk

Our strategy, business model and the way we do business present a number of risks and opportunities. There are risks we are willing to take, and areas where we have less tolerance for uncertainty. The Board is ultimately accountable for the effectiveness of our risk management and internal control systems, and is supported by the Audit Committee, Executive Committee and delegated committees, who oversee our risk management system to ensure that risks and opportunities are appropriately identified and managed to an acceptable level in relation to IHG's appetite and tolerance for risk.

Risk appetite

IHG's risk appetite is visible through the nature and extent of risk taken by the Board in pursuit of strategic and other business objectives. This risk appetite is cascaded through the goals we set, our Code of Conduct, decisions we make and how we allocate resources and it evolves with the strategy of the organisation. Examples of how we articulate our risk appetite are included in note 22 to the Group Financial Statements, see page 144.

IHG's appetite and tolerance for risk is further articulated and implemented through our governance committees, structures, policies and targets we select, as well as in development guidelines for new hotels. In 2018 the Board and Board Committees again reviewed many of these aspects directly through their meetings and discussions of principal risks, and through their close oversight of IHG's organisational changes and the portfolio of growth initiatives.



This section should be read together with the rest of the Strategic Report, the Governance Report on pages 52 to 71, going concern on page 181, and Risk Factors on pages 182 to 186.

Our risk management system

Our risk management system is fully integrated with the way we run the business through our culture, processes, controls and reporting, and is reflected in our strategy. The Risk and Assurance function is responsible for the support, enhancement and monitoring of the effectiveness of this system and focuses on culture, process, control, monitoring and reporting.

Risk in culture

- Our tone, attitudes, ethical values and policies.
- Our governance and committee structures.



Risk in process and control management

- Three lines of defence – comprised of: (i) day-to-day activities that identify and manage risks; (ii) our functional specialists; and (iii) independent assurance.
- Strategic risk planning.



Risk monitoring and reporting

- Risk and performance monitoring.
- Principal risk reporting (see below).

IHG's principal risks, uncertainties and review process

Our risk profile remains dynamic – we continue to face inherent uncertainties linked to a challenging external environment. Our efficiency programme to realise savings for reinvestment, organisational changes and focus on strategic initiatives have also required us to evaluate and evolve our risk management system to maintain an appropriate level of control within our levels of risk tolerance.

Throughout 2018 the Risk and Assurance team has co-ordinated assessments of the principal risks facing the Group, including those which would threaten its business model, future performance, solvency or liquidity and reputation. These risks are formally reviewed with the Group's Directors on a bi-annual basis and considered in more detail through the activities of the Board and Committees. The review of our principal risks this year again focused both on the internal and external risk environment. We have included factors relating to third parties across many of our risks, reflecting the increasing importance of our relationships with partners to our growth ambitions. We have also considered within our approach to financial planning, a separate risk responding to an increasingly volatile macro-economic environment (for example trade wars, environmental and climate-related matters) which creates inherent uncertainties to our performance and prospects.

The focus on executing our strategy at a faster pace emphasises the importance of the steps we take to consider risk explicitly as part of decision making. During 2018 this has been supported by the continued development of IHG's risk culture and governance processes, including review of the delegation of authority, and

communication of revised leadership behaviours and performance management processes, which continue to reflect the principles of our Code of Conduct. The implementation of organisation and process changes creates inherent risks of disruption to control routines and accountabilities, and these have been actively considered by management teams.

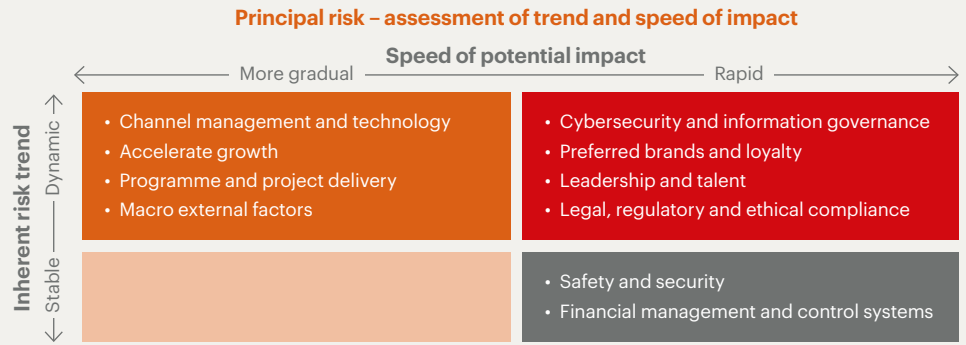
Frequent senior leadership discussions throughout the year, and our more structured strategic programme management and financial planning processes, have also included regular 'pulse checks' of emerging risks requiring management attention. These are considered both in the context of individual initiatives, and at an aggregated level, as part of resilience planning. The Risk and Assurance team provides support and intelligence on emerging threats and will continue to provide advice to management on procedures for risk identification and mitigation and control.

Our principal risks remain structurally similar to those reported in previous years. We continue to highlight uncertainties relating to our growth agenda and conclude that the potential impact of Brexit on IHG is not likely to have a material impact on our overall strategy or operations although, as with other external factors, this is considered as part of routine operational risk management and resilience planning. The impact of a potential movement in the value of sterling is articulated in note 22 of the Financial Statements, see page 145.

The Group's asset-light business model, diverse brand portfolio and wide geographical spread however contribute to IHG's resilience to events that could affect specific segmental or geographical areas.




Risk trend and speed of impact

We assess whether the risk area is stable or dynamic in its impact and/or likelihood (inherent risk trend), and the rate at which there could be a material impact on IHG if unmanaged or managed inappropriately. The trend and speed of impact are summarised in the diagram (on the right) with further detail on activities to manage each of these risks in the table below.


















Principal risks descriptions

Inherent risk trend

-  Dynamic/Rapid
-  Dynamic/Gradual
-  Stable/Rapid







Risk impact – Link to our strategic priorities

-  Targeted Portfolio
-  Disciplined Execution
-  Doing Business Responsibly
-  Build and leverage scale
-  Strengthen loyalty programme
-  Enhance revenue delivery
-  Evolve owner proposition
-  Optimise our preferred portfolio of brands for owners and guests





Risk description	Trend	Impact	Initiatives to manage these risks
<p>Inherent threats to cybersecurity and information governance continue to present risk to our operations. Customer and other forms of sensitive data remain valuable to various threat ‘actors’ (including organised criminals and nation states), and increasing societal, regulatory and media scrutiny of privacy arrangements mean that the potential impact of data loss to IHG financially, reputationally or operationally remains a dynamic risk factor.</p>		  	<ul style="list-style-type: none"> We continue to align efforts across multiple business teams to manage the risk within tolerance, and appointed a dedicated Chief Information Security Officer to facilitate this. We also monitor and update our information security policies and practices to respond to the risks we face, including those relating to evolving privacy requirements, and our third-party hosted infrastructure, systems and services. We have undertaken critical GDPR compliance activity, and have a roadmap for other activities in 2019, including policies, training and guidance. The nature of our operating model means that significant amount of IHG’s confidential information assets are also held by or shared with third-party suppliers and parties, and we review those risks as part of our broader supply chain risk management arrangements. We continue to evolve our monitoring capabilities in relation to our technology environment and our broader security culture, business process security and physical security. An external risk assessment was concluded in 2018, which focused on industry specific issues, our current capabilities and recent progress. Our information security programme is supported and reviewed by internal and external assurance activities, including our Internal Audit and SOX teams and PCI assessments. Regular management reporting uses a scorecard aligned with the NIST cyber security framework, and enables tracking of key risk indicators and planned initiatives. Our information security specialists have also been an integral part of our acquisition activities during 2018. We also recognise the need for an appropriate response to incidents, by developing our incident management capability and working closely with our insurers to review the adequacy of protection for our risks as our cybersecurity and technology environment evolves.
<p>Failure to deliver preferred brands and loyalty could impact our competitive positioning, our growth ambitions and our reputation with guests and owners. Competitor and intermediation activity creates inherent risks and opportunities for the hospitality industry and is relevant to the longer-term value of IHG’s franchised/ managed proposition and our ability to deliver returns to current and potential owners of our various brands.</p>		 	<ul style="list-style-type: none"> Our organisational changes in 2018 have brought focus to make IHG a stronger business partner and ensure we have appropriate business models deployed in each region to meet our owners’ needs. This includes targeted market strategies for franchising (where scale is important) and globally-led initiatives to increase the pace of openings/ramp up of hotel performance and tackle key pain points and systems across the hotel lifecycle and improve owner experience with IHG. The evolution of our marketing organisation, loyalty programme and enhancements to our brand portfolio described on page 20 is key to managing these risks and taking the opportunities for growth. Our marketing leadership has evolved during the year with increased capability in category, brand and customer insights; and the formation of a shared services organisation for guest experience. Trading and performance of properties and brands (signings) are reviewed as part of monthly business reviews. During 2018 this included a proactive focus on licence expirations which will continue into 2019.

Risk management continued

Risk description	Trend	Impact	Initiatives to manage these risks
<p>Leadership and talent risk is inherent to all businesses and failure to effectively attract, develop and retain talent in key areas could impact our ability to achieve growth ambitions and execute effectively. Risks relating to our people underpin many of our objectives. Capacity, capability, motivation, clarity of role, accountability for leadership, and behaviour are all significant aspects of this risk.</p>		 	<ul style="list-style-type: none"> Our approach to managing our people is outlined in detail on pages 22 to 25 and our annual business planning process includes a review of workforce risks. IHG has the ability to manage the risk directly in relation to IHG staff but relies on owners and third-party suppliers to manage the risk in related activities. We consider workforce risks when designing business initiatives and we prioritise delivery accordingly. Our Human Resources leaders partner directly with other leadership teams across IHG, and have supported and advised directly on our organisational changes during 2018 within transformation management meetings. Our Supply Chain Risk Council also considers more indirect workforce risks relating to our third-party relationships. Performance management systems have been enhanced and a talent acquisition programme focuses our attraction strategy, recruiting, and employer brand management. Several policies in our Code of Conduct (for example our Human Rights Policy) relate to the management of our people, describing our intolerance for inappropriate behaviours and appropriate adherence to those helps manage our risk.
<p>Whilst the hotel sector is not subject to stringent industry specific regulations, the global business regulatory and contractual environment (for example relating to data privacy, human rights including modern slavery, labour laws and financial crime) and societal expectations are continuously evolving and failure to ensure legal, regulatory and ethical compliance would impact IHG operationally and reputationally. Regulators are also moving to impose significant fines for non-compliance.</p>		 	<ul style="list-style-type: none"> Our dedicated ethics and compliance specialists define and oversee IHG's global policy framework and Code of Conduct, (see page 22), and manage the compliance programmes for anti-bribery, antitrust/competition law and sanctions. During 2018, there has been focus to respond to the changing regulatory requirements around privacy and data (including GDPR, China cybersecurity and California privacy laws), and continuing compliance and contractual responsibilities. We also continue to assess our broader role in relation to, for example human rights and modern slavery. The Ethics and Compliance team provides training to teams across IHG and is informed of incidents that may involve a potential breach of regulations to enable advice to be provided, including on any reporting or notification requirements. The Code of Conduct is increasingly requested from various stakeholders seeking transparency and understanding of our approach. It forms a key focal point for our risk management activity. The Board receives regular reports on matters directly related to our responsible business agenda, and there are also different functions, (from corporate responsibility to procurement), focused on supporting the business in relation to these matters. Our Confidential Disclosure Channel allows confidential reporting of ethical, social and environmental performance issues (including those with regulatory implications).
<p>Failure to capitalise on innovation in booking technology and to maintain and enhance the functionality and resilience of our channel management and technology platforms (including those of third-parties on which we rely directly or indirectly), and to respond to changing guest and owner needs remains a dynamic risk and opportunity to IHG's revenues and growth ambitions. This is particularly important with the emergence of both evolutionary and disruptive technologies and innovative uses of data to generate value.</p>		 	<ul style="list-style-type: none"> Several changes to our organisational structure were implemented in 2018 to support our ability to meet the evolving (and accelerating) technological needs of owners and guests. This includes the integration of a single commercial and technology organisation incorporating our sales, channels, revenue management and technology capabilities, allowing us to maximise revenue delivery and bring new products and services to market faster. Our new global marketing organisation will work closely with commercial and technology in relation to our in-hotel guest experiences. We have also implemented the IHG Concerto platform during 2018 (see case study on page 21) and continue to seek opportunities to align systems to improve consistency and manage inherent delivery risks between IHG and our owners. Our Guest Reservation System (GRS) is hosted by a third-party vendor, Amadeus, in the cloud and supported by infrastructure which serves to decrease the likelihood of downtime. Availability of GRS and other key systems continues to be monitored on a 24/7 basis by the Network Operations Centre. Metrics are reported to Commercial and Technology leadership on a frequent basis. Effective and appropriate leveraging of data which we have a right to use is a key aspect of the interface between our marketing and our commercial and technology activity. We take account of regulatory and ethical factors as part of the decision making processes in relation to marketing and technological initiatives. We also rely on appropriate governance arrangements to mitigate risks that the validity of data that we use is undermined by cyber-attacks or operational failures. This risk is also impacted by strategic and operational factors relating to the location and structure of our assets – including use of third-parties and cloud computing arrangements. Several policies which form part of our Code of Conduct relate to this area of risk and adherence is monitored appropriately. We have an established approach to System Development Lifecycle and specific risks to delivery of the Global Reservations System have been managed throughout the programme of implementation (including those relating to technical delivery, business process testing and operation readiness testing).

Risk description	Trend	Impact	Initiatives to manage these risks
<p>IHG's ongoing agenda to accelerate growth and strategic initiatives give rise to inherent risks, for example as we transition systems, operating models and processes. The changes which have been made to IHG's extended enterprise raises inherent risk levels from third parties – for example before, during and after structural sourcing changes. These risks can include short-term disruption, reputational damage and longer-term breakdown of a commercial relationship.</p>			<ul style="list-style-type: none"> • Our focus on accelerating growth has included structured review (by senior management and the Board), of risks relating to offshoring and outsourcing. We have formed a strategic sourcing and management office to establish policies, support and advise on management processes, and oversee governance arrangements for IHG's most important suppliers. • A new Supply Chain Risk Council also reviews risks and control arrangements for IHG's direct supply base across both corporate functions and hotel operations, for example where IHG has agreements in place and/or interacts directly with suppliers, including outsourced providers. Our legal teams review contracts and provide advice on litigation, where required, and our insurance programme also provides a degree of protection in the event of supplier failure.
<p>Inability to realise value from our programme and project delivery (including reinvestment initiatives and culture and process changes) may result in failure to improve commercial performance, financial loss and undermining of stakeholder confidence. Following the organisational adjustments during 2018, there is an inherent risk that changes we have made could be unsustainable or that we are unable to achieve the return envisaged through reinvestment of the savings into growth initiatives.</p>			<ul style="list-style-type: none"> • Aspects of the risk relating to change have been managed explicitly by a dedicated programme management team during 2018 and we have implemented a framework for addressing risks within, and as a result of, change initiatives across IHG. • Oversight teams, including our finance experts, have evolved governance and control frameworks to support key transformation programmes, for example in our commercial and technology operations. We also regularly review delegated approval authorities and processes to enable decisions on investments to be made quickly and efficiently with consideration of the risks involved.
<p>Macro external factors such as political, economic, environmental and societal could have a mass impact on our ability to perform and grow.</p>			<ul style="list-style-type: none"> • While these factors are mostly outside our direct control, we track uncertainties which may impact the hospitality industry and which need to be considered in our strategic and financial planning. These types of risks are addressed in strategy setting (including the review of our corporate responsibility approach, see page 68). They are also addressed in the annual business planning process and in regional risk management activities and reporting. We are increasingly using formal and informal scenario planning to anticipate the potential impact of these risks. The Board receives regular updates on these types of factors so that possible implications for IHG can be considered. • Our in-house threat intelligence capability, supplemented by third-party expertise and methodology, supports growth, hotel operations and customer facing sales teams with planning and response to macro factors, for example concerns relating to terrorism or extreme weather events. Additionally, specific elements of our risk management framework relate to these areas, such as codes of conduct in relation to trade restrictions and the environment.

Risk management continued

Risk description	Trend	Impact	Initiatives to manage these risks
<p>Failure to maintain an effective safety and security system and to respond appropriately in the event of disruption or incidents affecting our operations more broadly could result in an adverse impact to IHG, such as reputational and/or financial damage and undermining stakeholder confidence. This risk relates both to our direct operations but also in relation to outsourced activities and others with whom we collaborate and trade.</p>			<ul style="list-style-type: none"> The environment in which IHG develops and operates hotels continues to evolve and impacts the safety and security risks faced by IHG. Although these risks are assessed as stable overall, our established management approach is subject to continuous review and improvement to minimise the risk of an incident relating to IHG's management damaging the Group's reputation. Our design and engineering, hotel opening and operations teams work together with our risk management experts to evaluate standards and develop capability to respond to an incident via training, advanced intelligence tracking and standard operating procedures, and also deploy crisis management procedures where required for less predictable events.
<p>A material breakdown in financial management and control systems would lead to increased public scrutiny, regulatory investigation and litigation. This risk includes our ongoing (and stable) operational risks relating to our financial management and control systems, and also the continuing expectations of IHG's management decision making and financial judgements, in response to evolving accounting standards and our own business model and transactions.</p>			<ul style="list-style-type: none"> We continue to operate an established set of processes across our financial control systems, which is verified through testing relating to our Sarbanes-Oxley compliance responsibilities. See pages 50 and 125 to 129 for details of our approach to taxation, page 66 for details of our approach to internal financial control, and pages 144 to 146 for specific details on financial risk management policies. These processes and our financial planning continue to evolve to reflect the changes in our management structure and business targets. During 2018 we have established a centre of excellence for financial planning and accounting to drive improved reporting, accelerated decision making, process standardisation, automation and talent alignment. Our Group insurance programmes are also maintained to support financial stability.

Viability statement

The Group's annual planning process builds a robust three-year plan. The detailed three-year plan takes into consideration the principal risks, the Group's strategy, and current market conditions. That plan then forms the basis for strategic actions taken across the business. The plan is reviewed annually by the Directors, and approved towards the end of the calendar year. Once approved, the plan is then cascaded to the business and used to set performance metrics and objectives. Performance against those metrics and objectives is then regularly reviewed by the Directors. The key assumptions included in the three-year plan relate to RevPAR, System size and no change to our stated dividend policy. There are no significant debt maturities in the period under consideration and therefore no assumptions have been included in relation to refinancing.

In assessing the viability of the Group, the Directors have reviewed a number of scenarios, weighting downside risks that would threaten the business model, future performance, solvency and liquidity of the Group more heavily than opportunities. The scenario testing focuses mostly, but not exclusively, on the impact of declining RevPAR on the viability of the Group, as most of the principal risks outlined on pages 26 to 30 will cause a deterioration in RevPAR.

The scenarios included a severe but plausible downturn like the financial crisis that occurred from 2008 to 2009 (when the Board maintained the ordinary dividend despite the severity of the downturn in trading), a widespread cybersecurity breach and a reverse stress test of the business starting from the presumption

of the Group having insufficient liquidity to continue trading. In the severe scenarios, the Directors also considered actions that would be taken if such events became a reality. These actions included a reduction in capital expenditure, salary freezes and suspension of bonus plans and the ordinary dividend. The results confirmed that the Group would be able to withstand the impact of each scenario.

The Directors have determined that the three-year period to 31 December 2021 is an appropriate period to be covered by the viability statement. Although hospitality industry business cycles are on average longer than three years, the end of those cycles has only resulted in declining RevPAR when that has been caused by exogenous shocks, and the decline in RevPAR has only lasted two years. The Board has therefore determined that no additional insight can be gained from assessing these scenarios over a longer period.

The Directors have assessed the viability of the Group over a three-year period to 31 December 2021, taking account of the Group's current position, the Group's strategy and the principal risks documented in the Strategic Report. Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021.

Key performance indicators (KPIs)

Our KPIs are carefully selected to allow us to monitor the performance of indicators that are critical to delivering our strategy and long-term success.

Our KPIs are organised around our Strategic Model and targeted portfolio, which is underpinned by disciplined execution and doing business responsibly, (see page 18). They are reviewed annually by senior management to ensure continued alignment to our strategy and Responsible Business targets, and are included in internal reporting and regularly monitored. Measures included are those considered most relevant in assessing the performance of the business, and relate to our growth agenda and commitment to our major stakeholders including owners, guests, colleagues, shareholders and the communities in which we work. During 2018 our doing business responsibly KPIs were reviewed and changed to reflect the new Responsible Business 2018-2020 targets. The updated KPIs track IHG's progress in creating career building opportunities, managing our environmental impact, and our success in maintaining a motivated workforce. KPIs should be read in conjunction with the other sections of the Strategic Report, and where applicable, references to specific relevant topics are noted against each KPI.

A guide to this KPI section

Link between KPIs and Director remuneration


As we continued our focus on delivering high-quality growth as in prior years, Directors' Remuneration for 2018 was directly related to key aspects of our Strategic Model and targeted portfolio. The following indicates which KPIs have impacted Directors' Remuneration:

A The Annual Performance Plan

- 70% was linked to EBIT
- 30% was linked to strategic measures, of which:
 - 15% was linked to improvements in net System size growth
 - 15% was linked to the delivery of our comprehensive efficiency programme

LT The Long Term Incentive Plan

- 50% was linked to Total Shareholder Return
- 25% was linked to rooms growth
- 25% was linked to RevPAR growth

 For more information on Directors' Remuneration see pages 72 to 85

Link to our Strategic Model

Our Strategic Model is at the heart of our success. The five strategic initiatives are represented as follows:



- 1 Build and leverage scale
- 2 Strengthen loyalty programme
- 3 Enhance revenue delivery
- 4 Evolve owner proposition
- 5 Optimise our preferred portfolio of brands for owners and guests

Link to Doing Business Responsibly

We consult with our stakeholders to determine the issues that are most relevant to them and IHG. Based on this feedback there are four priority areas, which are indicated by the following icons:



Our people



Environmental sustainability



Community and society impact



Responsible procurement

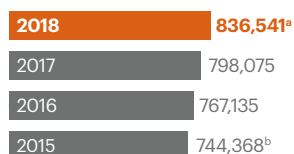
KPIs

Strategic Model and targeted portfolio

Net rooms supply

Net total number of rooms in the IHG System.

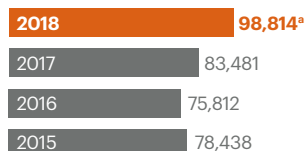
Increasing our rooms supply provides significant advantages of scale, including increasing the value of our loyalty programme. This measure is a key indicator of achievement of our growth agenda, (see page 19).



Signings

Gross total number of rooms added to the IHG pipeline.

Continued signings secures the future growth of our System and continued efficiencies of scale. Signings indicate our ability to deliver sustained growth (see page 19).



2018 status and 2019 priorities

2018 status

Accelerated net System size growth to 4.8%, and achieved our highest number of signings in 10 years driven by:

- Further growth of our mainstream brands with Holiday Inn and Holiday Inn Express representing nearly half of all signings.
- Expansion of our portfolio of brands:
 - Mainstream – opened the first avid hotel, made 129 signings in 2018 and signed a partnership agreement to bring avid to Germany.
 - Upscale – launched voco hotels with two openings in 2018.
 - Luxury – acquired a majority stake in Regent Hotels & Resorts.
- Bringing our existing brands to new markets:
 - Continued global expansion of Kimpton with 18 deals signed.
 - Opened 13 InterContinental hotels, our highest number in 10 years.

2019 priorities

- Continue progression towards industry-leading net System size growth.
- Further scale avid hotels including more openings (see page 40).
- Scale our new upscale brand, voco hotels (see page 43).
- Build greater international scale for Kimpton.
- Launch new upper midscale US all-suites brand, and scale Six Senses Hotels Resorts Spas.

^a Including the acquisition of Regent Hotels & Resorts (2,006 rooms) in 2018.

^b Including the acquisition of Kimpton (11,325 rooms) in 2015.

Key performance indicators (KPIs) continued

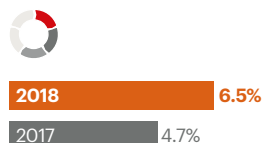
KPIs

Strategic Model and targeted portfolio continued

Growth in underlying fee revenues^{a, b}

Group revenue excluding revenue from owned, leased and managed lease hotels, significant liquidated damages and current year acquisitions.

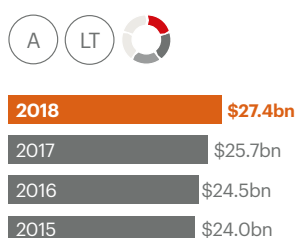
Underlying fee revenue growth demonstrates the continued attractiveness to owners and guests of IHG's franchised and managed business (see page 14).



Total gross revenue from hotels in IHG's System^b

Total rooms revenue from franchised hotels and total hotel revenue from managed, owned, leased and managed lease hotels. Other than for owned, leased and managed lease hotels, it is not revenue wholly attributable to IHG, as it is mainly derived from hotels owned by third parties.

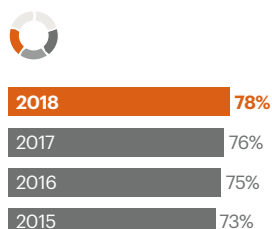
The growth in gross revenue from IHG's System illustrates the value of our overall System to our owners (see page 15).



System contribution to revenue

The percentage of room revenue booked through IHG's direct and indirect systems and channels.

System contribution is an indicator of IHG value-add and the success of our marketing distribution channels (see page 14).



2018 status and 2019 priorities

2018 status

- Expansion of Holiday Inn Express Franchise Plus model in Greater China with 146 hotels open or in the pipeline.
- Combined our Commercial and Technology functions allowing us to maximise revenue delivery and bring new products and services to market faster.
- Grew digital (web and mobile) revenue, by 13% to \$5.3 billion.
- Launched two new US IHG Rewards Club co-branded credit cards (see page 13 for details).

2019 priorities

- Leverage the expansion of our franchise offer for Holiday Inn and Crowne Plaza in Greater China, alongside Holiday Inn Express Franchise Plus model.
- Continue to innovate our loyalty offering to provide greater opportunities for our members to earn and redeem IHG Rewards Club points.
- Maintain our focus on increasing contribution from IHG Rewards Club members, and through direct bookings via our website or call centres.
- Continue to grow our share of bookings through the IHG® App, whilst also increasing engagement within the App.
- Enhance our owner offer by leveraging technology and increasing investment in owner support.

^a In 2018 the underlying fee revenue calculation was restated for 2016 onwards following implementation of IFRS 15. The 2015 and 2016 growth figures are not comparable and thus excluded from comparison.

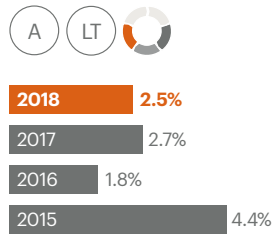
^b Use of Non-GAAP measures: In addition to performance measures directly observable in the Group Financial Statements (IFRS measures), additional financial measures (described as Non-GAAP) are presented that are used internally by management as key measures to assess performance. Non-GAAP measures are either not defined under IFRS or are adjusted IFRS figures. Further explanation in relation to these measures can be found on page 36 and reconciliations to IFRS figures, where they have been adjusted, are on pages 172 and 173. Total underlying fee revenue growth is stated at constant currency.

Strategic Model and targeted portfolio continued

Global RevPAR growth

Revenue per available room: rooms revenue divided by the number of room nights that are available.

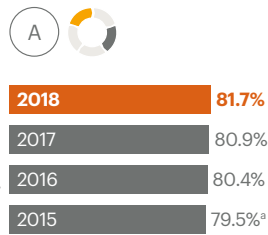
RevPAR growth indicates the increased value guests ascribe to our brands in the markets in which we operate and is a key measure widely used in our industry (see page 8).



Guest Love

IHG's guest satisfaction measurement indicator.

Guest satisfaction is fundamental to our continued success and is a key measure to monitor the risk of failing to deliver preferred brands that meet guests' expectations (see page 27 for details).



2018 status

- Completed the global roll out of IHG Concerto™ (see page 21).
- Created a new global marketing function bringing together our brand, loyalty and marketing capabilities to drive greater agility and efficiencies.
- Continued roll out of new guest room designs across all regions and rapid deployment of new Holiday Inn Express breakfast offering in the US to over 1,500 hotels.
- In 2018 one third of the US Crowne Plaza estate underwent or completed renovations or property improvements as part of the Crowne Plaza Accelerate programme, a multi-year programme to transform Crowne Plaza in the Americas region.

2019 priorities

- Continue to build on IHG Concerto with phased roll out of additional functionality.
- Continue to invest in brand innovation, including room design and hotel layout to meet evolving guest needs, including refresh of our extended stay brands.
- Ensure that, whilst driving strong rooms supply growth, we maintain a high level of guest satisfaction across our entire portfolio with removals from the System.

^a Changes to the method for calculating IHG's guest satisfaction scores (previously Guest HeartBeat) were introduced in 2016. The comparative for 2015 has been restated.

Key performance indicators (KPIs) continued

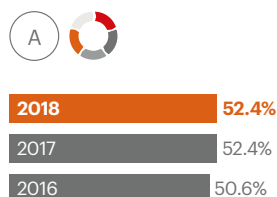
KPIs

Disciplined execution

Fee margins^{a,b}

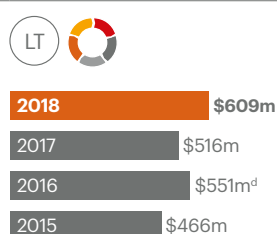
Operating profit as a percentage of revenue, excluding System Fund, reimbursement of costs, revenue and operating profit from owned, leased and managed lease hotels, significant liquidated damages, current year acquisitions and exceptional items.

Our fee margin progression indicates the profitability of our fee revenue growth and benefit of our asset-light business model (see page 14).

**Free cash flow^{b,c}**

Cash flow from operating activities (after interest and tax paid), less purchase of shares by employee share trusts and maintenance capital expenditure, including key money paid.

Free cash flow provides funds to invest in the business, sustainably grow the dividend and return any surplus to shareholders (see page 16). It is a key component in measuring the ongoing viability of our business (see page 30).



2018 status and 2019 priorities

2018 status

- Merged our Europe and Asia, Middle East and Africa regions to leverage scale and focus investment.
- On track to deliver ~\$125 million in annual savings, including System Fund, by 2020 for reinvestment to drive growth.

2019 priorities

- Continuation of our strong cost and efficiency focus.
- Leverage our increasing scale in operations and systems to drive economies of scale.
- Continue to strengthen our delivery capabilities to ensure that critical in-hotel initiatives are embedded on time and on target.
- Enhance our supplier management capabilities to drive efficiencies.
- Continue to look for further operational efficiencies through greater application of technology.

2018 status

- Free cash flow grew by \$93 million to \$609 million, due to growth in operating profit from reportable segments^b and reduction in cash tax.

2019 priorities

- Continue to deliver consistent, sustained growth in profits and cash flow.
- Control capital deployment in line with business priorities.
- Continue programme to recycle capital invested in minor equity positions and joint ventures, over time, when conditions are favourable.

^a In 2018 the fee margin calculation was restated for 2016 onwards following implementation of IFRS 15. The 2015 figure is not comparable and is thus excluded from comparison.

^b Use of Non-GAAP measures: In addition to performance measures directly observable in the Group Financial Statements (IFRS measures), additional financial measures (described as Non-GAAP) are presented that are used internally by management as key measures to assess performance. Non-GAAP measures are either not defined under IFRS or are adjusted IFRS figures. Further explanation in relation to these measures can be found on page 36 and reconciliations to IFRS figures, where they have been adjusted, are on pages 172 to 175.

^c Cash flow was introduced as a new measure for the 2017/19 LTIP cycle. Cumulative free cash flow over the three-year performance period forms part of the measure, with some adjustments. The target for each successive cycle is determined annually, taking into account IHG's long-range business plan, market expectations and circumstances at the time.

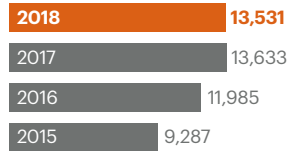
^d In 2016, free cash flow excluded the \$95 million cash receipt from renegotiation of long-term partnership agreements.

Doing business responsibly

IHG® Academy

Number of people participating in IHG Academy programmes.

Sustained participation in the IHG Academy indicates the strength of our progress in creating career building opportunities and engagement with the communities in which we operate (see page 24).



2018 status

- We undertook a comprehensive review of the IHG Academy programme to create a series of recommendations to help us grow in the coming years.
- We ran 2,203 IHG Academy programmes across 70 countries.

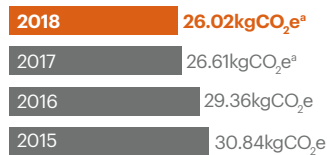
2019 priorities

- Continue to provide skills and improved employability to people through IHG Academy, ensuring a positive impact for local people, our owners and IHG.
- Build on programme review and refresh supporting materials to drive greater participation and deliver engaging candidate experience.
- Deliver a globally scaled approach to IHG Academy, utilising it as a frontline recruitment tool.
- Enhancing IHG Academy’s reputation amongst academic institutions and community partners, as being an outstanding programme for students.
- Continue to drive quality growth in the programme towards our longer-term target of 30,000–40,000 IHG Academy participants by 2020.

Carbon footprint

Carbon footprint per occupied room.

We work with our hotels to drive reductions in carbon emissions, to reduce our overall carbon footprint (see page 24).



2018 status

- Achieved 2.2% reduction in our carbon footprint per occupied room from 2017 baseline.

2019 priorities

- Continue to reduce our carbon footprint across our entire estate.
- Partner with owners and our hotels to share best practices to help drive greater reductions.

Employee Engagement survey scores

Average of our revised^b bi-annual Colleague HeartBeat survey, completed by our corporate, customer reservations office and managed hotel employees (excluding our joint ventures).

We measure employee engagement to monitor risks relating to talent (see page 28) and to help us understand the issues that are relevant to our people as we build a diverse and inclusive culture (see page 23).



2018 status

- Launched improved and simplified performance management process.
- Launched a new tool to help IHG assess and prepare hotel leaders in Greater China, our fastest growing region (see page 23).

2019 priorities

- Continue to refine performance management processes, in order to focus on productive development conversations.
- Further drive adoption of improvements to our human resources systems, including online colleague training, to further our ability to develop and retain talent.
- Support the recruitment and development of General Managers for our managed hotels.
- Drive adoption of our learning solutions, such as the IHG Frontline training curriculums, and branded service culture programmes across all IHG hotels.

^a In 2018 the carbon reduction measure was restated in line with a new baseline for the 2018-2020 target. The 2016 and 2015 figures could not be restated and are not comparable.

^b In 2017 the employee engagement survey was revised and relaunched as the Colleague HeartBeat survey. The 2016 and 2015 figures relate to previous survey results, which could not be restated and are not comparable.

 Please see www.ihgplc.com/responsible-business for our 2018-2020 Responsible Business targets.

Performance

Key performance measures (including Non-GAAP measures) used by management

As well as the performance measures found in the Group Financial Statements, the following key performance measures are included in the performance review (and IHG at a glance on pages 2 and 3).

These financial measures are either not defined under IFRS or are adjusted IFRS figures and are therefore described as Non-GAAP measures. They should be viewed as complementary to, and not as a substitute for, the measures prescribed by GAAP.

Where applicable the definitions have been amended to reflect the adoption of IFRS 15 'Revenue from Contracts with Customers' and the 2017 and 2016 comparatives have been restated accordingly (see pages 109 to 113 for further information).

Total gross revenue in IHG's System

Total gross revenue provides a measure of the overall strength of the Group's brands. It comprises total rooms revenue from franchised hotels and total hotel revenue from managed, owned, leased and managed lease hotels. Other than owned, leased and managed lease hotels, total gross revenue is not revenue

attributable to IHG as it is derived from hotels owned by third parties. A reconciliation of total gross revenue to the owned, leased and managed lease revenue included in the Group Financial Statements is set out on page 38.

Revenue and operating profit measures

In each of the following measures, System Fund results are excluded as the System Fund is not managed to a profit or loss for IHG, although an in-year surplus or deficit can arise. Revenues related to the reimbursement of costs, and the related costs, are excluded as operating profit is unaffected and an increase in these does not indicate growth for the business. Exceptional items are also excluded as they can be significantly skewed by one off events, for example reorganisation costs (see note 6 on page 124).

Operating profit measures are, by their nature, before interest and tax. A pre-interest and pre-tax measure excludes the impact of the Group's financing and external factors such as legislative changes, respectively. A pre-interest and pre-tax measure is considered more reflective of the Group's success in executing against its strategy.

Revenue from reportable segments and operating profit from reportable segments – comprises the Group's fee business and owned, leased and managed lease hotels. This measure is disclosed in note 2 to the Group Financial Statements.

Underlying revenue and underlying operating profit – adjusts the above to exclude the impact of owned asset disposals, significant liquidated damages, current year acquisitions, all translated at constant currency using prior year exchange rates. The presentation of these performance measures allows a better understanding of comparable year-on-year trading and enables an assessment of the underlying trends in the Group's financial performance.

Underlying fee revenue and fee margin – further analyses the above for the Group's fee business only, reflecting the Group's core fee-based business model. Underlying fee revenue is at constant currency using prior year exchange rates, fee margin is at actual exchange rates.

Operating profit from reportable segments before central overheads – used only to assist in understanding the relative contribution of IHG's regions to the Group, and as such central overheads are excluded.

Underlying interest

This is a new measure in the year following the adoption of IFRS 15 and includes the interest payable to the System Fund on the outstanding cash balance relating to the IHG Rewards Club programme.

In addition the Group's financial expenses are presented net of System Fund

capitalised interest (see note 7), this interest is related to the assets attributable to the System Fund. These are adjusted as the System Fund is not managed to a profit or loss for IHG therefore removing these provides a better view of the Group's underlying interest expense.

Tax excluding the impact of exceptional items and System Fund

This is a new measure in the year following the adoption of IFRS 15 which gives a more meaningful understanding of the Group's ongoing tax charge. Exceptional items represent distorting or non-recurring items and therefore often skew the current year's tax charge. The System Fund is not managed to

a profit or loss for IHG and is, in general, not subject to tax either. Therefore, removing these provides a better view of the Group's underlying tax rate on ordinary operations and aids comparability year-on-year.

Adjusted earnings per ordinary share, Underlying earnings per ordinary share

Adjusted earnings per ordinary share excludes System Fund revenues and expenses, any interest and tax relating to the System Fund, exceptional items, and their related tax impacts. Adjusted earnings per ordinary share provides a per share measure that is not skewed by the result of the System Fund or exceptional items. Underlying earnings per ordinary share is calculated by dividing underlying profit for the period available for IHG equity holders by

the weighted average number of ordinary shares in issue during the period, excluding investment in own shares. The presentation of underlying earnings per ordinary share allows a better understanding of comparable year-on-year trading and thereby allows an assessment of the underlying trends in the Group's financial performance.

Net debt, Net capital expenditure, Free cash flow

Net debt is used in the monitoring of the Group's liquidity and capital structure, and is used to calculate the key ratios attached to the Group's bank covenants. Net debt comprises loans and other borrowings, derivatives hedging debt values, less cash and cash equivalents, and is reconciled to the amounts included in the Group Financial Statements in note 21 on page 143.

Net capital expenditure is defined as cash flow from investing activities less contract acquisition costs, excluding the acquisition of businesses net of cash acquired, tax paid on disposals and adjusted for System Fund depreciation and amortisation (recovery of previous System Fund capital expenditure). For internal management reporting, capital expenditure is reported as either maintenance, recyclable, or System Fund.

The disaggregation of net capital expenditure provides useful information as it enables users to distinguish between System Fund capital investments and recyclable investments (such as investments in associates and joint ventures), which are intended to be recoverable in the medium term, compared with maintenance capital expenditure (including key money paid), which represents a permanent cash outflow.

Free cash flow is defined as cash flow from operating activities (after interest and tax paid) and excluding contract acquisition costs net of repayments, less purchase of shares by employee share trusts and maintenance capital expenditure (including key money paid). Free cash flow is a useful measure for investors, as it represents the cash available to invest back into the business to drive growth, pay the ordinary dividend, with any surplus being available for additional returns to shareholders.

These measures have limitations as they omit certain components of the overall cash flow statement. They are not intended to represent IHG's residual cash flow available for discretionary expenditures, nor do they reflect our future capital commitments. These measures are used by many companies, but there can be differences in how each company defines the terms, limiting their usefulness as a comparative measure. Therefore, it is important to view these measures only as a complement to the Group statement of cash flows.



The performance review should be read in conjunction with the Non-GAAP reconciliations on pages 172 to 175 and the glossary on pages 204 to 205.

Group

Group results

	12 months ended 31 December				
	2018 \$m	2017 Restated \$m	2018 vs 2017 % change	2016 Restated \$m	2017 vs 2016 % change
Revenue^a					
Americas	1,051	999	5.2	969	3.1
EMEA	569	457	24.5	439	4.1
Greater China	143	117	22.2	112	4.5
Central	170	157	8.3	147	6.8
Revenue from reportable segments	1,933	1,730	11.7	1,667	3.8
System Fund revenues	1,233	1,242	(0.7)	1,199	3.6
Reimbursement of costs	1,171	1,103	6.2	1,046	5.4
Total revenue	4,337	4,075	6.4	3,912	4.2
Operating profit^a					
Americas	662	637	3.9	626	1.8
EMEA	202	171	18.1	157	8.9
Greater China	69	52	32.7	46	13.0
Central	(117)	(102)	(14.7)	(123)	17.1
Operating profit from reportable segments	816	758	7.7	706	7.4
System Fund result	(146)	(34)	(329.4)	35	(197.1)
Operating profit before exceptional items	670	724	(7.5)	741	(2.3)
Exceptional items	(104)	4	(2,700.0)	(29)	113.8
Operating profit	566	728	(22.3)	712	2.2
Net financial expenses	(81)	(72)	(12.5)	(80)	10.0
Profit before tax	485	656	(26.1)	632	3.8
Earnings per ordinary share					
Basic	184.7¢	279.8¢	(34.0)	215.1¢	30.1
Adjusted	292.1¢	244.6¢	19.4	203.8¢	20.0
Average US dollar to sterling exchange rate	\$1: £0.75	\$1: £0.78	(3.8)	\$1: £0.74	5.4

Highlights for the year ended 31 December 2018

During the year ended 31 December 2018, total revenue increased by \$262m (6.4%) to \$4,337m, whilst revenue from reportable segments increased by \$203m (11.7%) to \$1,933m, primarily resulting from 4.8% rooms growth, 2.5% comparable RevPAR growth and the addition of a portfolio in the UK. Operating profit and profit before tax decreased by \$162m (22.3%) and \$171m (26.1%) respectively, due to a \$108m increase in exceptional items, largely associated with restructuring costs related to the comprehensive efficiency programme as well as a \$112m higher in-year System Fund deficit. Operating profit from reportable segments increased by \$58m (7.7%) to \$816m.

Underlying^b revenue and underlying^b operating profit increased by \$98m (5.7%) and \$47m (6.2%) respectively.

Comparable RevPAR increased by 2.5% (including an increase in average daily rate of 1.8%). IHG System size increased by 4.8% to 836,541 rooms, whilst underlying fee revenue^c increased by 6.5%.

Fee margin^c was 52.4%, remaining in line with 2017 (up 0.1 percentage points at constant currency, removing the impact of foreign exchange movements). Fee margin was impacted by growth investment in excess of realised savings from the comprehensive efficiency programme and a one-off marketing assessment in 2018 and would otherwise have continued to grow, benefiting from efficiency improvements and our global scale.

Basic earnings per ordinary share decreased by 34.0% to 184.7¢, whilst adjusted earnings per ordinary share increased by 19.4% to 292.1¢.

^a Americas, EMEA and Greater China include revenue and operating profit before exceptional items from both fee business and owned, leased and managed lease hotels.

^b Underlying revenue and underlying operating profit both exclude System Fund revenue and expenses, reimbursement of costs, the impact of owned asset disposals, significant liquidated damages and current year acquisitions, all translated at constant currency using prior year exchange rates. Underlying operating profit also excludes the impact of exceptional items (see pages 172 and 173).

^c Underlying fee revenue and fee margin are defined as excluding revenue from owned, leased and managed lease hotels, System Fund revenue, reimbursement of costs, the impact of owned asset disposals, significant liquidated damages and current year acquisitions (see pages 172 and 173). Underlying fee revenue is at constant currency using prior year exchange rates, fee margin is at actual exchange rates.

Accounting principles

The Group results are prepared under International Financial Reporting Standards (IFRS) and following the adoption of IFRS 15 'Revenue from Contracts with Customers' the 2017 and 2016 comparatives have been restated. The application of IFRS requires management to make judgements, estimates and assumptions, and those considered critical to the preparation of the Group results are set out on page 108 of the Group Financial Statements.

The Group discloses certain financial information both including and excluding exceptional items. For comparability of the periods presented, some of the performance indicators in this performance review are calculated after eliminating these exceptional items. An analysis of exceptional items is included in note 6 on page 124 of the Group Financial Statements.

Performance continued

Group continued

Highlights for the year ended 31 December 2017

During the year ended 31 December 2017, total revenue increased by \$163m (4.2%) to \$4,075m, whilst revenue from reportable segments increased by \$63m (3.8%) primarily due to 4.0% rooms growth and 2.7% comparable RevPAR growth. Operating profit and profit before tax increased by \$16m (2.2%) and \$24m (3.8%) respectively. Operating profit from reportable segments increased by \$52m (7.4%) to \$758m.

Underlying^a revenue and underlying^a operating profit increased by \$74m (4.4%) and \$56m (7.9%) respectively.

Comparable RevPAR increased by 2.7% (including an increase in average daily rate of 1.1%). IHG System size increased by 4.0% to 798,075 rooms, whilst underlying fee revenue^b increased by 4.7%.

Fee margin was 52.4%, up 1.8 percentage points (up 1.7 percentage points at constant currency, removing the impact of foreign exchange movements) on 2016. Fee margin benefited from efficiency improvements and by leveraging our global scale.

Basic earnings per ordinary share increased by 30.1% to 279.8¢, reflecting the increase in operating profit and the impact of the share capital reduction as a result of the share consolidation in May 2017 whilst adjusted earnings per ordinary share increased by 20.0% to 244.6¢.

Group total gross revenue in IHG's System

	12 months ended 31 December		
	2018 \$bn	2017 Restated \$bn	% change
Analysed by brand			
InterContinental	5.1	4.8	6.3
Kimpton	1.3	1.1	18.2
Crowne Plaza	4.5	4.3	4.7
Hotel Indigo	0.5	0.4	25.0
EVEN Hotels	0.1	0.1	-
Holiday Inn	6.5	6.3	3.2
Holiday Inn Express	7.1	6.7	6.0
Staybridge Suites	0.9	0.9	-
Candlewood Suites	0.8	0.8	-
Other	0.6	0.3	100.0
Total	27.4	25.7	6.6
Analysed by ownership type			
Fee business	27.0	25.3	6.6
Owned, leased and managed lease ^c	0.4	0.4	-
Total	27.4	25.7	6.6

One measure of IHG System performance is the growth in total gross revenue, defined as total rooms revenue from franchised hotels and total hotel revenue from managed, owned, leased and managed lease hotels. Other than owned, leased and managed lease hotels, total gross revenue is not revenue attributable to IHG, as it is derived mainly from hotels owned by third parties.

Total gross revenue in IHG's System increased by 6.6% (6.2% increase at constant currency) to \$27.4bn, driven by IHG System size and comparable RevPAR growth.

^a Underlying revenue and underlying operating profit both exclude System Fund revenues and expenses, reimbursement of costs, the impact of owned asset disposals, significant liquidated damages and current year acquisitions, all translated at constant currency using prior year exchange rates. Underlying operating profit growth also excludes the impact of exceptional items (see pages 172 and 173).

^b Underlying fee revenue is defined as Group revenue excluding revenue from owned, leased and managed lease hotels, System Fund revenues, reimbursement of costs, the impact of owned asset disposals, significant liquidated damages and current year acquisitions (see pages 172 and 173).

^c See note 3 of the Group Financial Statements on page 120.

Group hotel and room count

Total number of hotels

5,603

Total number of rooms

836,541

During 2018, the global IHG System (the number of hotels and rooms which are franchised, managed, owned, leased or managed lease) increased by 255 hotels (38,466 rooms) to 5,603 hotels (836,541 rooms).

Openings of 362 hotels (56,343 rooms) were 27.0% higher than in 2017. Openings in the Americas included 135 hotels (13,392 rooms) in the Holiday Inn brand family. 77 hotels (18,812 rooms) were opened in Greater China in 2018, with the EMEA region also contributing openings of 77 hotels (15,283 rooms). 107 hotels (17,877 rooms) left the IHG System in 2018, a decrease from the previous year (111 hotels, 17,247 rooms).

At 31 December	Hotels		Rooms	
	2018	Change over 2017	2018	Change over 2017
Analysed by brand				
Regent	6	6	2,005	2,005
InterContinental	204	10	69,281	3,283
Kimpton	66	-	12,915	399
HUALUXE	8	1	2,335	246
Crowne Plaza	429	15	120,168	5,368
voco	2	2	531	531
Hotel Indigo	102	17	12,749	2,104
EVEN Hotels	10	2	1,551	313
Holiday Inn ^a	1,251	9	233,852	1,159
Holiday Inn Express	2,726	126	279,516	17,118
avid hotels	1	1	87	87
Staybridge Suites	276	21	30,217	2,472
Candlewood Suites	396	20	37,210	1,786
Other	126	25	34,124	1,595
Total	5,603	255	836,541	38,466
Analysed by ownership type				
Franchised	4,615	182	576,979	24,145
Managed	965	62	253,566	12,196
Owned, leased and managed lease	23	11	5,996	2,125
Total	5,603	255	836,541	38,466

^a Includes 45 Holiday Inn Resort properties (11,301 rooms) and 27 Holiday Inn Club Vacations properties (7,927 rooms) (2017: 47 Holiday Inn Resort properties (11,954 rooms) and 26 Holiday Inn Club Vacations properties (7,676 rooms)).

Group pipeline

Total number of hotels in the pipeline

1,859

Total number of rooms in the pipeline

270,948

At the end of 2018, the global pipeline totalled 1,859 hotels (270,948 rooms), an increase of 204 hotels (26,802 rooms) on 31 December 2017. The IHG pipeline represents hotels where a contract has been signed and the appropriate fees paid.

Group signings increased from 605 hotels in 2017 to 691 hotels and rooms increased from 83,481 rooms to 98,814 rooms. This included 314 hotels (44,649 rooms) signed for the Holiday Inn brand family, 40.2% of which were contributed by Greater China (99 hotels, 17,958 rooms).

Active management of the pipeline to remove deals that have become dormant or no longer viable reduced the pipeline by 125 hotels (15,669 rooms), compared to 135 hotels (21,224 rooms) in 2017.

At 31 December	Hotels		Rooms	
	2018	Change over 2017	2018	Change over 2017
Analysed by brand				
Regent	3	3	514	514
InterContinental	60	(3)	15,795	(1,558)
Kimpton	27	9	4,474	1,678
HUALUXE	21	-	6,099	(190)
Crowne Plaza	79	(7)	22,134	(913)
voco	8	8	1,510	1,510
Hotel Indigo	92	10	13,078	1,777
EVEN Hotels	18	6	3,184	1,074
Holiday Inn ^b	288	11	55,651	2,095
Holiday Inn Express	784	18	98,424	5,064
avid hotels	171	127	15,811	11,768
Staybridge Suites	182	22	20,849	2,908
Candlewood Suites	102	(10)	9,121	(888)
Other	24	10	4,304	1,963
Total	1,859	204	270,948	26,802
Analysed by ownership type				
Franchised	1,398	175	161,343	21,995
Managed	460	28	109,450	4,652
Owned, leased and managed lease	1	1	155	155
Total	1,859	204	270,948	26,802

^b Includes 19 Holiday Inn Resort properties (5,229 rooms) (2017: 13 Holiday Inn Resort properties (3,620 rooms)).

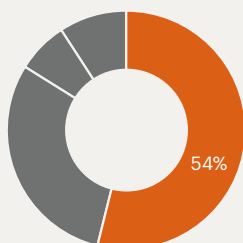
Performance continued
Americas



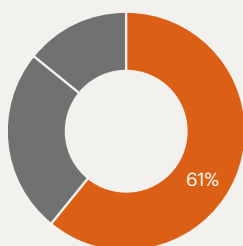
“In 2018, we signed the highest number of rooms in 10 years. We expanded our mainstream leadership with innovations to our Holiday Inn Express, Holiday Inn and extended stay brands, and launched avid hotels. We also increased our luxury and upscale presence with the growth of InterContinental, Kimpton and Hotel Indigo and investments in Crowne Plaza.”

Elie Maalouf
Chief Executive Officer, Americas

Americas revenue 2018 (\$1,051m)



Americas number of rooms (510,129)



Comparable RevPAR movement on previous year

(12 months ended 31 December 2018)

Fee business	
InterContinental	4.6%
Kimpton	1.2%
Crowne Plaza	0.3%
Hotel Indigo	4.7%
EVEN Hotels	9.5%
Holiday Inn	1.8%
Holiday Inn Express	1.6%
Staybridge Suites	3.3%
Candlewood Suites	1.7%
All brands	1.9%
Owned, leased and managed lease	
InterContinental	1.1%
EVEN Hotels	5.6%
Holiday Inn	11.5%
All brands	5.2%

Regional priorities

- Expand our mainstream leadership with the continued roll out of new innovations to Holiday Inn Express and Holiday Inn, as well as the ongoing growth of avid hotels.
- Continue to build our luxury presence and broaden the footprints for InterContinental Hotels & Resorts and Kimpton Hotels & Restaurants.
- Capitalise on the momentum of the Crowne Plaza Accelerate programme with the continued roll out of new room and public space designs.
- Solidify our strong performance in the extended stay market segment. Our new designs for Staybridge Suites and Candlewood Suites will be available to the full Americas estate in 2019.
- Building on our mainstream strength, in February 2019 we announced plans to launch into the US a new all-suites upper midscale brand, targeted at an underserved \$18 billion industry segment.

Industry performance in 2018

Industry RevPAR in the Americas increased by 3.4%, driven by a 2.9% average daily rate growth and 0.3ppts occupancy growth. Occupancy achieved its highest level ever recorded, topping the record set in 2017. Room demand grew 2.4%, with slower growth in the latter part of 2018 due to lapping of two hurricanes that propelled demand in the US in late 2017. Supply growth remained in line with 2017 at 1.9%.

US lodging industry room demand advanced 2.5% in 2018, its largest increase since 2014, whilst supply growth increased to 2.0%. US industry RevPAR increased by 2.9% in 2018, led by a 2.4% average daily rate growth. RevPAR in the US upper midscale chain scale, where the Holiday Inn and Holiday Inn Express brands operate, increased by 1.4%.

In Canada, industry RevPAR increased by 5.3%, driven by a 4.3% increase in average daily rate, and in Mexico, RevPAR declined by 1.9%, led by a 9.0ppt fall in occupancy.

Regional highlights

Successful launch of avid

- avid was created to reach an important set of business and leisure travellers in an underserved \$20 billion segment of the US midscale market. Designed with input from target consumers and an advisory board of leading IHG owners, the brand experience delivers exactly what guests have been waiting for in a mainstream hotel – the essentials done exceptionally well – while also being easy to build, operate and maintain.
- We have signed more than 170 avid hotels across the US, Canada and Mexico since launch in September 2017, and opened our first hotel in Oklahoma City. This makes it the fastest new development brand to progress from concept to launch for IHG. This strong momentum firmly positions the brand as a long-term driver of Americas growth.

IHG's regional performance in 2018

IHG's comparable RevPAR in the Americas increased by 1.9%, driven by 1.7% average daily rate growth. The region is predominantly represented by the US, where comparable RevPAR increased by 1.3%. In the US, we are most represented by our mainstream brands Holiday Inn and Holiday Inn Express. RevPAR in our mainstream brands increased slightly behind the market segment overall, with RevPAR for the Holiday Inn brand increasing by 1.1%, whilst the Holiday Inn Express brand increased by 1.4%, in line with the market segment.

Canada achieved strong RevPAR growth of 5.2%, whilst Mexico RevPAR grew 2.0%, led by rate growth.

Americas results

	12 months ended 31 December				
	2018 \$m	2017 Restated \$m	2018 vs 2017 % change	2016 Restated \$m	2017 vs 2016 % change
Revenue from the reportable segment^a					
Fee business	853	811	5.2	796	1.9
Owned, leased and managed lease	198	188	5.3	173	8.7
Total	1,051	999	5.2	969	3.1
Percentage of Group revenue from reportable segments	54.4	57.7	(3.3)	58.1	(0.4)
Operating profit from the reportable segment^a					
Fee business	633	608	4.1	602	1.0
Owned, leased and managed lease	29	29	-	24	20.8
	662	637	3.9	626	1.8
Exceptional items	(36)	37	(197.3)	(29)	227.6
Operating profit	626	674	(7.1)	597	12.9
Percentage of Group operating profit from reportable segments before central overheads^b	71.0	74.1	(3.1)	75.5	(1.4)

Highlights for the year ended 31 December 2018

With 4,161 hotels (510,129 rooms), the Americas represented 61% of the Group's room count. The key profit generating region is the US, although the Group is also represented in Latin America, Canada, Mexico and the Caribbean. 88% of rooms in the region are operated under the franchise business model, primarily under our mainstream brands (including the Holiday Inn brand family). In the upscale market segment, Crowne Plaza is predominantly franchised whereas, in the luxury market segment, InterContinental-branded hotels are operated under both franchise and management agreements, whilst Kimpton is managed. 12 of the Group's 15 hotel brands are represented in the Americas.

Revenue from the reportable segment^a increased by \$52m (5.2%) to \$1,051m, whilst operating profit decreased by \$48m (7.1%) to \$626m. Operating profit from the reportable segment^a increased by \$25m (3.9%) to \$662m. On an underlying^c basis, revenue increased by \$54m (5.4%), whilst operating profit increased by \$26m (4.1%), driven predominantly by RevPAR growth in the fee business and an increase in net rooms.

Revenue and operating profit from the reportable segment are further analysed by fee business and owned, leased and managed lease hotels.

Fee business revenue and operating profit increased by \$42m (5.2%) to \$853m and by \$25m (4.1%) to \$633m respectively, partly impacted by adverse foreign exchange^d (revenue \$2m, and operating profit \$1m), as RevPAR growth and net rooms growth was partly offset by lower fees from the termination of hotels and the impact from previously disclosed Crowne Plaza Accelerate financial incentives.

Owned, leased and managed lease revenue increased by \$10m (5.3%) to \$198m, whilst operating profit remained flat against 2017.

Highlights for the year ended 31 December 2017

Revenue from the reportable segment^a increased by \$30m (3.1%) to \$999m and operating profit increased by \$77m (12.9%) to \$674m. Operating profit from the reportable segment^a increased by \$11m (1.8%) to \$637m. On an underlying^c basis, revenue increased by \$35m (3.6%), whilst operating profit increased by \$16m (2.6%), driven predominantly by RevPAR growth in the fee business and an increase in net rooms.

Revenue and operating profit from the reportable segment are further analysed by fee business and owned, leased and managed lease hotels.

Fee business revenue and operating profit increased by \$15m (1.9%) to \$811m and by \$6m (1.0%) to \$608m respectively, partly impacted by adverse foreign exchange^d (revenue \$5m, and operating profit \$5m) as growth from RevPAR and net rooms growth were partly offset by a delay in the recognition of a payroll tax credit, the implementation of the previously disclosed Crowne Plaza Accelerate financial incentives, and the annualisation of our investment in the Americas development team. Comparable RevPAR grew 1.6%, including 1.9% for Holiday Inn and 1.7% for Holiday Inn Express, whilst net rooms grew 1.9%.

Owned, leased and managed lease revenue increased by \$15m (8.7%) to \$188m, whilst operating profit increased by \$5m (20.8%) to \$29m due to North American inbound business to Holiday Inn Aruba and the ramp up of EVEN Hotels Brooklyn.

^a Americas reportable segment includes revenue and operating profit before exceptional items, excluding System Fund revenues and expenses and reimbursement of costs, for both fee business and owned, leased and managed lease hotels.

^b Operating profit from reportable segments before central overheads excludes exceptional items, System Fund revenues and expenses, reimbursement of costs, and central overheads, to assist understanding of the relative contribution of IHG's regions to the Group.

^c Underlying revenue and underlying operating profit both exclude System Fund revenues and expenses, reimbursement of costs, the impact of owned asset disposals, significant liquidated damages and current year acquisitions, all translated at constant currency using prior year exchange rates. Underlying operating profit growth also excludes the impact of exceptional items (see pages 172 and 173).

^d The impact of movements between the previous year's average exchange rates and actual average exchange rates in 2018.

Performance continued

Americas continued

Americas hotel and room count

At 31 December	Hotels		Rooms	
	2018	Change over 2017	2018	Change over 2017
Analysed by brand				
InterContinental	51	1	17,753	175
Kimpton	64	(1)	12,307	65
Crowne Plaza	156	-	41,499	221
Hotel Indigo	57	6	7,495	667
EVEN Hotels	10	2	1,551	313
Holiday Inn ^a	774	1	134,492	(1,112)
Holiday Inn Express	2,289	72	206,620	7,210
avid hotels	1	1	87	87
Staybridge Suites	261	17	28,032	1,876
Candlewood Suites	396	20	37,210	1,786
Other	102	13	23,083	1,381
Total	4,161	132	510,129	12,669
Analysed by ownership type				
Franchised	3,853	126	450,102	12,810
Managed	301	6	57,804	(141)
Owned, leased and managed lease	7	-	2,223	-
Total	4,161	132	510,129	12,669
Percentage of Group hotel and room count	74.3	51.8	61.0	32.9

Total number of hotels

4,161

Total number of rooms

510,129

Americas System size increased by 132 hotels (12,669 rooms) to 4,161 hotels (510,129 rooms) during 2018. 208 hotels (22,248 rooms) opened in the year, compared to 190 hotels (21,615 rooms) in 2017. Openings included 135 hotels (13,392 rooms) in the Holiday Inn brand family, representing 64.9% of the region's hotel openings.

76 hotels (9,579 rooms) were removed from the Americas System in 2018, demonstrating our continued commitment to quality, compared to 86 hotels (12,148 rooms) in 2017.

^a Includes 23 Holiday Inn Resort properties (6,184 rooms) and 27 Holiday Inn Club Vacations properties (7,927 rooms) (2017: 25 Holiday Inn Resort properties (6,787 rooms) and 26 Holiday Inn Club Vacations properties (7,676 rooms)).

Americas pipeline

At 31 December	Hotels		Rooms	
	2018	Change over 2017	2018	Change over 2017
Analysed by brand				
InterContinental	6	(1)	1,477	(416)
Kimpton	16	2	2,335	97
Crowne Plaza	6	(8)	1,263	(1,456)
Hotel Indigo	35	2	4,523	497
EVEN Hotels	10	2	1,296	182
Holiday Inn ^b	126	(2)	16,052	(323)
Holiday Inn Express	499	(25)	47,620	(1,987)
avid hotels	171	127	15,811	11,768
Staybridge Suites	163	17	16,902	1,470
Candlewood Suites	102	(10)	9,121	(888)
Other	22	10	3,882	2,234
Total	1,156	114	120,282	11,178
Analysed by ownership type				
Franchised	1,115	113	113,657	10,813
Managed	41	1	6,625	365
Total	1,156	114	120,282	11,178

Total number of hotels in the pipeline

1,156

Total number of rooms in the pipeline

120,282

At 31 December 2018, the Americas pipeline totalled 1,156 hotels (120,282 rooms), representing an increase of 114 hotels (11,178 rooms) over the prior year. Strong signings of 416 hotels (42,766 rooms) were ahead of last year by 51 hotels (5,347 rooms). The majority of 2018 signings were within our mainstream brands including the Holiday Inn brand family (156 hotels, 15,643 rooms), our extended stay brands, Staybridge Suites and Candlewood Suites (76 hotels, 7,218 rooms) and avid hotels (129 hotels, 12,057 rooms), which continues to make good progress towards becoming IHG's next brand of scale.

94 hotels (9,340 rooms) were removed from the pipeline in 2018 compared to 78 hotels (9,151 rooms) in 2017.

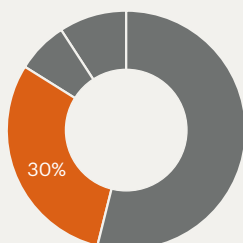
^b Includes one Holiday Inn Resort property (165 rooms) (2017: one Holiday Inn Resort property (165 rooms)).



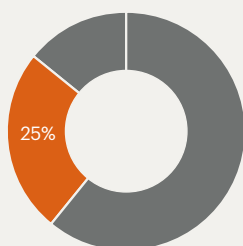
“It has been a strong year of performance for EMEA. Through expanding our core brand portfolio, launching exciting new brands and step-changing performance, we have increased our signings by more than 20%. Our talented teams, working close to the market, have delivered richer guest experiences and enhanced owner returns.”

Kenneth Macpherson
Chief Executive Officer, EMEA

EMEA revenue 2018 (\$569m)



EMEA number of rooms (211,099)



Comparable RevPAR movement on previous year
(12 months ended 31 December 2018)

Fee business	
InterContinental	2.6%
Crowne Plaza	3.4%
Hotel Indigo	4.7%
Holiday Inn	3.0%
Holiday Inn Express	2.0%
Staybridge Suites	1.1%
All brands	2.8%
Owned, leased and managed lease	
InterContinental	(1.6)%
Holiday Inn	6.9%
All brands	(0.7)%

Regional priorities

- EMEA has delivered strong growth with signings increasing by more than 20% in 2018. Through enhancing our core brand portfolio, embedding the new EMEA operating model and focusing on operational performance, as well as continuing to enter new markets with our brands, we will concentrate on delivering growth in 2019.
- We have a strategic plan in the UK and a key development in 2018 has been the integration of the UK portfolio properties which is progressing well and will be a focus for 2019. In Germany, one of the world’s largest outbound markets, we have developed strong relationships with our Multiple Development Agreement (MDA) partners who are our primary source of growth. We are building an empowered business with increased resource and capability.
- The expansion of Kimpton Hotels & Restaurants has gathered momentum across EMEA with key signings in Bangkok, Barcelona, Frankfurt, Paris and Tokyo, as well as the opening of our first UK property – the Kimpton Fitzroy in London. EMEA will look to build further on this momentum in 2019.

Industry performance in 2018

Industry RevPAR in EMEA increased by 4.3%, driven by a 3.2% average daily rate growth and 0.8ppts occupancy growth. In Europe room demand grew 1.7% and average daily rate advanced 4.3%, resulting in RevPAR growth of 5.5%. UK industry RevPAR was up 2.5%, led by a 1.7% rate increase, as room demand increased 2.6%. In Germany, industry RevPAR was up 2.4%, driven by 1.8% in average daily rate and a 2.8% increase in demand.

RevPAR grew 1.4% in the Middle East. Excluding Egypt, RevPAR declined 5.5% in the Middle East, as supply increased 5.3%. India saw RevPAR increase 2.0%.

Elsewhere in EMEA, several major markets all saw RevPAR growth, including Japan (2.3%), Australia (1.2%), and Thailand (2.8%), driven by both demand and average daily rate.

Regional highlights

Growing our brand portfolio

- An agreement to rebrand and operate a portfolio of high-quality hotels established IHG as the UK’s leading luxury hotel operator. IHG has subsequently confirmed the UK debut locations for Kimpton Hotels & Restaurants and our new upscale brand, voco, in prime city centre and destination locations around the country.
- The launch of new upscale brand voco in June with an ambition to open more than 200 voco hotels over the next 10 years. This distinctive brand will offer owners the ability to drive higher returns through delivering a compelling guest experience and leveraging IHG’s powerful systems. The first voco hotels worldwide are already open, in Australia and the UK.
- We announced in October a Multiple Development Agreement (MDA) to bring 15 avid hotels to the German market, where our proactive development approach has delivered exceptional growth in recent years.

IHG’s regional performance in 2018

EMEA RevPAR grew 2.7%, driven by 1.8% average daily rate growth. In the UK, where IHG has the largest regional presence, RevPAR increased 1.2%, led by growth in London (2.6%). France and Germany achieved RevPAR growth of 6.5% and 1.0% respectively driven by average daily rate growth. The rest of Europe achieved growth of 8.4%, led by recovery in markets previously impacted by terror attacks and by growth in Russia, driven by the FIFA World Cup.

India RevPAR grew 9.8%, driven by average daily rate, whilst the Middle East declined 6.3%, following oversupply.

Japan grew 3.2% driven by average daily rate whilst growth in Australia (0.8%) was dampened by supply growth in certain cities. Thailand grew by 2.4%.

Performance continued

EMEAA continued

EMEAA results

	2018 \$m	12 months ended 31 December			
		2017 Restated \$m	2018 vs 2017 % change	2016 Restated \$m	2017 vs 2016 % change
Revenue from the reportable segment^a					
Fee business	320	294	8.8	274	7.3
Owned, leased and managed lease	249	163	52.8	165	(1.2)
Total	569	457	24.5	439	4.1
Percentage of Group revenue from reportable segments	29.4	26.4	3.0	26.3	0.1
Operating profit from the reportable segment^a					
Fee business	200	165	21.2	148	11.5
Owned, leased and managed lease	2	6	(66.7)	9	(33.3)
	202	171	18.1	157	8.9
Exceptional items	(12)	(4)	(200.0)	-	-
Operating profit	190	167	13.8	157	6.4
Percentage of Group operating profit from reportable segments before central overheads^b	21.6	19.9	1.8	18.9	1.0

Highlights for the year ended 31 December 2018

Comprising of 1,051 hotels (211,099 rooms) at the end of 2018, EMEAA represented 25% of the Group's room count. Revenues are primarily generated from hotels in the UK and gateway cities in continental Europe, the Middle East and Asia. The largest portion of rooms in the UK and continental Europe are operated under the franchise business model, primarily under our mainstream brands (Holiday Inn and Holiday Inn Express). Similarly, in the upscale market segment, Crowne Plaza is predominantly franchised, whereas, in the luxury market segment, the majority of InterContinental-branded hotels are operated under management agreements. The majority of hotels in markets outside of Europe are operated under the managed business model.

Revenue from the reportable segment^a increased by \$112m (24.5%) to \$569m and operating profit increased by \$23m (13.8%) to \$190m, both including the benefit of \$7m significant liquidated damages recorded (2017: \$nil). Operating profit from the reportable segment^a increased by \$31m (18.1%) to \$202m. On an underlying^c basis, revenue increased by \$14m (3.1%) and operating profit increased by \$25m (14.6%) driven by strong trading, net rooms growth and lower costs associated with the Group-wide efficiency programme.

Overall, comparable RevPAR in EMEAA increased by 2.7%, with the UK and Germany increasing by 1.2% and 1.0% respectively.

Recovery in markets previously impacted by terror attacks continued with 6.5% growth in France. The Middle East declined by 6.3%, impacted by increased supply and political instability in certain markets.

Revenue and operating profit from the reportable segment are further analysed by fee business and owned, leased and managed lease hotels.

Fee business revenue increased by \$26m (8.8%) to \$320m, whilst operating profit increased by \$35m (21.2%) to \$200m, partly benefiting from the impact of foreign exchange^d (revenue \$3m, and operating profit \$2m), and from cost savings associated with the Group-wide efficiency programme. Comparable RevPAR increased by 2.8%, driven by gains in both average daily rate and occupancy.

Owned, leased and managed lease revenue increased by \$86m (52.8%) due to the addition of a portfolio in the UK, and partly benefiting from the impact of foreign exchange^d (\$2m), whilst operating profit decreased by \$4m (66.7%), partly impacted by adverse foreign exchange^d (\$1m).

Highlights for the year ended 31 December 2017

Revenue from the reportable segment^a increased by \$18m (4.1%) to \$457m and operating profit increased by \$10m (6.4%) to \$167m. Operating profit from the reportable segment^a increased by \$14m (8.9%) to \$171m. On an underlying^c basis, revenue increased by \$21m (4.8%) and operating profit increased by \$16m (10.2%) driven by strong trading, 7.0% rooms growth and effective cost control to maintain overheads in line with the prior year.

Overall, comparable RevPAR in EMEAA increased by 4.2%, with the UK and Germany increasing by 4.5% and 2.1% respectively. Recovery in markets previously impacted by terror attacks led to RevPAR growth in the year of 7.1% in France and double digit growth in Belgium and Turkey. Performance was positive in Japan and Australia which grew by 2.7% and 4.5% respectively, however the Middle East decreased by 4.1%, impacted by low oil prices and industry-wide oversupply.

Revenue and operating profit from the reportable segment are further analysed by fee business and owned, leased and managed lease hotels.

Fee business revenue increased by \$20m (7.3%) to \$294m, whilst operating profit increased by \$17m (11.5%) to \$165m, partly impacted by adverse foreign exchange^d (revenue \$4m, and operating profit \$2m). Comparable RevPAR increased by 4.2%, driven by gains in both average daily rate and occupancy.

Owned, leased and managed lease revenue decreased by \$2m (1.2%), partly benefiting from the impact of foreign exchange^d (\$1m) whilst operating profit decreased by \$3m (33%).

^a EMEAA reportable segment includes revenue and operating profit before exceptional items, excluding System Fund revenues and expenses and reimbursement of costs, for both fee business and owned, leased and managed lease hotels.

^b Operating profit from reportable segments before central overheads excludes exceptional items, System Fund revenues and expenses, reimbursement of costs, and central overheads, to assist understanding of the relative contribution of IHG's regions to the Group.

^c Underlying revenue and underlying operating profit both exclude System Fund revenues and expenses, reimbursement of costs, the impact of owned asset disposals, significant liquidated damages and current year acquisitions, all translated at constant currency using prior year exchange rates. Underlying operating profit growth also excludes the impact of exceptional items (see pages 172 and 173).

^d The impact of movements between the previous year's actual average exchange rates and actual average rates in 2018.

EMEA hotel and room count

Total number of hotels

1,051

Total number of rooms

211,099

During 2018, EMEA System size increased by 60 hotels (12,023 rooms) to 1,051 hotels (211,099 rooms). 77 hotels (15,283 rooms) opened in EMEA in 2018, compared to 52 hotels (16,002 rooms) in 2017.

17 hotels (3,260 rooms) left the EMEA System in the period, compared to 18 hotels (3,046 rooms) in the previous year.

At 31 December	Hotels		Rooms	
	2018	Change over 2017	2018	Change over 2017
Analysed by brand				
Regent	3	3	769	769
InterContinental	106	2	32,299	508
Kimpton	2	1	608	334
Crowne Plaza	182	6	46,259	1,685
voco	2	2	531	531
Hotel Indigo	35	8	3,748	954
Holiday Inn ^a	385	2	71,353	923
Holiday Inn Express	304	22	43,732	4,557
Staybridge Suites	15	4	2,185	596
Other	17	10	9,615	1,166
Total	1,051	60	211,099	12,023
Analysed by ownership type				
Franchised	726	31	118,122	6,344
Managed	309	18	89,204	3,554
Owned, leased and managed lease	16	11	3,773	2,125
Total	1,051	60	211,099	12,023
Percentage of Group hotel and room count	18.8	23.5	25.2	31.3

^a Includes 16 Holiday Inn Resort properties (3,391 rooms) (2017: 16 Holiday Inn Resort properties (3,347 rooms)).

EMEA pipeline

Total number of hotels in the pipeline

362

Total number of rooms in the pipeline

72,743

The EMEA pipeline totalled 362 hotels (72,743 rooms) at 31 December 2018, representing an increase of 43 hotels (9,385 rooms) over 31 December 2017. Signings of 133 hotels (26,918 rooms), represented an increase of 11 hotels (5,057 rooms) from the prior year.

13 hotels (2,250 rooms) were removed from the pipeline in 2018, compared to 37 hotels (6,098 rooms) in 2017.

At 31 December	Hotels		Rooms	
	2018	Change over 2017	2018	Change over 2017
Analysed by brand				
Regent	3	3	514	514
InterContinental	29	1	6,919	439
Kimpton	7	5	1,240	1,041
Crowne Plaza	34	(2)	9,016	361
voco	8	8	1,510	1,510
Hotel Indigo	40	6	5,761	1,021
EVEN Hotels	1	-	200	-
Holiday Inn ^a	106	11	24,339	2,274
Holiday Inn Express	114	6	19,154	1,058
Staybridge Suites	19	5	3,947	1,438
Other	1	-	143	(271)
Total	362	43	72,743	9,385
Analysed by ownership type				
Franchised	159	6	25,681	853
Managed	202	36	46,907	8,377
Owned, leased and managed lease	1	1	155	155
Total	362	43	72,743	9,385

^a Includes 10 Holiday Inn Resort properties (2,353 rooms) (2017: five Holiday Inn Resort properties (1,075 rooms)).

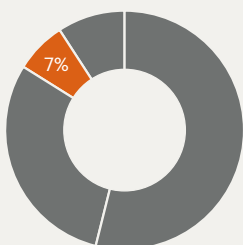
Performance continued
Greater China



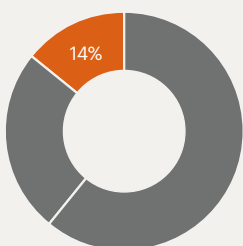
“Greater China is our fastest growing region and has seen another record year in both new signings and openings in 2018. We continue executing our strategic plans, including a tailored franchise support model and investing in the talent that supports our growth.”

Jolyon Bulley
Chief Executive Officer, Greater China

Greater China revenue 2018 (\$143m)



Greater China number of rooms (115,313)



Comparable RevPAR movement on previous year

(12 months ended 31 December 2018)

Fee business	
InterContinental	6.2%
HUALUXE	21.5%
Crowne Plaza	8.2%
Hotel Indigo	9.3%
Holiday Inn	4.8%
Holiday Inn Express	6.9%
All brands	6.9%

Regional priorities

- Continue to build on our scale and look forward to opening our 400th hotel. This follows strong growth momentum in 2018, when record openings and signings took our combined System size and pipeline to over 700 hotels, with 193,000 rooms.
- Strengthen our owner proposition with the continued roll-out of our franchise model for Holiday Inn Express, Holiday Inn and Crowne Plaza brands. This model is attractive to owners and contributed to 56% of total signings in the region in 2018.
- Responding to the needs of our guests, we will continue to innovate using digital technologies, including implementing guest digital payment solutions; launching IHG Rewards Club WeChat Mini Program; and testing Artificial Intelligence enabled smart rooms in InterContinental hotels.
- Continue our talent development momentum to support growth.

Industry performance in 2018

Lodging industry RevPAR in Greater China increased by 3.7% via growth in both demand and average daily rate. RevPAR has now increased for the last two years, as supply growth continues to slow, whilst average daily rate has continued to rise. Supply increase in 2018 (3.8%) was the lowest in the last 19 years.

Tier 1 city RevPAR grew 5.1% for 2018, led by 5.0% increase in average daily rate. Tiers 2, 3 and 4 saw moderate RevPAR growth below 3%. Tier 2 saw the largest increase in demand (6.5%) while tier 1 saw the smallest (2.4%). Whilst supply growth slowed in Greater China overall, certain areas continued to see strong increases, including Mainland China (4.0%) and Macau (3.5%). Demand was also the strongest in those areas with Mainland China increasing 4.8% and Macau increasing 7.5%. Hong Kong RevPAR grew 10.6% led by an average daily rate increase of 9.7% for the year.

Regional highlights

Franchise growth

- Adapting our America’s franchise platform, we have tailored and implemented the Greater China Franchise Performance Support Model. Built to support franchise hotels, it delivers a high quality guest experience and superior owner returns.
- Franchise Plus has significantly accelerated Holiday Inn Express growth in China, with 71 hotels signed in 2018, taking the total signed since launch to 143. We extended this franchise offer to Crowne Plaza and Holiday Inn with seven franchise signings under these brands in 2018.
- We continue to evolve this franchise model, focusing on improving owner returns through the delivery of the next generation design for Holiday Inn Express and Holiday Inn brands.

IHG’s regional performance in 2018

IHG’s comparable RevPAR in Greater China increased by 6.9% in 2018, ahead of the industry, driven by 3.5% average daily rate growth and 2.1% occupancy growth. Mainland China RevPAR increased by 6.3%, led by growth in tier 1 and tier 2 cities due to strong transient and meeting demand, ramp-up of new hotels and a strong Chinese New Year. RevPAR grew in Hong Kong and Macau by 8.9% and 8.4% respectively.

Greater China results

	12 months ended 31 December				
	2018 \$m	2017 Restated \$m	2018 vs 2017 % change	2016 Restated \$m	2017 vs 2016 % change
Revenue from the reportable segment^a					
Fee business	143	117	22.2	112	4.5
Total	143	117	22.2	112	4.5
Percentage of Group revenue from reportable segments	7.4	6.8	0.6	6.7	0.1
Operating profit from the reportable segment^a					
Fee business	69	52	32.7	46	13.0
Exceptional items	(1)	-	-	-	-
Operating profit	68	52	30.8	46	13.0
Percentage of Group operating profit from reportable segments before central overheads^b	7.4	6.0	1.4	5.5	0.5

Highlights for the year ended 31 December 2018

Comprising 391 hotels (115,313 rooms) at 31 December 2018, Greater China represented approximately 14% of the Group's room count. The majority of rooms in Greater China operate under the managed business model.

Revenue from the reportable segment^a increased by \$26m (22.2%) to \$143m and operating profit increased by \$16m (30.8%) to \$68m, both including the benefit of \$6m of significant liquidated damages recorded (2017: \$nil). Operating profit from the reportable segment^a increased by \$17m (32.7%) to \$69m. On an underlying^c basis, revenue increased by \$18m (15.4%) and operating profit increased by \$10m (19.2%). The region achieved comparable RevPAR growth of 6.9%, ahead of the industry, reflecting our scale and management strength in Greater China.

These increases in fee business revenue and operating profit were driven by strong trading and 13.6% rooms growth and continued benefits of leveraging the scale of the operational platform we have built in Greater China. Comparable RevPAR growth of 6.9% benefited from strong transient and meetings demand in mainland tier 1 and tier 2 cities.

Highlights for the year ended 31 December 2017

Revenue from the reportable segment^a and operating profit increased by \$5m (4.5%) to \$117m and by \$6m (13.0%) to \$52m respectively and on an underlying^c basis revenue increased by \$7m (6.3%) and operating profit by \$6m (13.0%).

These increases in fee business revenue and operating profit were driven by strong trading in Mainland China and 9.2% rooms growth as well as robust cost control as we continued to leverage the scale of the operational platform we have built in Greater China. RevPAR growth of 6.0% benefited from strong transient, corporate and meetings demand in mainland tier 1 cities.

^a Greater China reportable segment includes revenue and operating profit before exceptional items, excluding System Fund revenues and expenses and reimbursement of costs, for the fee business.

^b Operating profit from reportable segments before central overheads excludes exceptional items, System Fund revenues and expenses, reimbursement of costs, and central overheads, to assist understanding of the relative contribution of IHG's regions to the Group.

^c Underlying revenue and underlying operating profit both exclude System Fund revenues and expenses, reimbursement of costs, the impact of owned asset disposals, significant liquidated damages and current year acquisitions, all translated at constant currency using prior year exchange rates. Underlying operating profit growth also excludes the impact of exceptional items (see pages 172 and 173).

Performance continued

Greater China continued

Greater China hotel and room count

At 31 December	Hotels		Rooms	
	2018	Change over 2017	2018	Change over 2017
Analysed by brand				
Regent Hotels	3	3	1,236	1,236
InterContinental	47	7	19,229	2,600
HUALUXE	8	1	2,335	246
Crowne Plaza	91	9	32,410	3,462
Hotel Indigo	10	3	1,506	483
Holiday Inn ^a	92	6	28,007	1,348
Holiday Inn Express	133	32	29,164	5,351
Other	7	2	1,426	(952)
Total	391	63	115,313	13,774
Analysed by ownership type				
Franchised	36	25	8,755	4,991
Managed	355	38	106,558	8,783
Total	391	63	115,313	13,774
Percentage of Group hotel and room count	7.0	24.7	13.8	35.8

^a Includes six Holiday Inn Resort properties (1,726 rooms) (2017: six Holiday Inn Resort properties (1,820 rooms)).

Total number of hotels

391

Total number of rooms

115,313

The Greater China System size increased by 63 hotels (13,774 rooms) in 2018 to 391 hotels (115,313 rooms). 77 hotels (18,812 rooms) opened, our highest ever and 34 hotels (8,242 rooms) higher than 2017. Recent growth in the region has focused on tier 2 and 3 cities, which now represent approximately 67% of our open rooms. 47 Holiday Inn brand family hotels (9,090 rooms) were added in the year, compared to 33 hotels (7,184 rooms) in 2017.

14 hotels (5,038 rooms) were removed in 2018 compared to seven hotels (2,053 rooms) in 2017.

Greater China pipeline

At 31 December	Hotels		Rooms	
	2018	Change over 2017	2018	Change over 2017
Analysed by brand				
InterContinental	25	(3)	7,399	(1,581)
Kimpton	4	2	899	540
HUALUXE	21	-	6,099	(190)
Crowne Plaza	39	3	11,855	182
Hotel Indigo	17	2	2,794	259
EVEN Hotels	7	4	1,688	892
Holiday Inn ^b	56	2	15,260	144
Holiday Inn Express	171	37	31,650	5,993
Other	1	-	279	-
Total	341	47	77,923	6,239
Analysed by ownership type				
Franchised	124	56	22,005	10,329
Managed	217	(9)	55,918	(4,090)
Total	341	47	77,923	6,239

^b Includes eight Holiday Inn Resort properties (2,711 rooms) (2017: seven Holiday Inn Resort properties (2,380 rooms)).

Total number of hotels in the pipeline

341

Total number of rooms in the pipeline

77,923

At 31 December 2018, the Greater China pipeline totalled 341 hotels (77,923 rooms) compared to 294 hotels (71,684 rooms) at 31 December 2017. Signings (142 hotels, 29,130 rooms) were the highest ever, representing an increase of 20.3% (4,929 rooms) from the prior year. 99 hotels (17,958 rooms) were signed for the Holiday Inn brand family, including 71 franchised Holiday Inn Express hotels.

18 hotels (4,079 rooms) were removed from the pipeline in 2018, compared to 20 hotels (5,975 rooms) in 2017.

Central

Central results

	2018 \$m	12 months ended 31 December			
		2017 Restated \$m	2018 vs 2017 % change	2016 Restated \$m	2017 vs 2016 % change
Revenue	170	157	8.3	147	6.8
Gross costs	(287)	(259)	(10.8)	(270)	4.1
	(117)	(102)	(14.7)	(123)	17.1
Exceptional items	(55)	(29)	(89.7)	-	-
Operating loss	(172)	(131)	(31.3)	(123)	6.5

Highlights for the year ended 31 December 2018

Net operating loss increased by \$41m (31.3%) compared to 2017. Central revenue, which mainly comprises technology fee income, increased by \$13m (8.3%) to \$170m (an increase of \$12m (7.6%) at constant currency), driven by increases in both comparable RevPAR (2.5%) and IHG System size (4.8%).

Gross costs increased by \$28m (10.8%), partly impacted by \$2m of adverse foreign exchange^a and driven by reinvestment of a portion of savings delivered elsewhere in the business and higher healthcare costs.

Net operating loss before exceptional items increased by \$15m (14.7%) to \$117m (a \$14m or 13.7% increase to \$116m at constant currency).

Highlights for the year ended 31 December 2017

The net operating loss increased by \$8m (6.5%) compared to 2016. Central revenue, which mainly comprises technology fee income, increased by \$10m (6.8%) to \$157m (an increase of \$11m (7.5%) at constant currency), driven by increases in both comparable RevPAR (2.7%) and IHG System size (4.0%). Gross costs decreased by \$11m (4.1%), benefiting from the impact of \$4m of foreign exchange^a and the impact of our cost management programme.

Net operating loss before exceptional items decreased by \$21m (17.1%) to \$102m (an \$18m or 14.6% decrease at constant currency).

^a The impact of movements between the previous year's average exchange rates and actual average rates in 2018.

Other financial information

System Fund

In the year to 31 December 2018, System Fund revenues decreased by 0.7% from \$1,242m to \$1,233m (2016: \$1,199m). The primary driver was a favourable adjustment in 2017 (as restated) relating to a change in the actuarial assumptions around the ultimate rate of consumption of IHG Rewards Club points ('breakage'). This adjustment was immaterial in 2018. This is largely offset by an underlying growth of 6.3% in assessment fees and contributions from hotels, reflecting increased RevPAR and System size, and increased revenue relating to co-branding agreements.

The Group operates a System Fund to collect and administer cash assessments from hotel owners for the specific purpose of use in marketing, the Guest Reservation Systems, and hotel loyalty programme. The Fund also receives proceeds from the sale of loyalty points under third-party co-branding arrangements. The Fund is not managed to generate a profit or loss for IHG, although an in-year surplus or deficit can arise, but is managed for the benefit of hotels in the IHG System with the objective of driving revenues for the hotels.

Reimbursement of costs

In the year to 31 December 2018, reimbursable revenue increased 6.2% from \$1,103m to \$1,171m (2016: \$1,046m), primarily due to an increase in the number of managed hotels in the Americas driving additional payroll cost.

Cost reimbursements revenue represents reimbursements of costs incurred on behalf of managed and franchised properties and

relates, predominantly, to payroll costs at managed properties where we are the employer. As we record cost reimbursements based upon costs incurred with no added mark up, this revenue and related expenses has no impact on either our operating profit or net income.

Exceptional items

Pre-tax exceptional items are treated as exceptional by reason of their size or nature and are excluded from the calculation of adjusted earnings per ordinary share as well as other Non-GAAP measures (see page 36) in order to provide a more meaningful comparison of performance and can include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals, and restructuring costs (for more information see page 124).

2018 pre-tax exceptional items totalled a charge of \$104m. The charge included: \$18m of litigation costs primarily relating to a material settlement agreed in respect of a lawsuit filed against the Group in the Americas region, together with associated legal fees; \$56m relating to reorganisation costs (see below); \$15m arising from the termination of the US funded Inter-Continental Hotels Pension Plan and \$15m relating to the acquisition of the Regent Hotels and Resorts brand and associated management contracts ('Regent'), the UK portfolio and Six Senses Hotels Resorts Spas ('Six Senses').

On 1 July 2018, the Group completed the acquisition of a 51% controlling interest in an agreement with Formosa International Hotels Corporation ('FIH') to acquire Regent.

On 25 July 2018, the Group completed a deal to operate nine hotels under long-term leases from Covivio (formerly Foncière des Régions), which operated under the Principal and De Vere Hotels brands. An additional leased hotel was added to the portfolio on 13 November 2018, bringing the total to ten ('UK portfolio') at 31 December 2018. Two further leased hotels were added on 14 February 2019. On 12 February 2019, the Group completed the acquisition of Six Senses for \$300m paid in cash.

Reorganisation costs

In September 2017, the Group launched a comprehensive efficiency programme funding a series of new strategic initiatives to drive an acceleration in IHG's future growth. The programme is centred around strengthening the Group's organisational structure to redeploy resources to leverage scale in the highest opportunity markets and segments. The programme is expected to be completed in 2019.

The programme is expected to realise c.\$125m in annual savings by 2020, of which c.\$75m will benefit the System Fund. These savings, primarily in administrative expenses, are planned to be reinvested as they are realised to accelerate medium-term revenue growth. There will be an estimated \$200m cost to achieve these savings, (of which \$103m was incurred in 2018 (2017: \$45m)), including amounts charged to the System Fund. The exceptional cost charged to the Group income statement in 2018 of \$56m includes consultancy fees of \$25m and severance costs of \$18m.

Performance continued

Other financial information

Net financial expenses

Net financial expenses increased by \$9m to \$81m. The increase is primarily due to the unwind of \$5m interest on deferred and contingent consideration relating to the Regent and UK portfolio acquisitions and interest on the €500m bond issued in November 2018. On an underlying basis, interest increased from \$85m to \$100m.

Financing costs included \$48m (2017: \$44m) of interest costs on the public bonds and \$20m (2017: \$20m) in respect of the InterContinental Boston finance lease, both of which are fixed rate debt.

Taxation

The effective rate of tax on profit before exceptional items and System Fund was 22% (2017: 29%). Excluding the impact of prior year items, the equivalent tax rate would be 23% (2017: 30%). This rate is higher than the average UK statutory rate of 19% (2017: 19.25%), due mainly to certain overseas profits (particularly in the US) being subject to statutory tax rates higher than the UK statutory rate, unrelieved foreign taxes and disallowable expenses.

Taxation within exceptional items totalled a credit of \$27m (2017: credit of \$88m). This included a current tax credit of \$11m on reorganisation costs, a \$5m current tax credit in respect of litigation costs, a \$6m tax credit (\$5m current tax and \$1m deferred tax) arising from a US pension scheme settlement, a \$2m current tax credit in respect of acquisition costs, a \$2m prior year current tax charge on the sale of Avendra, and a \$5m exceptional prior year tax credit in respect of significant US tax reform.

Net tax paid in 2018 totalled \$68m (2017: \$172m). The 2018 tax paid was less than 2017 principally due to material tax repayments from the UK and US tax authorities in 2018 and exceptional tax paid on the sale of Avendra in 2017.

IHG pursues an approach to tax that is consistent with its business strategy and its overall business conduct principles. This approach 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 IHG Audit Committee.



The Group's Approach to Tax document is available on IHG's website at www.ihgplc.com/responsible-business

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 material tax risk and, where appropriate, material tax uncertainties are discussed and resolved with tax authorities in advance. As a result of its business profile as a hotel manager, and also as a residual legacy from prior acquisitions, IHG does have a small number of subsidiaries in jurisdictions commonly portrayed as tax havens. IHG manages such subsidiaries on a basis consistent with its business principles (for example, by making some foreign incorporated companies UK tax resident or by operating others so that local profits are commensurate with local activity).

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 75% of its revenues in the form of franchise, management or similar fees, with over 82% 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.

Dividends

The Board has proposed a final dividend per ordinary share of 78.1¢. With the interim dividend per ordinary share of 36.3¢, the full-year dividend per ordinary share for 2018 will total 114.4¢, an increase of 10% over 2017.

On 19 October 2018, the Group announced a \$500m return of funds to shareholders by way of a special dividend and share consolidation. The special dividend (\$2.621 per ordinary share) was paid on 29 January 2019.

IHG pays its dividends in pounds sterling and US dollars. The sterling amount of the final dividend will be announced on 26 April 2019 using the average of the daily exchange rates from 23 April 2019 to 25 April 2019 inclusive. See page 17 for details of IHG's dividend policy.

Earnings per ordinary share

Basic earnings per ordinary share decreased by 34.0% to 184.7¢ from 279.8¢ in 2017 whilst adjusted earnings per ordinary share and underlying earnings per ordinary share increased by 19.4% to 292.1¢ and by 18.8% to 290.5¢ respectively.

Share price and market capitalisation

The IHG share price closed at £42.37 on 31 December 2018, down from £47.19 on 31 December 2017. The market capitalisation of the Group at the year-end was £8.1bn.

Liquidity and capital resources

Sources of liquidity

In November 2018, the Group issued a €500m, 2.125% euro bond repayable in May 2027. The bond extends the maturity profile of the Group's debt. Currency swaps were transacted at the same time the bonds were issued in order to swap the proceeds and interest flows into pounds sterling. The currency swaps fix the bond debt at £436m, with interest payable semi-annually at a rate of 3.5%. This is in addition to £400m of public bonds which are repayable on 28 November 2022, £300m repayable on 14 August 2025 and £350m repayable on 24 August 2026.

The Group is further financed by a \$1.275bn revolving syndicated bank facility (the Syndicated Facility) and a \$75m revolving bilateral facility (the Bilateral Facility) which mature in March 2022, both of which were undrawn at the year-end. The Syndicated and Bilateral Facilities contain the same terms and two financial covenants; interest cover; and net debt divided by operating profit before exceptional items, depreciation and amortisation and System Fund revenue and expenses. 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. Financial covenants will not be affected by the adoption of IFRS 16 'Leases'.

Additional funding is provided by the 99-year finance lease (of which 87 years remain) on InterContinental Boston and other uncommitted bank facilities (see note 20 to the Group Financial Statements). In the Group's opinion, the available facilities are sufficient for the Group's present liquidity requirements. Borrowings included bank overdrafts of \$104m (2017: \$110m), which were matched by an equivalent amount of cash and cash equivalents under the Group's cash pooling arrangements.

Liquidity and capital resources continued

Under these arrangements, each pool contains a number of bank accounts with the same financial institution, and the Group pays interest on net overdraft balances within each pool. The cash pools are used for day-to-day cash management purposes and are managed daily as closely as possible to a zero balance on a net basis for each pool. Overseas subsidiaries are typically in a cash-positive position, with the most significant balances in the US and Canada, and the matching overdrafts are held by the Group's central treasury company in the UK.

Net debt of \$1,530m (2017: \$1,851m) is analysed by currency as follows:

	2018 \$m	2017 \$m
Borrowings		
Sterling*	1,895	1,416
US dollar	329	601
Euros	8	2
Other	2	-
Cash and cash equivalents		
Sterling	(479)	(13)
US dollar	(91)	(75)
Euros	(23)	(13)
Canadian dollar	(12)	(13)
Chinese renminbi	(58)	(12)
Other	(41)	(42)
Net debt	1,530	1,851
Average debt level	1,755	1,810

* 2018 includes the impact of currency swaps.

Cash balances at 31 December 2018 include \$502m of the proceeds from the euro bond invested in short-term deposits and repurchase agreements. Cash and cash equivalents include \$2m (2017: \$3m) that is not available for use by the Group due to local exchange controls. In January 2019, \$500m was returned to shareholders via a special dividend.

Information on the maturity profile and interest structure of borrowings is included in notes 20 and 22 to the Group Financial Statements.

Information on the Group's approach to allocation of capital resources can be found on pages 16 and 17.

The Group had net liabilities of \$1,077m at 31 December 2018, (\$1,301m, restated at 31 December 2017).

Cash from operating activities

Net cash from operating activities totalled \$666m for the year ended 31 December 2018, an increase of \$89m on the previous year, reflecting the benefit of lower cash tax (see page 50).

Cash flow from operating activities is the principal source of cash used to fund the

ongoing operating expenses, interest payments, maintenance capital expenditure and normal dividend payments of the Group. The Group believes that the requirements of its existing business and future investment can be met from cash generated internally, disposition of assets, and external finance expected to be available to it.

Cash from investing activities

Net cash outflows from investing activities decreased by \$17m to \$189m, reflecting a lower level of expenditure on IHG Concerto in the current year and a \$43m investment in one of the Group's associates in 2017, offset by Avendra sale proceeds of \$75m received last year. In the current year, \$38m was spent on the acquisition of businesses and a one-off distribution of \$32m was received from a joint venture.

The Group had committed contractual capital expenditure of \$136m at 31 December 2018 (2017: \$104m).

Cash used in financing activities

Net cash from financing activities totalled \$86m, which was \$532m higher than 2017, primarily due to a \$133m increase in borrowings, including the issue of a new

€500m long-term bond, offset by repayment of other borrowings and the cash outflow from the \$400m special dividend paid in 2017.

Off-balance sheet arrangements

At 31 December 2018, the Group had no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Group's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contingent liabilities

Contingent liabilities include performance guarantees with possible cash outflows totalling \$42m, guarantees over the debt of equity investments of \$43m and outstanding letters of credit of \$29m. The Group may also be exposed to additional liabilities resulting from security incidents. See note 30 to the Group Financial Statements for further details.

Contractual obligations

The Group had the following contractual obligations outstanding as of 31 December 2018. See table below.

	Total amounts committed \$m	Less than 1 year \$m	1-3 years \$m	3-5 years \$m	After 5 years \$m
Long-term debt obligations^{a,b}	1,913	-	-	511	1,402
Interest payable^b	359	50	112	92	105
Derivatives	46	12	15	15	4
Finance lease obligations^c	3,300	16	32	40	3,212
Operating lease obligations^d	509	56	121	66	266
Agreed pension scheme contributions	6	6	-	-	-
Capital contracts placed^e	136	136	-	-	-
Deferred and contingent purchase consideration^f	314	7	30	15	262
Total	6,583	283	310	739	5,251

^a Repayment period classified according to the related facility maturity date.

^b Excluding bank overdrafts.

^c Mainly represents the minimum lease payments related to the 99-year lease (of which 87 years remain) on InterContinental Boston. Payments under the lease step up at regular intervals over the lease term.

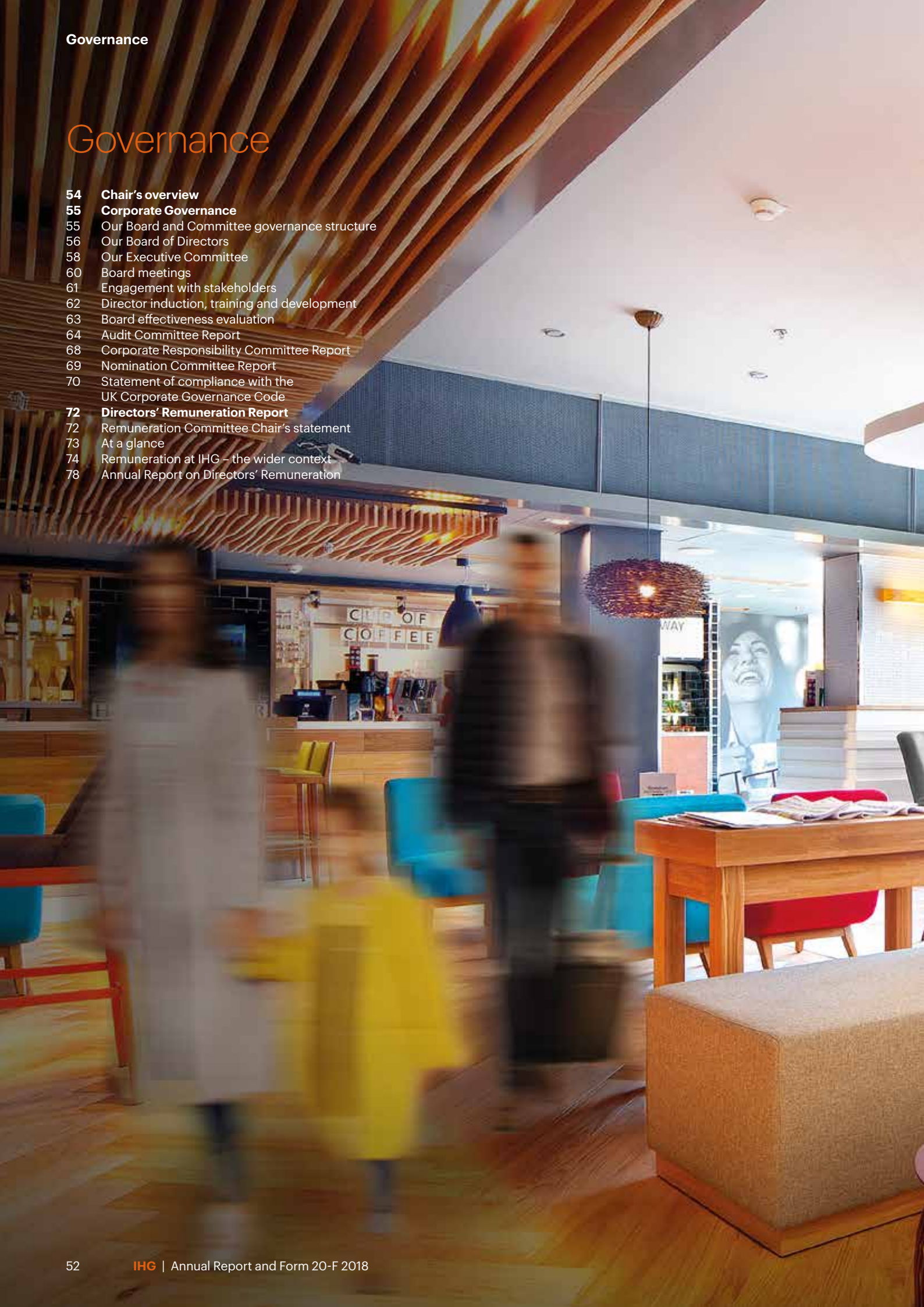
^d See note 28 to the Group Financial Statements for further details.

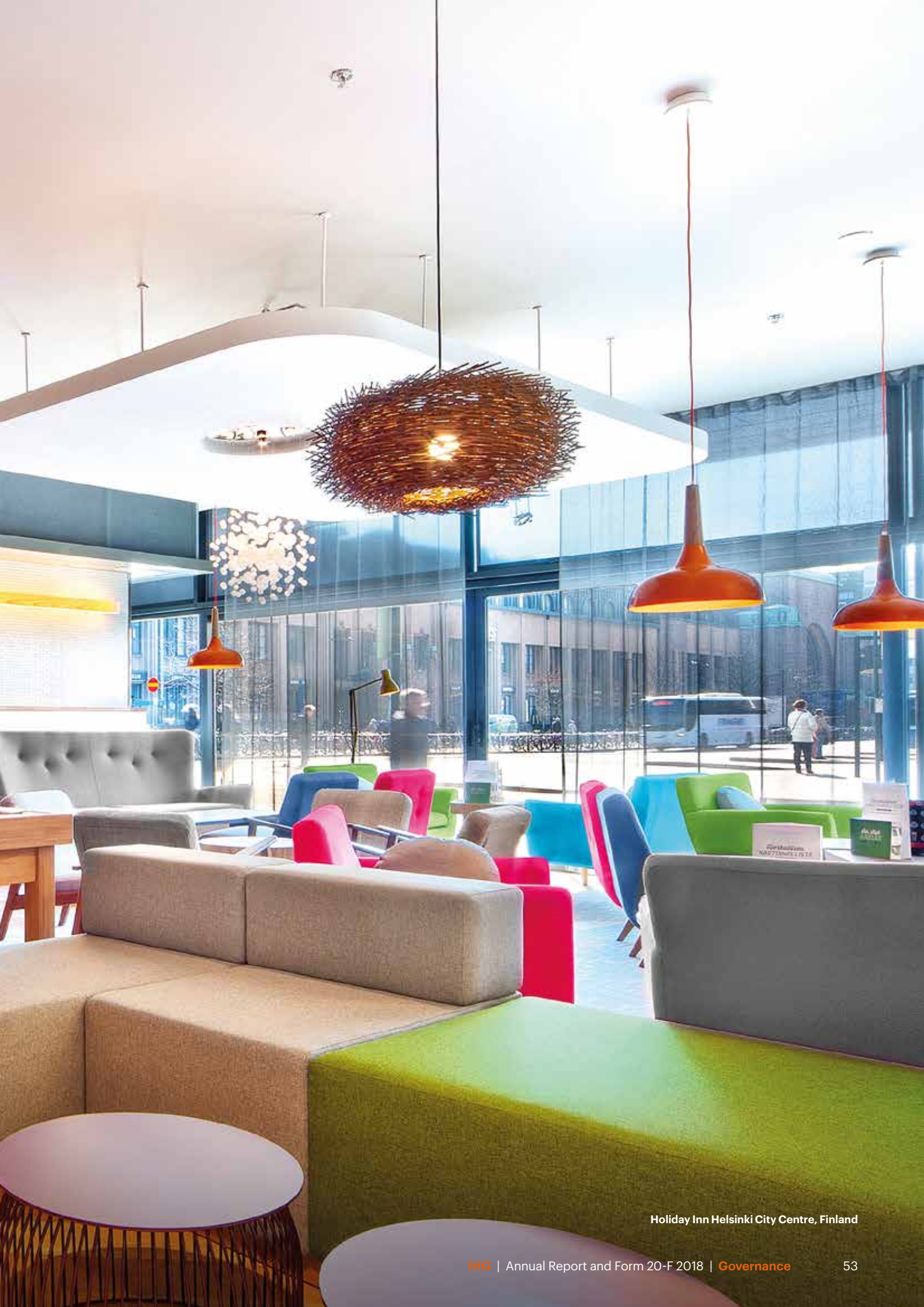
^e Includes a commitment to spend \$33m on the acquired UK portfolio (see note 11 to the Group Financial Statements for further details) within two and a half years of the acquisition date.

^f Relates to the acquisitions of Regent and the UK portfolio (see note 11 to the Group Financial Statements for further details).

Governance

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Holiday Inn Helsinki City Centre, Finland

Chair's overview



Good governance is integral to IHG's success and ensuring long-term, sustainable value creation and our ability to create a diverse and inclusive culture built on strong values and ethics.

At IHG, we recognise the importance of maintaining the highest standards of corporate governance which supports our culture, our values and our commitment to conducting business responsibly. Good corporate governance underpins a successful business and recognises the importance of all stakeholders.

The Board oversees the long-term strategic aims of the Group and is responsible for the leadership of the Group, ensuring our actions are in keeping with the strong ethics and values that shape our culture and deliver long-term, sustainable value for our stakeholders.

Focus areas and activities

During 2018, the Board and Executive leadership team worked together in a constructive and effective collaboration to develop our shared commitment to our strategy, with growth as the central focus. Our two day Annual Strategy Meeting concentrated on the competitive landscape and dynamics, our performance and progress against our growth plans, and the potential challenges ahead.

During the year, the Board regularly reviewed progress against strategic and operational goals, ensured that risk management controls (in line with the Group's risk appetite) were incorporated within key decisions and that the impact on key stakeholders was considered.

Culture featured prominently on the Board agenda, as the Board believes that continuing to evolve our culture (and continuing to focus on diversity and the talent pipeline) is critical for the long-term.

The increasing challenge posed by cybersecurity meant that the Board strengthened governance and oversight of cyber risk. The conclusions of an independent external assessment of vulnerabilities and cybersecurity maturity and a forward-looking action plan were presented to the Board, and regular Board updates provided.

Other key focus areas in 2018 included (i) a review of changes in corporate governance regulations; (ii) compliance with the hosting and processing of personal data requirements under GDPR; and (iii) reporting and disclosure requirements to support greater transparency, including those relating to the UK Gender Pay Gap.

Governance framework

The Board delegates certain responsibilities to the Audit, Corporate Responsibility, Nomination and Remuneration Committees (the Principal Committees) to assist in ensuring that effective corporate governance permeates throughout the business.

We have reviewed the new 2018 UK Corporate Governance Code (the 2018 Code) and The Companies (Miscellaneous Reporting) Regulations 2018, to determine how we can further enhance our governance processes. Our Principal Committees' Terms of Reference have been amended and we are assessing processes to ensure effective Board engagement with our workforce. This work will continue into 2019 and we will report on our compliance with the 2018 Code next year.

The Audit Committee has this year been focused on risk and assurance, given changes to the organisational structure and the programme of strategic initiatives, and overseeing the external audit tender process; the Corporate Responsibility Committee has been focused on the delivery of targets for 2018-2020 and the continuing development of our responsible business approach; the Nomination Committee has been focused on the composition and diversity

of the Board and the continuing development of our diversity and inclusion framework; and the Remuneration Committee has been focused on ensuring that the delivery against our strategic objectives are appropriately incentivised.

Board culture and composition

We have a disciplined approach to Board composition to ensure that the Board collectively has the appropriate skills, competencies, diversity of style, gender and perspective, as well as geographical representation to effectively contribute and add value.

Last year we identified the need to increase our US representation and appointed Elie Maalouf to the Board as a result. As Chief Executive Officer of the Americas, Elie is responsible for IHG's largest operating region and details of the induction process for Elie can be found on page 62.

Training, development and Board performance review

The training and development needs of each Director are regularly reviewed. During 2018, Directors received training on a variety of topics, further details of which can be found on page 62.

We continue to run our three-year Board evaluation cycle and in 2018, as part of our internal Board effectiveness review, we confirmed that the Board processes were operating effectively. We also conducted another peer-to-peer Chair and Non-Executive Director assessment. Further details can be found on page 63.

Compliance and our dual listing

As a dual-listed company with a premium listing on the London Stock Exchange and a secondary listing on the New York Stock Exchange, we are required to file an Annual Report in the UK and a Form 20-F in the US. To ensure consistency of information provided to both UK and US investors, we have again produced a combined Annual Report and Form 20-F. Our statement of compliance with the 2016 UK Corporate Governance Code (the Code) is located on pages 70 and 71. I am pleased to report that, during 2018, we complied fully with all principles and provisions of the Code. A statement outlining the differences between the Group's UK corporate governance practices and those followed by US companies can be found on page 196.

Looking forward

We recognise the importance of good corporate governance in facilitating effective management that can deliver the long-term success of our organisation for our stakeholders. In 2019 we will continue to monitor and support our strategic initiatives, continue our focus on culture and diversity, risk appetite and cybersecurity, and ensure that our ways of working, structures of reporting, systems of control and commitment to conducting business responsibly, continue to underpin our strategic and operational goals, and align with the revised governance regime.

Patrick Cescau
Chair of the Board
18 February 2019

Corporate Governance

Our Board and Committee governance structure

We are committed to maintaining the highest standards of corporate governance. Our governance framework is led and directed by the Board, which in turn delegates certain responsibilities to its Committees to support IHG's culture, values and commitment to conducting business responsibly.

The Board and its Committees

The Board leads the strategic direction and long-term objectives, and is responsible for the success of the Group, setting strategic aims and monitoring the performance of the Group and its risk management controls. A number of key decisions and matters are reserved for the Board and are not delegated to management. The schedule of matters reserved was reviewed at the December 2018 Board meeting and is available on our website. The Board will now be responsible for reviewing the means for the workforce to raise concerns in confidence and the reports arising from its operation, which to date had been reviewed by the Audit Committee.

The Board is supported by its Principal Committees, namely the Audit Committee, Corporate Responsibility Committee, Nomination Committee and Remuneration Committee, to assist it in carrying out its functions, overseeing the delivery of strategic objectives and driving sustainable value for shareholders and considering the impacts on, and interests of, key stakeholders. Details of how the Board spent its time during 2018 can be found on pages 60 to 62.

Management Committees

Operational matters, routine business and information disclosure procedures are delegated by the Board to Management Committees.

The Executive Committee is chaired by the CEO and considers and manages a range of day-to-day strategic and operational issues facing the Group, including the development of the Group's strategy and budget for the Board's approval, executing the strategic plan once agreed by the Board, monitoring the Group's performance and providing assurance to the Board in relation to overall performance and risk management.

The General Purposes Committee is chaired by an Executive Committee member and 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.

The Disclosure Committee is chaired by the Group's Financial Controller and ensures that proper procedures are in place for statutory and listing requirements. This Committee reports to the Chief Executive Officer, the Chief Financial Officer and the Audit Committee.



More information on our Board and Committees is available on our website at www.ihgplc.com/investors under Corporate governance.

Board and Committee membership and attendance in 2018

	Appointment date	Committee appointments	Meetings				
			Board	Audit Committee	Corporate Responsibility Committee	Nomination Committee	Remuneration Committee
Total meetings held			8	5	3	2	4
Chair							
Patrick Cescau ^c	01/01/13	N	8/8	-	-	2/2	-
Chief Executive Officer							
Keith Barr	01/07/17		8/8	-	-	-	-
Executive Directors							
Paul Edgecliffe-Johnson	01/01/14		8/8	-	-	-	-
Elie Maalouf	01/01/18		8/8	-	-	-	-
Senior Independent Non-Executive Director							
Dale Morrison	01/06/11	A N R	8/8	5/5	-	2/2	4/4
Non-Executive Directors							
Anne Busquet	01/03/15	A C N	8/8	5/5	3/3	2/2	-
Ian Dyson	01/09/13	A N R	8/8	5/5	-	2/2	3/4 ^a
Jo Harlow	01/09/14	N R	7/8	-	-	2/2	4/4
Luke Mayhew	01/07/11	A C N	8/8	5/5	3/3	2/2	-
Jill McDonald	01/06/13	A C N	8/8	5/5	3/3	2/2	-
Malina Ngai	01/03/17	C N R	7/8	-	2/3 ^b	2/2	3/4 ^b

^a Ian Dyson was unable to attend one Remuneration Committee meeting due to a prior commitment.

^b Malina Ngai was unable to attend one Corporate Responsibility Committee meeting and one Remuneration Committee meeting due to a prior commitment.

^c In principle the Chair attends all Committee meetings, and the full Board attends the relevant sections of the Audit Committee meetings when results and risk management processes and controls are discussed and considered.

Board Committee membership key

- A** Audit Committee member
- C** Corporate Responsibility Committee member
- N** Nomination Committee member
- R** Remuneration Committee member
- Chair of a Board Committee

Corporate Governance continued

Our Board of Directors



N

Patrick Cescau
Non-Executive Chair
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 Chair of Unilever PLC, Vice-Chair 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 PLC and Unilever NV in 1999, as Finance Director, he was Chair of a number of the company's major operating companies and divisions, including in the US, Indonesia and Portugal. He was formerly a Senior Independent Director and Non-Executive Director of Pearson plc and Tesco PLC, and a Director at INSEAD.

Board contribution: Patrick has held board positions for nearly 16 years in leading global

businesses and brings extensive international experience in strategy, brands, consumer products, and finance. As Chair, Patrick is responsible for leading the Board and ensuring it operates in an effective manner, and promoting constructive relations with shareholders and wider stakeholders. As Chair of the Nomination Committee, he is responsible for reviewing and making recommendations on the Group's leadership needs.

Other appointments: Currently a Senior Independent Non-Executive Director of International Airlines Group, Patrick is also a trustee of The Leverhulme Trust, Patron of the St Jude India Children's Charity and Member of the TEMASEK European Advisory Panel.



Keith Barr
Chief Executive Officer (CEO)
Appointed to the Board: 1 July 2017

Skills and experience: Keith has spent more than 25 years working in the hospitality industry across a wide range of roles. He started his career in hotel operations and joined IHG in 2000. Since April 2011 he has been a member of IHG's Executive Committee. Directly before being appointed Chief Executive Officer, Keith served as Chief Commercial Officer for four years. In this role, he led IHG's global brand, loyalty, sales and marketing functions, and oversaw IHG's loyalty programme, IHG® Rewards Club. Prior to this, Keith was CEO of IHG's Greater China business for four

years, setting the foundations for growth in a key market and overseeing the launch of the HUALUXE® Hotels and Resorts brand.

Board contribution: Keith is responsible for the executive management of the Group and ensuring the implementation of Board strategy and policy.

Other appointments: Keith is a graduate of Cornell University's School of Hotel Administration and is currently a member of its Cornell SC Johnson College of Business Dean's Advisory Board.



Paul Edgecliffe-Johnson
Chief Financial Officer (CFO)
Appointed to the Board: 1 January 2014

Skills and experience: Paul is a chartered accountant and a fellow of the Institute of Chartered Accountants. He was previously Chief Financial Officer of IHG's Europe and Asia, Middle East and Africa regions, a position he held since September 2011. He joined IHG in August 2004 and has held a number of senior-level finance positions, including Head of Investor Relations, Head of Global Corporate Finance and Financial Planning and Tax, and Head of Hotel Development, Europe. Paul also

acted as Interim Chief Executive Officer of the Europe, Middle East and Africa region (prior to the reconfiguration of our operating regions).

Board contribution: Paul is responsible, together with the Board, for overseeing the financial operations of the Group and setting its financial strategy.

Other appointments: Currently a Non-Executive Director of Thomas Cook Group plc.



Elie Maalouf
Chief Executive Officer, Americas
Appointed to the Board: 1 January 2018

Skills and experience: Elie was appointed Chief Executive Officer, Americas in February 2015, with nearly 15 years' experience working in a major global franchise business. He joined the Group having spent six years as President and Chief Executive Officer of HMSHost Corporation, a global travel and leisure company, where he was also a member of the board of directors. Elie brings broad experience spanning hotel development, branding, finance, real estate and operations management as well as food and beverage expertise. Prior to joining IHG, Elie was Senior Advisor with McKinsey & Company from 2012 to 2014.

Board contribution: Elie is responsible for business development and performance of all hotel brands and properties in the Americas region and brings a deep understanding of the global hospitality sector to the Board.

Other appointments: Currently a member of the American Hotel & Lodging Association Executive Committee of the Board and the US Travel Association CEO Roundtable. Elie also sits on the Investment Advisory Council of the U. S. Department of Commerce. In addition, Elie serves as a member of the Global Advisory Council at the University of Virginia Darden School of Business and is a board member of the Atlanta Committee for Progress.



A N R

Dale Morrison
Senior Independent Non-Executive Director (SID)
Appointed to the Board: 1 June 2011

Skills and experience: Dale is 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. Dale's role as Senior Independent Non-Executive Director is fundamental to the successful operation of the Board.

Other appointments: Currently a Non-Executive Director of International Flavors & Fragrances Inc., and Non-Executive Chair of Marlin 1 (holding company for Young's Seafood International Holdings Ltd.).



A C N

Anne Busquet
Independent Non-Executive Director
Appointed to the Board: 1 March 2015

Skills and experience: Anne began her career at Hilton International in Paris, before joining American Express in New York, where she held several executive positions and served for 23 years. Anne was also the Chief Executive Officer of Local and Media Services at InterActiveCorp.

Board contribution: Anne brings more than 20 years' experience in senior positions in multinational companies, predominantly in the financial, branded and digital-commerce sectors.

Other appointments: Anne is currently the President of AMB Advisors, an independent consulting firm, and Managing Director at Golden Seeds LLC, an angel investment company. She also serves on the boards of Pitney Bowes, MTBC and Elixir Group and on the advisory boards of JEGI and SheSpeaks.



A N R

Ian Dyson
Independent Non-Executive Director
Appointed to the Board: 1 September 2013

Skills and experience: Ian has held a number of senior executive and finance roles, including Group Finance and Operations Director for Marks and Spencer Group plc for five years from 2005 to 2010, where he oversaw significant changes in the business. In addition, Ian was Chief Executive Officer of Punch Taverns plc, Finance Director for the Rank Group Plc, a leading European gaming business, and Group Financial Controller and Finance Director for the hotels division of Hilton Group plc.

Board contribution: Ian has gained significant experience from working in various senior finance roles, predominantly in the retail, leisure and hospitality sectors. Ian became Chair of the Audit Committee on 1 April 2014, and, as such, is responsible for leading the Committee to ensure effective internal controls and risk management systems are in place.

Other appointments: Currently a Non-Executive Director and Chair of the Audit Committee of SSP Group plc, Senior Independent Non-Executive Director and Chair of the Audit Committee of ASOS plc and Senior Independent Non-Executive Director of Paddy Power Betfair plc.



R N

Jo Harlow
Independent Non-Executive Director
Appointed to the Board: 1 September 2014

Skills and experience: Jo most recently held the position of Corporate Vice President of the Phones Business Unit at Microsoft Corporation. She was previously Executive Vice President of Smart Devices at Nokia Corporation, following a number of senior management roles at Nokia from 2003. Prior to that, she held marketing, sales and management roles at Reebok International Limited from 1992 to 2003 and at Procter & Gamble Company from 1984 to 1992.

Board contribution: Jo has over 25 years' experience working in various senior roles, predominantly in the branded and technology sectors. Jo became Chair of the Remuneration Committee on 1 October 2017, and as such she is responsible for setting the remuneration policy. Jo is also a member of the Nomination Committee.

Other appointments: Currently a member of the Supervisory Board of Ceconomy AG, and a Non-Executive Director of Halma plc and J Sainsbury plc.



A C N

Luke Mayhew
Independent Non-Executive Director
Appointed to the Board: 1 July 2011

Skills and experience: Luke served for 12 years on the Board of John Lewis Partnership plc, 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 WHSmith PLC and Chair of Pets at Home Group Plc.

Board contribution: Luke has over 30 years' experience in senior roles in the branded sector and was Remuneration Committee Chair at Brambles Limited from 2006 to 2014 and at IHG from July 2011 to September 2017.

Other appointments: Currently a Senior Independent Director of DFS Furniture plc, a trustee of BBC Children in Need and a Governor of the Southbank Centre.



A C N

Jill McDonald
Independent Non-Executive Director
Appointed to the Board: 1 June 2013

Skills and experience: Jill started her career at Colgate-Palmolive Company, spent 16 years with British Airways Plc and has held a number of senior marketing positions in the UK and overseas. Jill was Chief Executive Officer UK and President for the North West Europe division for McDonald's, and held a number of other senior roles in the company from 2006. From May 2015 until September 2017, Jill served as Chief Executive Officer of the Halfords Group plc.

Board contribution: Jill has over 30 years' experience working with high-profile international consumer-facing brands at both marketing and operational level. As Chair of the Corporate Responsibility Committee, she is responsible for corporate responsibility objectives and strategy and approach to sustainable development.

Other appointments: Currently Managing Director, Clothing, Home and Beauty, at Marks and Spencer plc.



C N R

Malina Ngai
Independent Non-Executive Director
Appointed to the Board: 1 March 2017

Skills and experience: Malina is Group Chief Operating Officer of A.S. Watson Group, which is part of Hong Kong-based conglomerate CK Hutchison Holdings Limited. A.S. Watson Group is the largest international health and beauty retailer in Asia and Europe with 13 brands including Watsons, Superdrug, Savers, The Perfume Shop, Kruidvat, ICI Paris XL and ParknShop. In addition, Malina is Vice Chair of the Hong Kong Retail Management Association and was previously a member of the Board of Directors of the Hong Kong Sports Institute Limited.

Board contribution: Malina has over 20 years' experience gained from working in senior positions in global organisations across a broad range of sectors, with particular understanding of consumer-facing branded companies and the role that technology and digital commerce play in transforming the consumer experience.

Other appointments: Currently Group Chief Operating Officer of A.S. Watson Group and Vice Chair of the Hong Kong Retail Management Association.

Corporate Governance continued

Our Executive Committee

In addition to Keith Barr, Paul Edgecliffe-Johnson and Elie Maalouf, the Executive Committee from 1 January 2019 comprises:



Claire Bennett
 Chief Marketing Officer
 Appointed to the Executive Committee:
 October 2017 (joined the Group: 2017)

Skills and experience: Claire joined IHG with an in-depth knowledge of the travel and tourism industry having spent 11 years at American Express in a range of senior leadership roles across marketing, consumer travel and loyalty. Most recently, Claire was General Manager (GM), Global Travel and Lifestyle, where she led a team responsible for delivering luxury lifestyle services. Prior to this, Claire held roles as GM for Consumer Loyalty, GM for US Consumer Travel, and Senior Vice President, Global Marketing and Brand Management, where she led worldwide advertising, media, sponsorship and marketing research teams.

Claire has also held senior marketing positions at Dell, as well as finance and general management roles at The Quaker Oats Company, building significant expertise across technology, consumer packaged goods, financial services, and travel and hospitality sectors. Claire has been an Executive Board Member of the World Travel and Tourism Council (WTTC), served as a Board Member of Tumi Inc. and participated on multiple industry advisory boards. Claire is a Certified Public Accountant and holds an MBA from the J.L. Kellogg Graduate School of Management at Northwestern University.

Key responsibilities: These include all aspects of our brands, loyalty strategy and programmes, sponsorships, strategic partnerships, insights and analytics and marketing execution.



Jolyon Bulley
 Chief Executive Officer, Greater China
 Appointed to the Executive Committee:
 November 2017 (joined the Group: 2001)

Skills and experience: Prior to Jolyon's appointment as Chief Executive Officer for Greater China, Jolyon was Chief Operating Officer (COO) for the Americas, leading the region's operations for franchised and managed hotels, in addition to cultivating franchisee relationships and enhancing hotel operating performance. Jolyon has also served as COO for Greater China for almost four years, with oversight of the region's hotel portfolio and brand performance, food and beverage brand solutions, new hotel openings and owner relations.

Jolyon joined IHG in 2001, as Director of Operations, New South Wales in Australia, and then held roles of increasing responsibility across IHG's Asia-Pacific region. He became Regional Director Sales and Marketing for Australia, New Zealand and South Pacific in 2003, relocated to Singapore in 2005 and held positions of Vice President Operations South East Asia and India, Vice President Resorts, and Vice President Operations, South East and South West Asia. Jolyon graduated from William Angliss institute in Melbourne with a concentration on Tourism and Hospitality.

Key responsibilities: These include the management, growth and profitability of IHG's fastest growing region, Greater China.



Yasmin Diamond
 Executive Vice President, Global Corporate Affairs
 Appointed to the Executive Committee:
 April 2016 (joined the Group: 2012)

Skills and experience: Before joining IHG in April 2012, Yasmin was Director of Communications at the Home Office, where she advised the Home Secretary, Ministers and senior officials on the strategic development and daily management of all the Home Office's external and internal communications. She was previously Director of Communications at the Department for Environment, Food and Rural Affairs; Head of Communications for Welfare to Work and New Deal; and Head of Marketing at the Department for Education and Skills. Before joining government communications, Yasmin was Publicity Commissioner for the BBC, where she led communications activity around the launch of a new digital learning channel and around the BBC's educational output for both adults and children.

In 2011, Yasmin was awarded a Companion of the Order of the Bath (CB) in the New Year's honours list in recognition of her career in government communications. In addition, Yasmin sits on the Board of Trustees for the British Council, the UK's international organisation for cultural relations and educational opportunities.

Key responsibilities: These include all global communications activity, ensuring that it supports and enables IHG's broader strategic priorities. This includes all external and internal activity, covering both corporate and brand communications, as well as leading IHG's Corporate Responsibility strategy and key public affairs work.



Kenneth Macpherson
 Chief Executive Officer, EMEAA
 Appointed to the Executive Committee:
 April 2013 (joined the Group: 2013)

Skills and experience: Kenneth Macpherson became Chief Executive Officer, EMEAA in January 2018. Kenneth was previously IHG's CEO for Greater China, a role he held from 2013 to 2017. Kenneth has extensive experience across sales, marketing strategy, business development and operations. In addition to 12 years living and working in China, Kenneth's career includes experience in Asia, the UK, France and South Africa. Before IHG, Kenneth worked for 20 years at Diageo, one of the UK's leading branded companies. His senior management positions included serving as Managing Director of Diageo Greater China, where he helped to build the company's presence and led the landmark deal to acquire ShuiJingFang, a leading manufacturer of China's national drink, and one of the first foreign acquisitions of a Chinese listed company.

Key responsibilities: Kenneth is responsible for the management, growth and profitability of the EMEAA region. He also manages a portfolio of hotels in some of the world's most exciting destinations, in both mature and emerging markets.



Ranjay Radhakrishnan
 Chief Human Resources Officer
 Appointed to the Executive Committee:
 December 2016 (joined the Group: 2016)

Skills and experience: Ranjay joined IHG as Chief Human Resources Officer in December 2016. He previously spent 23 years at Unilever, in a range of senior leadership roles at global, regional and country levels. At Unilever, Ranjay was most recently Executive Vice President Global HR (Categories and Market Clusters), where he led HR for Unilever’s eight regions (Market Clusters) and four global Product Categories under a unified global HR leadership role. Ranjay has worked and lived in several countries, including the UK, the Netherlands, Singapore, UAE and India.

Key responsibilities: These include global talent management, learning and capability building, diversity, organisation development, reward and benefit programmes, employee relations, and all aspects of the people and organisation strategy for the Group.



George Turner
 Executive Vice President, Chief Commercial and Technology Officer
 Appointed to the Executive Committee:
 January 2009 (joined the Group: 2008)

Skills and experience: George joined IHG in 2008 and spent a decade as IHG’s EVP, General Counsel and Company Secretary, with responsibility for corporate governance, risk and assurance, corporate responsibility and information security. He is a solicitor and qualified to private practice in 1995. Prior to joining the Group, George spent over 10 years with Imperial Chemical Industries PLC, where he held various key positions including Deputy Company Secretary and Senior Legal Counsel. In February 2019 George was appointed as Chief Commercial and Technology Officer, continuing as Company Secretary until 1 March 2019.

Key responsibilities: As EVP, General Counsel and Company Secretary, these included corporate governance, risk management, information security, insurance, regulatory compliance, internal audit, legal and hotel standards. As EVP, Chief Commercial and Technology Officer, these include global sales, distribution, revenue management, property systems, digital and voice, information security and technology.

Changes to the Executive Committee



Nicolette Henfrey
 Executive Vice President, General Counsel and Company Secretary
 Appointed to the Executive Committee:
 February 2019 (joined the Group: 2001)

Skills and experience: Nicolette joined IHG in 2001, and was appointed Deputy Company Secretary in August 2011, during which time she worked very closely with the Board, Executive Committee and wider organisation to ensure best-in-class delivery and compliance across our legal and regulatory areas. Nicolette is a solicitor and prior to joining IHG worked for Linklaters in London and Findlay & Tait (now Bowman Gilfillan) in South Africa. She will be appointed as Company Secretary from 1 March 2019.

Key responsibilities: These include overseeing our approach to corporate governance, risk management, insurance, regulatory compliance, internal audit, legal and hotel standards.



Eric Pearson

It is with deep sadness that we report that Eric Pearson, our Chief Commercial and Technology Officer, passed away on 26 December 2018. Eric was an incredibly unique, talented and well respected individual, both within IHG and across industries. In over 20 years with IHG, he played an integral part in our success, and his expertise, passion, leadership and friendship will be sorely missed. During his tenure, he led many key parts of

our business and helped shape and deliver our strong digital offer, launching several industry firsts and building an excellent leadership team with great strength and depth. He touched many people’s lives, and a fitting tribute to him will be the scholarships in his name with Junior Achievement of Georgia, where he was a Board member, which will ensure his legacy goes on to inspire future generations.

Corporate Governance continued

Board meetings

The Chair and Company Secretary continue to operate a thorough two-tiered collaborative process for setting the Board agenda to ensure that the focus and discussion strikes the appropriate balance between short-term needs of the business and the longer-term. The Chair, CEO and Company Secretary also meet in advance of each Board and Committee meeting to finalise the agendas and ensure that sufficient time is allocated and in which order each matter is considered. The Company Secretary maintains an annual agenda schedule for Board meetings that sets out strategic and operational matters to be considered. Board papers are circulated to all Board members at least one week in advance of each meeting, to ensure that Directors have sufficient time to fully prepare for the meetings and ensure that effective, focused and relevant discussions take place. Each Board meeting begins with an update from the Chair and CEO, and the CFO then provides a review of the Group’s financial performance. Executive Committee members and other members of senior management present updates and ‘deep dives’ on key initiatives and developments throughout the year, including functional, market and brand reviews, enabling all Directors to engage with senior management, have a strong understanding of Group operations, challenges and successes and contribute to strategic discussions.

The Board continues to receive presentations in the less formal context of pre-dinner meetings, scheduled the day before Board meetings, and invites external experts to provide ‘outside-in’

perspectives. This year the Board discussed technological agility and innovation, and the trends and competitive dynamics shaping the digital environment with external experts.

The Board held eight scheduled meetings during the year, and individual attendance is set out on page 55. All Directors are expected to attend all Board meetings and relevant Committee meetings unless they are prevented from doing so by prior commitments, illness or a conflict of interest. If Directors are unable to attend Board or Committee meetings, they are sent the relevant papers and asked to provide comments to the Chair of the Board or Committee in advance of the meeting so that their comments can be duly considered.

Time is set aside at the start and end of each Board meeting for the CEO to meet with the Chair and Non-Executive Directors, and for the Chair to meet privately with the Senior Independent Non-Executive Director (SID) and Non-Executive Directors to discuss any matters arising. The SID continues to be available to discuss concerns with shareholders, in addition to the normal channels of shareholder communication.

During 2018, the Board focused on strategic and operational matters, corporate governance, investor relations and risk management. The interests of key stakeholders were considered throughout all discussions. The key focus areas for the Board during 2018 are outlined below:

	Area of discussion	Discussion topic
Strategic and operational matters	Accelerating our growth	Regular updates were received on key milestones including organisational structures and workforce transition, progress against key strategic initiatives and risk management and culture change.
	Strategic initiatives	Regular consideration of merger and acquisition activity, including the acquisition of the Regent brand and entry into a managed lease transaction in the UK.
	Operating regions	Operating performance, competitive positioning, outlook and strategy, including progress against KPIs, were considered at each Board meeting and deep-dive sessions on each region were also presented during the year, considering our guest and owner proposition throughout.
	Commercial delivery	Updates on progress against our channels and sales strategy and updates on the roll out of IHG Concerto, including the approach to risk mitigation and future initiatives.
	Brands	Brand performance and initiatives for all brands, including approving the launch of voco, and monitoring progress following the launch of avid hotels.
	Our people and culture	Presentations from the Chief Human Resources Officer on people, and culture change, including updates on engagement scores, feedback sessions, and key learnings. The Board discussed the conclusions reached and next steps, including how the interests of the workforce had been considered and the importance of ensuring key learnings were implemented.
	Finance	In addition to approving the budget, review of the Group’s funding and liquidity position and approving a €500 million bond.
Corporate governance	Updates from each of the Board Committees	Details of Committee activities during 2018 can be found on pages 64 to 69 and 72 to 85.
	Corporate Governance Code and The Companies (Miscellaneous Reporting) Regulations	Presentations were received on corporate governance developments, including statutory duties, stakeholder engagement, workforce voice, Board composition, diversity, remuneration, culture and stewardship.
	Quarterly corporate governance and regulatory updates, including reviews of regulatory developments and any upcoming legislative changes affecting the business, the Board and/or its Committees	Internal quarterly updates are provided to the Board covering key regulatory and corporate governance developments and how the Group is responding. Further information can be obtained from the Company Secretary.
	Year-end matters, including the Annual Report and Form 20-F	Details of the review process of the Annual Report and Form 20-F can be found on page 64.
	Board effectiveness evaluation	Details of the process and outcome of the internal Board effectiveness review can be found on page 63.

	Area of discussion	Discussion topic
Risk management	Cybersecurity	Presentations from the Chief Information Security Officer on cybersecurity, including the threat landscape, information security priorities, and updates on key initiatives and metrics.
	Internal controls and risk management systems, our risk appetite and our global insurance programme	Regular updates were received on internal controls, risk management systems, our risk appetite and global insurance programme. Reports on risk topics were delivered by the Chair of each Committee.
	Terms of Reference for each Board Committee	Changes to the Terms of Reference of the Committees were approved during the year, in preparation for the implementation of the new 2018 UK Corporate Governance Code. The Terms of Reference for all Committees and the Matters Reserved for the Board can be found on our website.
Investor relations, stakeholder engagement and communications	Updates on investor perceptions and shareholder relations, consideration of analysts' reports and media updates	The Board receives a regular report outlining share register movement, relative share price performance, Investor Relations activities and engagement with shareholders. The Board also considered feedback from the regular investor and analyst perception survey.
	Stakeholder engagement	The Board continued to consider stakeholders throughout all Board discussions. In addition separate updates and presentations were provided on the workforce, the Group's owners engagement strategy, and outsource suppliers.
	Global communications updates	The Board receives a regular report on global communications, including the external landscape and communications activity across key regions, our brands and our people.
	Review and approval of shareholder returns strategies for 2018	During the year, the Board considered and after taking into account stakeholder interests, distributable reserves and long-term success of the Company, recommended two dividends and a \$500 million return to shareholders via a special dividend with share consolidation, which was approved by shareholders on 11 January 2019 and paid on 29 January 2019.
	Preparations for the AGM	Details of the 2019 AGM can be found on page 62.

Annual Strategy Meeting – March 2018

The Board maintains overall responsibility for the establishment and review of the long-term strategic aims and objectives of the Group. Substantial time is spent considering Group strategy and monitoring performance during the regular Board meetings and, in addition, the Board holds an Annual Strategy Meeting, dedicated to reviewing and discussing our global strategy in detail.

The 2018 Annual Strategy Meeting was held in London and the Board undertook a thorough review of the Group's performance across all business areas, as well as completing a strategic assessment of the competitive

landscape and the commercial strategy and priorities for the Group. This assessment led to a discussion regarding the priorities for the Group going forward and in particular, on all of the initiatives supporting the continuation and delivery of our continued ambition for growth.

Each Board member received a full briefing in advance of the Annual Strategy Meeting to ensure they had the time to reflect on the key information ahead of engaging in the discussions at the meeting.

Engagement with stakeholders

We remain committed to maintaining an active and effective dialogue with our shareholders and all of our key stakeholders. We encourage engagement with investors and other stakeholders through our planned programme of investor relations activities, as well as responding to queries from shareholders, analysts and other stakeholders. Our Registrar, Equiniti, and J.P. Morgan, as custodians of our American Depositary Receipts (ADR) programme, have teams equipped to deal with shareholder and ADR holder queries. A formal external review of investor perceptions is presented to the Board on an annual basis and both the Executive Committee and the Board receive regular updates on shareholder relations to ensure that they are made aware and understand the issues and concerns of major shareholders in order to develop a balanced understanding of any such concerns.

Shareholder engagement during the year

The Board's engagement with shareholders included:

- Meeting shareholders and responding to any queries raised at the 2018 AGM and the General Meeting in January 2019.
- Presentations by Keith Barr and Paul Edgecliffe-Johnson to institutional investors, analysts and the media following half-year and full-year results announcements.

- Investor roadshow events in the US, Canada, Europe and Edinburgh.
- Telephone conferences after the release of the first and third-quarter trading updates, including Q&A sessions with sell-side analysts.
- IFRS 15 event, with Paul Edgecliffe-Johnson outlining and presenting the reporting changes to investors and analysts.
- Seeking feedback via an annual investor perception survey, facilitated by our capital markets advisers.
- Attendance at key institutional investor conferences.
- A programme of one-to-one meetings with major institutional shareholders, including Non-Executive Director meetings hosted by the Chair.

The SID remains available to shareholders if they have concerns they wish to discuss.

In addition to the Board's formal engagement with shareholders, Elie Maalouf attended an investor conference in the US and Kenneth Macpherson attended an investor conference in London. In addition, investor hotel tours took place in both China and London.

To enable as many shareholders as possible to access conferences and presentations, telephone dial-in facilities were made available

Corporate Governance continued

Engagement with stakeholders continued

in advance and live audio webcasts were made available after results presentations in 2018, together with associated data and documentation. These can be found at www.ihgplc.com/investors under Results and presentations. Details of the sell-side research analysts who publish research on the Group are available at www.ihgplc.com/investors under Analyst details and consensus.

AGM

The AGM is an opportunity for shareholders to vote on certain aspects of Group business and to discuss matters with the Board. A presentation regarding the Group's performance and financial results is given before the Chair deals with the formal business of the meeting. All shareholders present can ask questions of the Board, during the meeting and more informally over lunch. The Board considers the AGM an invaluable forum for communicating with investors and we encourage participation at this meeting.

The 2019 AGM will be held at 11:00 on Friday 3 May 2019. The notice convening this meeting will be sent to shareholders and will be available at www.ihgplc.com/investors under Shareholder centre in the AGMs and meetings section.

General Meeting

A General Meeting was held on 11 January 2019 to consider the consolidation of IHG's share capital and seek authority to purchase our own shares. Shareholders were encouraged to attend and participate in this meeting and all resolutions were passed. Further details can be found at www.ihgplc.com/investors under Shareholder centre in the AGMs and meetings section.

Shareholder services

As a result of the special dividend and share consolidation, the annual share-dealing programme was postponed.

Stakeholder engagement

During the year, the Board also engaged with a number of our key stakeholders, including:

- Attendance at the 2018 World Economic Forum in Davos, engaging with a wide variety of clients, owners, suppliers and various country tourism organisations and officials;
- Meetings with a number of hotel owners in our Greater China region during the UK China CII Business Reception and Dinner;
- Joining our Senior Leaders for the annual meeting in Miami; and
- Meetings with the workforce and guests during various hotel visits, including in Atlanta and London.

In addition, members of the Board engaged with key credit investors as part of the Group's bond roadshow.

Director induction, training and development

New Director inductions

All new Directors, upon appointment, undergo a comprehensive and formal induction programme which is tailored to meet their individual needs. We believe this is crucial to ensure our Directors have an in-depth understanding of and familiarity with the Group's business model, key stakeholders, our principal activities and our strategy, which is key to enabling all Directors to contribute to the Board effectively.

Elie Maalouf was appointed an Executive Director on 1 January 2018. Having been Chief Executive Officer of the Americas since February 2015, Elie already had a thorough understanding of the Group's business model and strategies and had already participated in a number of Investor Relations events. As such, his induction was tailored to provide a thorough outline of his responsibilities and duties as a Director of a public limited company. This included:

- The provision of a detailed briefing pack outlining the roles, responsibilities and duties of an Executive Director;
- Board induction meetings with the Company Secretary, Deputy Company Secretary and external Corporate Legal Adviser focusing on Director's duties under the Companies Act, key corporate governance and corporate transaction issues, compliance with Listing Rules and relevant regulations;
- Induction meetings with the Group Financial Controller and Auditor to review key financial considerations and responsibilities of an Executive Director;
- Meeting with Dr Tracy Long, an independent external Board evaluator, to discuss the Board review process and outcomes from past evaluations; and
- One-to-one meetings with the Committee Chairs and SID to ensure a thorough understanding of the focus areas of each Committee and the SID.

Ongoing Director training and development

We believe that an ongoing and progressive training programme enables all Board members to fully understand the Group's business and operations and how it interacts with the ever changing external landscape. The Chair continues to review the training and development needs with each Director on a regular basis and the Board is made aware of training opportunities.

Board and Committee meetings are regularly used to update Directors on developments in the environment in which the business operates and in-depth presentations are provided on key topical areas. The Company Secretary provides regular updates on regulatory, corporate governance and legal matters and individual meetings with senior management are arranged if necessary. Focus trends and areas in 2018 included corporate governance changes, consumer and technology developments and information security and cybersecurity trends and developments. In addition, Directors are encouraged to attend external training events to update their skills and knowledge.

Board meetings continue to be held at IHG hotels around the world to provide first-hand experience of our different brands. We believe that this opportunity to meet our workforce, suppliers and owners across the business broadens the Board's understanding of the markets in which we operate. In 2018, Board members attended Board and Committee meetings at our Ravinia offices in Atlanta, the InterContinental® London Park Lane and the Crowne Plaza, Kensington in the UK, as well as meetings at the Group's head offices in Denham, UK. Directors are also encouraged to continue to visit hotels across our brands on an informal basis.

Board effectiveness evaluation

Board performance evaluation

IHG recognises the benefits of the Board undertaking a rigorous evaluation of its own performance and that of its main Committees and individual Directors on an annual basis, in line with the UK Corporate Governance Code recommendations.

In accordance with the Code, we rotate a three-year Board evaluation cycle with an external Board evaluation taking place every three years. Dr Tracy Long of Boardroom Review Limited, an external facilitator with no connection to IHG, completed our external evaluation in 2016. The intention is to complete the next external evaluation in 2019 and therefore during 2018, the Board completed an internal evaluation.

The evaluation this year was conducted by the Chair and the SID through a confidential, structured interview process. The key topics covered in the evaluation included:

- Board composition and alignment with the needs of the business;
- Board work processes including agenda setting, information flow, areas of engagement and use of time;
- Board engagement with strategy;
- Board dynamics and effectiveness of meetings, including relations with executives; and
- The structure and effectiveness of our Principal Committees.

The feedback from Executive Directors about the Board's performance was incorporated into the assessment process.

Following the analysis of the results, it was concluded that the Board operates effectively, with high levels of engagement and participation as a Board, good interaction with all members of the Executive Committee and an open and transparent relationship with management below the Executive Committee level.

The Board concluded that the topics covered in the agenda items over the year were well balanced, giving the Board an appropriate overview of the key items facing the business, supporting regular and engaged discussion and enabling the Board to monitor the progress against delivery of the Group's strategic objectives. This is also bolstered by the two-tiered approach to the agenda focussing on operational and strategic objectives both for the short and longer term.

Cybersecurity, talent, diversity, consumer-facing digital trends and maintaining pace with the changing competitive landscape were identified as areas for continued focus.

The Board also concluded that the Principal Committees continued to be well-led, highly engaged and effective.

Directors' performance evaluation

In addition to the Board evaluation process outlined above, internal performance evaluations of Directors were undertaken during 2018 in order to enhance the accountability and effectiveness of each Director. Feedback was collected for each Director's peer review by the Chair and SID through an interview format, with a mix of structured interview questions and a more open-ended discussion. Board members were asked to provide comments on their fellow Directors' preparedness, contribution, strengths and weaknesses, industry and company understanding and opportunity for development.

The summary of the feedback was reviewed by the Chair and the SID before being communicated to each Director.

The assessment of the performance of the Chair was led by the SID. The Chair's evaluation consisted of interviews with the Non-Executive Directors, discussing:

- The relationship between the CEO and Chair;
- Board succession;
- Board culture and the Chair's ability to promote and maintain an open, transparent and constructive atmosphere, encouraging co-operation and communication;
- Managing the Board in accordance with high standards of corporate governance; and
- The effectiveness of the analysis and action taken from the results of last year's evaluation.

The CEO evaluation was led by the Chair in a process involving all Directors by means of a structured interview process. Key areas of focus included:

- IHG's performance;
- Effectiveness in developing and implementing strategy, talent and culture;
- Effectiveness in shaping IHG's reputation and relationships with key stakeholders;
- Value stewardship;
- Leadership of the Executive Committee; and
- Areas for further development.

The length of tenure of Non-Executive Directors continues to be reviewed as part of the Directors' performance evaluation process. Both Luke Mayhew and Dale Morrison have served on the Board for more than six years and, as such, were subject to particular review. It was concluded that both Luke and Dale continue to contribute effectively and to demonstrate commitment to the role including devoting the necessary time.

Directors' additional appointments and time commitments also form part of the internal performance evaluation process. Any potential additional appointments are thoroughly discussed with the Chair before being accepted, with the time commitment required for each role being carefully assessed. During 2018, particular attention was paid to Ian Dyson, Anne Busquet and Jo Harlow's commitments, as well as Paul Edgecliffe-Johnson's time commitment to his Non-Executive Director duties at Thomas Cook Group plc. Following a thorough review process, we determined that their additional appointments do not adversely impact their performance, but add value to their perspective and ability to constructively challenge management.

As a result, it was concluded that all Directors continue to perform their duties effectively, dedicating sufficient time to the Company to discharge their responsibilities effectively.

Corporate Governance continued

Audit Committee Report



The Committee continues to play a key role within IHG's corporate governance framework, supporting the Board in matters relating to internal control, risk management and financial reporting.

Key duties and role of the Committee

Key objectives and summary of responsibilities

The Audit Committee is responsible for ensuring that IHG maintains a strong control environment. It monitors the integrity of IHG's financial reporting, including significant financial reporting judgements, maintains oversight and reviews our systems of internal control and risk management, monitors and reviews the effectiveness and performance of internal and external audit functions, as well as reviewing the behaviours expected of IHG's employees through the Code of Conduct and related policies.

The Committee's role, responsibilities and authority delegated to it by the Board are set out in its Terms of Reference (ToR), which are reviewed annually and approved by the Board.

The Committee's key responsibilities and focus over the year have been:

- Reviewing the approach to Risk and Assurance in light of the new organisational structure;
- Regular reviews of the Group's information security controls and the information security risk landscape, including reviewing a cybersecurity risk assessment and a detailed roadmap for 2018 and beyond;
- Reviewing, challenging and ensuring accurate financial and narrative reporting, including reviewing the Annual Report and Form 20-F and assessing the implementation of new accounting standards, including IFRS 15 concerning revenue recognition and IFRS 16 concerning leases;
- Reviewing and assessing the robustness of the Group's internal control and risk management systems and in-depth reviews of specific principal risk areas including the approach to outsourcing and the risk and control environment in relation to the implementation of GRS and the Group's strategic initiatives;
- Overseeing the relationship with and appraisal of the Group's external Auditor, including regular analysis of audit and non-audit services;
- Overseeing the external audit tender process;
- Monitoring and reviewing the role of Internal Audit; and
- Overseeing and ensuring the effectiveness of the Group's regulatory compliance policies, procedures and controls, including assessing the Group's approach to the EU General Data Protection Regulation (GDPR).



The ToR are available at www.ihgplc.com/investors under Corporate governance in the Committees section.

Membership and attendance at meetings

Details of the Committee's membership and attendance at meetings are set out on page 55. The CFO, Group Financial Controller, Head of Risk and Assurance and our external Auditor, Ernst & Young LLP (EY), attended all meetings in 2018. Other attendees are invited to meetings as appropriate; and the CEO and all other Directors attended Committee meetings where the principal risks and risk management systems and the approval of financial reporting were considered and discussed. The Committee continues to hold private sessions with the internal and external Auditors without the presence of management to ensure that a culture of transparency is maintained. The Committee Chair continues to have recent and relevant financial

experience and all members of the Committee are Independent Non-Executive Directors. In accordance with the Code, the Board also considers that the Committee as a whole possesses competence relevant to the Company's sector, having a range of financial and commercial experience in the hospitality industry and the broader commercial environment in which we operate. Further details of the skills and experience of the Board can be found on pages 56 and 57.

Reporting to the Board

Following each Committee meeting, the Committee Chair updates the Board on key issues discussed. The papers and minutes for each meeting are circulated to all Board members, who are invited to request further information if required and to provide any challenge where necessary.

Effectiveness of the Committee

The effectiveness of the Committee is monitored and assessed regularly by the Chair of the Committee and the Chair of the Board. During 2018, the Committee was also reviewed as part of the internal Board evaluation process (see page 63). The Committee undertook an assessment against its own ToR and I, as Chair, assessed the effectiveness of the Committee across a number of areas, including membership, skills and experience and the work of the Committee across its key responsibility areas. The Committee concluded that it remains effective. Minor changes were also made to the ToR to reflect the 2018 UK Corporate Governance Code, including that whistleblowing procedures and reports would now be matters reserved for the Board.

Focus areas and activities

Financial and narrative reporting

During the year, the Committee reviewed and recommended approval of the interim and annual Financial Statements (considering the relevant accounting and reporting matters such as impairment reviews, key judgement areas, acquisition accounting, the going concern and viability statements) and the Group's quarterly trading updates. All members of the Board are asked to attend these meetings. The Committee also reviewed and recommended approval of the restatement of the prior year's accounts, prepared to reflect financial reporting changes.

The Committee recognises the importance of understanding changes in accounting policies and practice, and continues to receive an annual update from EY on key changes in this area. In 2018, the Committee continued its review of the implementation of IFRS 16 concerning leases and IFRS 15 concerning revenue recognition, particularly in relation to the System Fund revenues and the treatment of loyalty programme accounting.

The Committee continued to seek input and guidance from the external Auditor where appropriate to gain further assurance over the process of preparation of the Financial Statements. In addition, the Committee received regular reports from the Chair of the Disclosure Committee and copies of all minutes of that Committee were duly circulated.

The Committee received early drafts of the Annual Report and Form 20-F 2018 (Annual Report), and when providing comments considered: (i) the process for preparing and verifying the Annual Report, which included review by members of the Executive Committee and input from senior colleagues in Operations, Strategy, Human Resources, Finance, Risk and Assurance and Legal; (ii) a report from the Chair of the Disclosure Committee; and (iii) the

checklist prepared by the Annual Report team confirming compliance with the relevant regulatory requirements.

The Committee also considered management’s analysis of how the content taken as a whole, was ‘fair, balanced and understandable’, and whether it contained the necessary information for shareholders to assess the Group’s position and performance, business model and strategy. In order to reach this conclusion, a dedicated project team worked on the contents of the Annual Report and a detailed verification process to confirm the accuracy of the information contained within the Annual Report was

undertaken by the Financial, Planning and Analysis department. The Committee then considered both the structure and content of the Annual Report to ensure that the key messages were effectively and consistently communicated and that meaningful links between the business model, strategy, KPIs, principal risks and remuneration were clearly identified throughout the Annual Report.

Following a review of the contents of the Annual Report alongside the aforementioned criteria, the Committee reported its recommendation to approve the Annual Report to the Board.

Significant matters in the 2018 Financial Statements

The Committee discussed with management and the Auditor the key judgements applied in the Financial Statements, the exceptional items arising in the year and the impact of any accounting developments or legislative changes. The main items discussed are outlined below.

Area of focus	Issue/Role of the Committee	Conclusions/Actions taken
Accounting for the System Fund	Given significant changes to the way IHG accounts for the System Fund due to the adoption of IFRS 15 in 2018, the Committee reviewed the controls, judgements and decisions related to System Fund accounting.	In forming a conclusion on the appropriateness of the System Fund accounting the Committee met with senior finance management to review and evaluate the judgements made in determining that revenue and expenses of the System Fund should be accounted for in the income statement, and derecognising the historic balance sheet surplus, as determined by management’s interpretation of IFRS 15. The Committee concluded this change was appropriate and their decision was supported by the conclusions reached by the AICPA Hospitality Entities Revenue Recognition Task Force (‘the Task Force’) focused on IFRS 15, where management participated alongside other hotel companies and audit firms. At each Committee meeting the Committee reviewed the status and results of System Fund testing for controls required by the Sarbanes-Oxley Act. The Committee also considered EY’s procedures and conclusions in this area, and concluded that the controls were appropriate and effective.
Accounting for IHG Rewards Club	With the adoption of IFRS 15 the accounting for the IHG Rewards Club programme changed significantly in 2018. Accounting for the programme still requires significant judgement and represents a material deferred revenue balance. Accordingly, the Committee reviewed the controls, judgements and decisions related to accounting for the IHG Rewards Club programme.	In forming a conclusion on the appropriateness of the accounting for the IHG Rewards Club programme, the Committee met with senior finance management to review and evaluate the judgements made to change the accounting for the IHG Rewards Club Points from a liability based on the future cost of redemptions to a deferred revenue balance. The Committee determined the treatment was appropriate and their decision was supported by conclusions reached by the Task Force. The Committee further reviewed the deferred revenue balance and questioned the valuation approach, the results of the external actuarial review and judgement exercised on the breakage of outstanding IHG Reward Club Points. The Committee also considered EY’s procedures and conclusions in this area, and concluded that the deferred revenue balance is appropriately stated.
Impairment testing	Impairment reviews require significant judgement and the Committee therefore scrutinises the methodologies applied and the inherent sensitivities in determining any potential asset impairment.	The Committee reviewed a management report outlining the approach taken on impairment testing and key assumptions and sensitivities supporting the conclusion on the various asset categories. The Committee examined the assumptions related to non-current assets, assets previously impaired and the assets acquired as part of the Kimpton acquisition. The Committee also considered EY’s procedures and conclusions in this area, and concluded that it agreed with the determinations reached on impairment.
Litigation	From time to time, the Group is subject to legal proceedings with the ultimate outcome of each being subject to many uncertainties. The Committee reviews and evaluates the need for any provisioning on a case by case basis.	At each meeting during the year, the Committee considered a report detailing all material litigation matters. The Committee discussed and agreed any provisioning requirements for these matters.
Exceptional items	The Group exercises judgement in presenting exceptional items. The Committee reviews and challenges the classification of items as exceptional based on their materiality or nature.	The Committee considered the consistency of the treatment and nature of items classified as exceptional over the last five years and discussed the items disclosed as exceptional. The Committee reviewed and challenged the significance, timing and nature of the exceptional items disclosed in note 6, comprising reorganisation costs, acquisition and integration costs, US pension settlement and litigation. The Committee also considered EY’s procedures and conclusions in this area, and concluded that the disclosures and the treatment of the items shown as exceptional were appropriate.
Acquisitions of Regent and UK portfolio	Acquisition accounting involves judgement in establishing the fair values of the assets and liabilities acquired. The Committee reviews the accounting and challenges the appropriateness of the inputs and judgements to these valuations.	The Committee considered the work done to establish the fair value of the assets acquired and future consideration payable. The Committee questioned the assumptions underlying the valuations and considered reports provided by third-party valuation experts. The Committee also considered EY’s procedures and conclusions in this area, and concluded that the fair values recognised were appropriate.

Corporate Governance continued

Audit Committee Report continued

Internal control and risk management

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and ensuring that sound risk management and internal control systems are maintained, with an appropriate culture embedded throughout the organisation. The Committee supports the Board by reviewing the effectiveness of the Group's internal control and risk management systems, the wider risk environment, and overseeing the risk and control activities in operation.

In order to effectively review the internal control and risk management systems, the Committee:

- Receives regular reports from management, Risk and Assurance and the external Auditor on the effectiveness of the systems for risk management and internal control, including financial, operational and compliance controls.
- Reviews the process by which risks are identified and assessed and the timeliness and effectiveness of corrective action taken by management, including regular reports and presentations on the Company's overall risk management system and principal risks, mitigating actions and internal controls.
- Receives additional reports throughout the year relevant to internal control and risk management, both financial and non-financial, to ensure that current and emerging risks are identified, assessed and appropriately managed (see pages 26 to 30 for further detail on our principal risks and risk management).

As part of the Committee's review of the internal control and risk management systems, key financial, operational and compliance controls across the business continue to be monitored and tested throughout the year. The Committee assesses the approach to Sarbanes-Oxley Act 2002 (SOX) compliance in accordance with our US obligations and reviews reports on the progress of the SOX programme at each meeting. The Committee considers the Group's treasury and tax strategy policies annually and, during 2018 approved changes to the Group Treasury Policy and the Group's published 'Approach to Tax'.



Our Approach to Tax document is available at www.ihgplc.com/responsible-business

Having reviewed the internal control and risk management systems throughout the year, the Committee concluded that the Group has an effective system of risk management and internal controls, and that there are no material weaknesses in the control environment and no significant failings or weaknesses.

Principal risk areas

The Committee has a schedule for in-depth reviews into specific principal risk areas over the year, in addition to the regular risk management review. During 2018, the Committee considered in particular:

- The Group's approach to risk and assurance, in the context of the a dynamic risk environment.
- Information security, cybersecurity and privacy. A key focus for the Committee during the year was information security and, in particular, cybersecurity. A cybersecurity risk assessment was undertaken, highlighting the specific risks facing the hospitality industry and an assessment of the Group's current cybersecurity capability. The Committee discussed the findings and recommendations with the Chief Information Security Officer, and agreed metrics to measure progress. The Committee also reviewed and assessed the Group's approach to privacy regulations, in particular GDPR and China Cybersecurity Laws and recently received a report on the Group's privacy programme from the Group's Data Protection Officer.
- Financial Management and Controls, including fraud risk awareness, and the Group's approach to tax and treasury management.

- Risk management and assurance measures, including the governance and control framework in the new organisational structure and across key strategic initiatives, focusing in particular on risks in relation to outsourcing and the implementation of IHG's Guest Reservation System.
- Safety and security in hotels including review of significant incidents reported and the Group's process and approach for managing allegations relating to ethical issues.

Further details of our principal risks, uncertainties and review process can be found on pages 26 to 30.

Relationship with external auditor

A detailed audit plan was received from EY at the beginning of the audit cycle for the 2018 financial year, which gave an overview of their approach to the audit, outlining the significant risk areas and in particular the approach to materiality and scoping of the audit.

The Committee regularly reviewed the significant audit risks and assessed the progress of the audit throughout the year.

Non-audit services

The independence and objectivity of the non-audit services provided by EY to the Group are safeguarded by IHG's Audit and Non-Audit Services Pre-Approval Policy. The policy is reviewed by the Audit Committee annually, and minor changes were approved in 2018.

The policy requires that pre-approval is obtained from the Audit Committee for all services provided by the external Auditor before any work can commence, in line with US SEC requirements without any de minimis. The Committee reviewed the audit and non-audit fees incurred with EY on a quarterly basis during 2018, noting that there had been no prohibited services (as defined by the Sarbanes-Oxley Act of 2002) provided to the Group in each period. The Committee is prohibited from delegating non-audit services approval to management and compliance with the policy is actively managed.

IHG is committed to maintaining non-audit fees at a low level and the Committee is sensitive to investor advisory bodies' guidelines on non-audit fees. During 2018, 21% of services provided to the Group were non-audit services (2017: 23%), primarily related to SOC1 reports and agreed upon procedures. Details of the fees paid to EY for non-audit work during 2018, and for statutory audit work during 2018 can be found on page 123. The Committee is satisfied that the Company was compliant during the year with the FRC's Ethical and Auditing Standards in respect of the scope and maximum permitted level of fees incurred for non-audit services provided by EY. Where non-audit work is performed by EY, both the Company and EY ensure adherence to robust processes to prevent the objectivity and independence of the external auditor being compromised.

Audit Quality Review

During 2018, an Audit Quality Review Team from the FRC undertook an inspection of EY's audit of the Group's 2017 Financial Statements. As part of that process, the Committee Chair shared his and the Board's view of the quality of the EY audit. The Committee considered the final inspection report, which did not raise any significant findings, and discussed the results and agreed actions with the lead audit partner. The Committee agreed with the overall assessment which was consistent with its own view of the quality and effectiveness of the external audit.

Risk and Assurance – Internal Audit

The Committee discusses the Internal Audit annual plan in December each year, which aims to provide objective and insightful assurance over the control environment. The 2019 plan presented to the Committee included the Group's principal risks and key controls and included reviews over the following areas: (i) risks relating to the Group's strategic initiatives, culture, processes and controls; (ii) assurance reviews and assessments of risk areas, including information security; and (iii) ongoing assurance across areas

such as the hotel control environment and approach to regulatory compliance. Following consideration, the Committee confirmed its agreement to the 2019 Internal Audit plan, including the key control themes identified. Progress against the Internal Audit plan is reported to the Committee on a quarterly basis and is actively monitored by the Committee. This includes reviewing the results of completed audits and the findings raised through these audits, as well as management action plans to address any issues raised.

A functional effectiveness review of Internal Audit is undertaken each year and reported to the Committee. Internal Audit has again undertaken an internal assessment, noting that the actions raised by the external review two years ago were mostly implemented. Senior stakeholder feedback was gathered and the functional activities of Internal Audit were reviewed according to five categories: Purpose and Remit; Position and Organisation; Process and Technology; People and Knowledge; and Performance and Communication. As a result of the internal review, it was concluded that Internal Audit continues to be effective in providing independent assurance activities.

Governance and compliance

The Committee is responsible for reviewing the Group's Code of Conduct (which is reviewed and approved annually) and related policies. In 2018, the Group's policies and processes in relation to gifts and entertainment and handling data were reviewed and the Committee approved revised policies.

External auditor – Appointment of Ernst & Young LLP (EY) and audit tender

The Committee assessed EY's performance during the year, including its independence, effectiveness and objectivity, and considered the appointment of its external Auditor, including the requirements for putting the audit out to tender as set out in EU and Competition and Markets Authority legislation. After due consideration, the Committee recommended the re-appointment of EY as the Auditor of the Group. EY has been our Auditor since IHG's listing in April 2003 and of the Group's predecessor businesses dating back to 1988.

As part of its annual review, the Committee determines the independence of the external auditor, considering, among other things, its challenge to management and level of professional scepticism, the amount of time passed since a rotation of audit partner and the level of non-audit work that it undertakes, details of which can be found on page 66.

To ensure the external Auditor's independence is safeguarded, lead audit partners are required to rotate every five years. Sarah Kokot, who was appointed lead audit partner in 2016, has continued her role during 2018. There was a new UK audit manager during the year.

Another part of the Committee's annual review, completed by the Committee, is to consider the effectiveness of the relationship between EY and management. This included the completion of feedback questionnaires by the Committee members and 54 senior IHG employees. Feedback was requested on a number of topics including independence, assignment management and communication. The Committee also received reports from EY on its independence.

No significant issues were raised in the annual review of the auditor performance and effectiveness and, as a result, the Committee concluded that EY continues to provide an effective audit and maintain independence and objectivity. The Committee is satisfied with the external audit process as a whole and therefore recommended the reappointment of EY to the Board.

Whistleblowing

The Committee regularly reviewed the Group's whistleblowing arrangements and its reporting and investigation process to ensure that arrangements were in place for proportionate and independent investigation of such matters. The Committee also reviewed the number and potential impact of both substantiated and unsubstantiated cases and ensured that appropriate follow-up action was taken. Any significant claims would be brought to the immediate attention of the Committee and in 2018 no such claims were raised.

In preparation for the Company becoming subject to the 2018 UK Corporate Governance Code next year, the review of the whistleblowing arrangements has been removed from the Audit Committee Terms of Reference and has become a matter reserved for the Board. The Board will routinely review the means for the workforce to raise concerns in confidence and the reports arising from its operation. It will also ensure that arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action.

Looking forward

During 2019, the Committee will focus on information security controls, including cybersecurity, the audit tender process and IHG's control and risk management systems.

Ian Dyson

Chair of the Audit Committee
18 February 2019

Pursuant to regulations mandating a tender for the 2021 financial year, the Group plans to run the audit contract tender in 2019. A sub-committee has been established to manage and govern the audit tender process and is accountable to the Audit Committee, who will maintain overall ownership of the tender process and ensure that it is run in a fair and balanced manner. The sub-committee is supported by a project team, led by the Group Financial Controller.

During 2018, tender participants have been selected, and the design of the selection criteria has been established. In addition, a pre-approval process for non-audit services provided by the participant firms has been agreed and the identification process of current non-audit services has been completed.

Lead partners from the participating firms have been selected and the publicly available audit quality inspection reports, in both the UK and the US, have been reviewed and the implications for the audit tender considered. The 'Statutory audit services market study', published by the Competition & Markets Authority, and the report issued by Sir John Kingman, have both been reviewed with adjustments made to the tender plan where appropriate.

The audit tender will launch in the second quarter of 2019. To ensure each firm has the right level of information, a data room will be established and work is already underway to determine which items are being included in the data room. Each firm will participate in a series of management meetings, with the objective that they will build their best proposition.

The tender process for strictly prohibited services will be run after the external audit tender, to allow sufficient time to select new providers and transition services to another firm. The sub-committee will oversee the plan to manage the transition of these services.

The Group confirms that it has complied with the requirements of The Competition and Markets Authority Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, which relates to the frequency and governance of tenders for the appointment of the external auditor and the setting of a policy on the provision of non-audit services.

Corporate Governance continued

Corporate Responsibility Committee Report



We understand how vital corporate responsibility is in delivering our purpose of providing True Hospitality for everyone and supporting our shared commitment to long-term value creation.

Key duties and role of the Committee

Key objectives and summary of responsibilities

The Committee reviews and advises the Board on the Group's corporate responsibility objectives and strategy, including its impact on the environment, social, community and human rights issues, its approach to sustainable development, and stakeholder engagement in relation to the Group's approach to responsible business.

The Committee's role, responsibilities and authority delegated to it by the Board are set out in its Terms of Reference (ToR), which are reviewed annually and approved by the Board.



The ToR are available at www.ihgplc.com/investors under Corporate governance in the Committees section.

The Committee's key responsibilities and focus areas over the year have been:

- Reviewing the Group's approach to corporate responsibility, given changes in organisational structure;
- Monitoring the delivery of the new Responsible Business targets for 2018-2020, with a focus on the Group's environmental, community and diversity targets;
- Reviewing the Group's approach to responsible procurement targets and responsible business in the supply chain;
- Reviewing the approach to human rights issues, including the Group's Modern Slavery Statement; and
- Overseeing responsible business stakeholder engagement.

Membership and attendance at meetings

The Committee's membership and attendance at meetings are set out on page 55. The Head of Corporate Responsibility attended all meetings and the Chair of the Board also attended two out of the three meetings held during the year.

Reporting to the Board

The Committee Chair updates the Board on all key issues raised at Committee meetings. Papers and minutes for each meeting are also circulated to all Board members, who are invited to request further information where necessary.

Effectiveness of the Committee

The effectiveness of the Committee is monitored and assessed regularly by the Chair of the Committee and the Chair of the Board. During 2018, the Committee was also reviewed as part of the internal Board evaluation process. Further details can be found on page 63. The Committee also undertook an assessment against its own ToR and across a number of areas, including the skills and experience of the Committee and the work of the Committee across its key responsibilities, highlighting additional agenda items and focus areas for 2019. The Committee concluded that it remains effective.

Focus areas and activities

Approach to corporate responsibility

The Committee discussed the Group's approach to corporate responsibility, given organisational changes and the Group's strategic initiatives, endorsing the internal engagement plans and approach to accountability for delivery of the key targets across the Executive Committee. The Committee also supported the initiation of a broader strategic review, the results of which would be considered in 2019.

Responsible Business targets for 2018-2020

During 2018 the Committee reviewed and discussed the learnings from the last five years' activities and the approach to delivering the environmental targets, in particular. The Responsible Business targets for 2018-2020 were reviewed and the Committee received regular progress updates across the focus areas: environmental sustainability, community impact, our people, and responsible procurement. The Committee discussed the Group's diversity and inclusion initiatives with the Chief Human Resources Officer, and the Chief Procurement Officer provided insight into the Group's approach to responsible procurement and the longer-term supply chain strategy.

Community and human rights issues

The Committee reviewed the Group's approach to community giving and endorsed the True Hospitality for Good programme which seeks to deliver True Hospitality to local communities around IHG's hotels and corporate offices, by supporting colleague fundraising and helping lives for the better through building skills and education in hospitality. The Group continues to support communities when disasters strike and in 2018 provided support to communities and colleagues impacted by natural disasters in six countries. The Board (along with 80,000 colleagues) participated in Giving for Good month by packing care kits for victims of human trafficking in the Atlanta area. The Committee also supported the Group's human rights impact assessment, the results of which will be reviewed in 2019, and endorsed the commitment to the ITP Forced Labour Principles. The Group's Modern Slavery Statement was reviewed and recommended for approval to the Board.

Further information on our responsible business programmes and our approach to human rights can be found on pages 22 to 25.

Stakeholder engagement

The Committee assessed the Group's stakeholder engagement activity, focusing this year on the approach to charity partnerships and engagement with local community organisations, and also supported the recommendation to transition the on-going support of the IHG Foundation (see page 24), in favour of the True Hospitality for Good programme.



Information on our responsible business commitments can be found at www.ihgplc.com/responsible-business

Recognising the importance of corporate responsibility, we were pleased to be listed again on the S&P Dow Jones Sustainability Indices, having been listed as the industry leader in RobecoSAM's Hotels, Resorts & Cruise Lines industry group for the second year in a row.

Looking forward

We continue to recognise the importance of environmental, social and governance considerations to all our stakeholders and we are committed to delivering against our Responsible Business targets through our programmes and initiatives.

Jill McDonald

Chair of the Corporate Responsibility Committee
18 February 2019

Nomination Committee Report



We focus on the Board's structure, size and composition; overseeing appointments and ensuring diversity of experience, knowledge and background in our Board and senior management.

Key duties and role of the Committee

Key objectives and summary of responsibilities

The Committee reviews the composition of the Board and its Principal Committees, evaluating the balance of skills, experience, independence, knowledge and diversity requirements before making appropriate recommendations to the Board as to any changes. It also ensures plans are in place for orderly succession for both Directors and other Senior Executives and is responsible for reviewing the Group's senior leadership needs.

The Committee's role, responsibilities and authority delegated to it by the Board are set out in its Terms of Reference (ToR), which are reviewed annually and approved by the Board.



The ToR are available at www.ihgplc.com/investors under Corporate governance in the Committees section.

The Committee's key responsibilities and focus areas during the year have been:

- Board and Committee composition;
- Leadership development and succession planning including evaluating gender balance; and
- Changes to the UK Corporate Governance Code.

Membership and attendance at meetings

The Committee's membership and attendance at meetings are available on page 55. All members of the Committee are Non-Executive Directors. When the Committee considers matters relating to my position, Dale Morrison, the Senior Independent Non-Executive Director, acts as Committee Chair.

Reporting to the Board

The Committee makes recommendations to the Board for all Board appointments. Minutes are circulated to Board members and I report back to the Board on the activities of the Committee following each meeting.

Effectiveness of the Committee

The effectiveness of the Committee is monitored and assessed regularly by myself, as Chair of the Committee and the Board. During 2018, the Committee was also reviewed as part of the internal Board evaluation process and as Chair, together with the Company Secretary, I undertook an assessment of the work of the Committee. The Committee continues to conclude it remains effective (further details of this process can be found on page 63).

Focus areas and activities

Board and Committee composition

The Committee continued to review the current and future composition of the Board and Committees, particularly in light of the Group's focus on accelerated growth. Having reviewed the skills, experience and knowledge currently on the Board, considering progressive refreshing of the Board, the Committee was satisfied that an appropriate balance is maintained and therefore no new Director appointments were recommended to the Board during the year.

Elie Maalouf was appointed to the Board on 1 January 2018 and details of his induction process can be found on page 62.

Leadership development and executive succession planning

During the year, the Committee continued to review the development plans for the Executive Committee and senior management

positions in order to ensure the development of a diverse pipeline for succession.

An assessment of our senior leaders was completed in 2018 and presented to the Committee for discussion and consideration as part of a regular review of succession planning.

UK Corporate Governance Code changes and workforce engagement

The Committee reviewed the 2018 UK Corporate Governance Code (the 2018 Code), considering the implications of changes introduced. The Committee discussed proposals for workforce engagement and concluded that a Non-Executive Director, with support from the Company Secretary and the Chief Human Resources Officer, should assess the most appropriate long-term approach for Board engagement, for consideration by the Committee and the Board in 2019. This would include attending relevant employee meetings in the UK and the US, reviewing engagement surveys and other appropriate workforce related reports and considering existing methods of employee engagement channels.

Diversity

With a presence in more than 100 countries globally, we recognise that diversity and inclusion is essential, from the Board and throughout all levels of our business. All appointments are based on merit, experience and performance and the Board actively seeks diversity of skills, gender, social and ethnic backgrounds, cognitive and personal strengths. We regularly review how we look at diversity to ensure we represent the communities in which we operate and the guests who stay in our hotels.

Our Global Diversity and Inclusion Policy (D&I Policy) applies to all people employed by IHG and we encourage our franchised operations and those managed hotels where we do not directly employ people to follow the same principles. The objective of our D&I Policy is to celebrate difference, recognising that this underpins external, as well as internal, relationships.

Following the establishment of the Diversity and Inclusion Board (D&I Board) last year, we continue to implement our D&I framework through the D&I Board and locally driven initiatives. The Committee reviewed and discussed our commitments, the progress made and the work of the D&I Board.

We continue to deliver against our D&I Policy and are committed to our 2018-2020 Responsible Business Diversity target, as noted on page 23. As of 31 December 2018, 36% of the Board were female and two of our Principal Committees are chaired by women. In addition, 41% of senior operational leaders are now women, indicating our continued commitment to diversity at all levels of our business.

Looking forward

The Committee remains satisfied that we have appropriate plans in place for orderly succession of appointments to the Board and to senior management, so that an appropriate balance of skills, experience, knowledge and diversity is maintained and that we are making progress against our D&I commitments.

Patrick Cescau

Chair of the Nomination Committee
18 February 2019

Corporate Governance continued

Statement of compliance with the UK Corporate Governance Code

Our statement of compliance summarises how the Group has implemented the principles and provisions of the 2016 UK Corporate Governance Code (available at www.frc.org.uk/directors under UK Corporate Governance Code) as published in April 2016 (the Code). As discussed on page 54, work is underway to ensure compliance with the 2018 UK Corporate Governance Code (the 2018 Code) and we will include our statement of compliance against the 2018 Code in our 2019 Annual Report and Form 20-F.

A. Leadership

A.1 The role of the Board

The Board continues to lead IHG's strategic direction, long-term objectives and success of the Group. Further responsibilities of the Board are set out on page 55.

The Board met eight times this year and all Directors continue to act in what they consider to be in the best interests of the Company, consistent with their statutory duties. Further details of 2018 Board meetings are set out on pages 60 and 61, attendance information on page 55, skills and experience and biographical information on pages 56 and 57.

All Directors are covered by the Group's directors' and officers' liability insurance policy (see page 178).

A.2 Divisions of responsibility

The separate roles of the Chair and Chief Executive Officer are clearly established, set out in writing and are agreed by the Board.

Chief Executive Officer

Keith Barr leads the development of the Group's strategic direction and implementation of the agreed strategy. As well as building and leading an effective Executive Committee, he oversees IHG's business operations and manages its risks. See page 56 for more details.

A.3 The Chair

As well as building and maintaining an effective Board, Patrick Cescou leads the operation and governance of the Board and its Committees. The Chair has been in post for six years and was independent on appointment. See page 56 for more details.

A.4 Non-Executive Directors

Senior Independent Non-Executive Director

Dale Morrison was appointed as Senior Independent Non-Executive Director on 31 May 2014. He is available to liaise with shareholders who have concerns that they feel have not been addressed through the normal channels of the Chair, Chief Executive Officer and other Executive Directors. He also leads the annual performance review of the Chair with the other Non-Executive Directors (see page 63), and as necessary, provides advice and judgement to the Chair, and serves as an intermediary for other Directors when necessary.

After each Board meeting, Non-Executive Directors and the Chair meet without Executive Directors being present (see page 60). During the year, if any Director has unresolved concerns about the running of IHG or a proposed action, these would be recorded in the minutes of the meeting.

Further information on each of these roles can be found on our website at www.ihgplc.com/investors under Corporate governance.

This should be read in conjunction with the Corporate Governance statement on pages 55 to 69 and the Directors' Remuneration Report, on pages 72 to 85, as a whole.

The Board considers that the Group has complied in all material respects with the Code for the year ended 31 December 2018.

B. Effectiveness

B.1 The composition of the Board

The size and composition of the Board and its Committees is kept under review by the Nomination Committee to ensure the appropriate balance of skills, experience, independence and knowledge. Details of the skills and experience on the Board can be found on page 56 and 57.

Potential conflicts of interest are reviewed annually and powers of authorisation are exercised in accordance with the 2006 Act and the Company's Articles of Association. At least half of the Board, excluding the Chair, are Independent Non-Executive Directors (see page 55). Further details of the composition of the Board and Committees are available on pages 55 to 57.

B.2 Appointments

The Nomination Committee leads the appointment of new Directors to the Board and senior executives in accordance with its Terms of Reference (available on our website at www.ihgplc.com/investors under Corporate governance in the Committees section or from the Company Secretary's office on request) and supports the Board in succession planning. Further details of the role of the Nomination Committee and what it did in 2018 are in the Nomination Committee Report on page 69. The overall process of appointment and removal of Directors is overseen by the Board as a whole. Two Non-Executive Directors have served for seven years and were subject to a rigorous review during the year. All other Non-Executive Directors have served for less than six years – see pages 56 and 57.

B.3 Commitment

Non-Executive Director terms of appointment outline IHG's time commitment expectations required to fulfil their role. Executive Directors are not permitted to take on more than one external non-executive directorship or chair position in addition to their role. The commitments of each Director are included in the Directors' biographical details on pages 56 and 57. Details of Directors' service contracts and appointment terms are set out on pages 81, 84 and 187.

The Chair annually reviews the time each Non-Executive Director dedicates to IHG as part of the internal performance evaluation of each Director (see page 63) and is satisfied that their other duties and time commitments do not conflict with those as Directors.

B.4 Development

The Chair and Company Secretary ensure that new Directors are fully inducted and that all Directors continually update their skills and have the requisite knowledge and familiarity with the Group to fulfil their role (see page 62).

B.5 Information and support

The Chair and Company Secretary ensure that the Board and its Committees receive timely and appropriate information, and a flow of information between the Executive Committee and Non-Executive Directors. The Board and Committees also have access to the Company Secretary, independent advice and necessary resources, at the Company's expense. They receive administrative and logistical support of a full-time executive assistant. See page 60 for more details.

B.6 Evaluation

The Board undertakes either an internal or external annual Board effectiveness evaluation. In 2016-17 this was carried out externally and in 2018, it was carried out internally. More information on the evaluation is on page 63.

B.7 Re-election

All of the Directors retire and seek election or re-election at each AGM. Performance evaluations of all Directors, including the Chair, are carried out on an annual basis. Directors' biographies are set out on pages 56 and 57 and details of their performance evaluations are on page 63.

C. Accountability

C.1 Financial and business reporting

The Statement of Directors' Responsibilities (including the Board's statement confirming that it considers that the Annual Report and Form 20-F, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy) is set out on page 88.

The status of IHG as a going concern is set out in the Directors' Report on page 181. An explanation of the Group's performance, business model, strategy and the risks and uncertainties relating to IHG's prospects, including the viability of the Group, is set out in the Strategic Report on pages 2 to 51.

The statement from our Auditor, Ernst & Young LLP, about its reporting responsibilities is set out on pages 89 to 94.

C.2 Risk management and internal control

The Board determines the nature and extent of the risk the organisation is willing to take in achieving its strategic objectives. A robust assessment of the principal risks facing the Group was carried out, including those risks that would threaten the Group's business model, financial performance, solvency or liquidity (see pages 26 to 30 for further details of the principal risks). The Board and Audit Committee monitor the Group's risk management and internal controls systems and conduct an annual review of their effectiveness. Throughout the year, the Board has directly, and through delegated authority to the Executive Committee and the Audit Committee, overseen and reviewed all material controls, including financial, operational and compliance controls. See pages 55, 60, and 64 to 67.

The Board confirms that, in respect of the Group's risk management and internal control systems: (i) there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group; (ii) the systems have been in place for 2018 and up to 18 February 2019; (iii) they are regularly reviewed by the Board and Audit Committee; and (iv) the systems accord with FRC guidance on risk management, internal control and related financial and business reporting. Further details are set out in the Strategic Report on pages 2 to 51 and also in the Audit Committee Report on pages 64 to 67.

Details of the Directors' assessment of the prospects of the Group are set out on page 30.

C.3 Audit Committee and Auditor

The Audit Committee is comprised entirely of Independent Non-Executive Directors (see page 55 for membership details). Ian Dyson, the Chair of the Committee has recent and relevant financial experience and the Committee as a whole has competence relevant to the sector in which we operate. Details of the Committee's role, responsibilities and activities are set out on pages 64 to 67.

The Committee reviewed the effectiveness and independence of Ernst & Young LLP during 2018 and reconfirmed that it would complete the audit contract tender and transition any strictly prohibited services by 2020. A sub-committee of the Audit Committee to oversee the audit tender process has been established and further details on the progress made can be found on page 67.

D. Remuneration

D.1 The level and components of remuneration

The Remuneration Committee's activities during 2018 are set out on page 72 and its membership details are on page 55.

The Directors' Remuneration Report is set out on pages 72 to 85. The Annual Report on remuneration for 2018 (pages 78 to 85) is subject to the annual advisory vote at the AGM in 2019.

Information on Paul Edgecliffe-Johnson's appointment as a Non-Executive Director of Thomas Cook Group plc is set out on page 81.

D.2 Procedure

The Remuneration Committee is responsible for developing policy on executive remuneration and fixing remuneration packages of Directors. Further details are set out on pages 72 to 85.

During 2018, no individual Director was present when his or her own remuneration was discussed.

E. Relations with shareholders

E.1 Dialogue with shareholders

The Board engage actively with both institutional and retail shareholders to promote mutual understanding of objectives and ensure that their views are communicated to the Board as a whole. The Board also strives to understand the views of other key stakeholders and these are considered in board discussions and decision-making. See pages 61 and 62 for details of meetings with major institutional investors and other key stakeholders.

E.2 Constructive use of the AGM

The AGM is a key opportunity for the Board to engage with Shareholders. The Notice of Meeting will be sent to shareholders and will be available at www.ihgplc.com/investors under Shareholder centre in the AGMs and meetings section. The Board will be available to answer questions during the AGM and after the formal business has concluded. See page 62 for more details.

Directors' Remuneration Report

Remuneration Committee Chair's statement



We will review our Directors' Remuneration Policy in 2019 in light of our renewed focus and the increased pace with which we are executing our strategy to deliver high-quality, sustainable growth and superior returns for shareholders.

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2018 results

2018 saw a year of positive performance for IHG, in which our new regional operating structure was embedded and our programme of savings and reinvestment began to deliver results. Above target performance was delivered in respect of EBIT and net system size growth and excellent progress was made on our strategic objective to deliver annual cost savings of \$125m by 2020. As a result, awards for the Executive Directors under the 2018 Annual Performance Plan (APP) were 84.1% of their respective maximum potential payouts.

The 2016/18 Long Term Incentive Plan (LTIP), granted in 2016, vested at a level of 45.4% of the maximum potential award as a result of achievements in relative Total Shareholder Return and rooms growth. However, the three-year RevPAR performance fell short of threshold. As noted in last year's report, the 2018/20 LTIP cash flow target is disclosed in this report on page 83.

Changes to the Board and Executive Director responsibilities

Elie Maalouf was appointed to the Board on 1 January 2018. The remuneration arrangements for Elie were determined in accordance with our approved Directors' Remuneration Policy (DR Policy).

Looking forward, as we continue to embed structural changes in the business, the roles of two of our Executive Directors are being expanded to generate greater impact. In addition to his duties as Chief Financial Officer, Paul Edgecliffe-Johnson will take ownership of Strategy, including our ongoing programme of savings and reinvestment. Elie Maalouf will take accountability for Global Customer Development, providing oversight of the Global Sales organisation, as well as our owner management and services strategy, in addition to his position in our largest region as Chief Executive Officer, Americas. The additional compensation for these expanded roles is explained on page 83.

Other areas of focus for the Remuneration Committee

Matters discussed by the Remuneration Committee in 2018 included ongoing reviews of existing incentive schemes and measures; an overview of the Company's international mobility policy; and the introduction of an employee share plan, which will extend the alignment of employee and shareholder experience throughout IHG's corporate employee population.

Given the continued importance of growth and the reinvestment of achieved savings targets, the strategic measures which make up 30% of the short-term growth incentive plan target for Executive Directors will remain as in 2018. The annual System size growth measure in the APP focuses on key short-term growth targets and supplements the longer-term aims encompassed in the separate rooms growth target under the LTIP. LTIP measures and weightings for the 2019/21 cycle remain as per the 2018/20 cycle and details, including the prospective disclosure of the cash flow target for the 2019/21 cycle, are shown on page 83.

The Committee also commenced a detailed review of the DR Policy during 2018 in light of our renewed focus and the increased pace with which we are executing our strategy to deliver high-quality,

sustainable growth and superior returns for shareholders. We must ensure that remuneration drives the right behaviours and actions; is structured to sufficiently reward the achievement of our most important and stretching strategic goals; and incentivises senior executives to stay with IHG and successfully drive our growth ambition. As a UK listed company, we must also consider Government and stakeholder engagement and a newly revised Corporate Governance Code (the new Code). As guidance and practice continue to evolve in this area, we will take all factors together as we continue our review into 2019 and put our DR Policy to shareholders in 2020.

In terms of the remuneration aspects of the 2018 Code, we explain on pages 74 to 77 how some of the new responsibilities have already been undertaken by the Committee as part of our existing approach to remuneration governance and good practice; and how we will extend our remit to embrace other important areas of change, such as the review of wider workforce remuneration policies and practices, and take these into account in setting executive remuneration.

In respect of compliance with specific provisions of the 2018 Code, we have not historically included a mandatory holding period following the three-year performance period and vesting of LTIP shares. This is in line with the practice of our main competitors in the US, where both performance and longer-term vesting conditions are also less common. However, we note that the new Code and related guidance from UK stakeholders set out an expectation of a five-year period between the grant and release of LTIP shares. As such, under the terms of the existing DR Policy, the Committee has determined that a two-year post-vest holding period will apply for Executive Directors in respect of the 2019/21 LTIP cycle. Future policy in this area will be addressed as part of our 2019 review.

Further details of our current position in relation to key aspects of the 2018 Code, including shareholding guidelines and requirements during and after employment and IHG's UK pension benefit structure, are shown in the 'Wider context' section on pages 74 to 77. As mentioned last year, now that the statutory calculation is known, this section also includes the CEO Pay Ratio data for IHG in the United Kingdom.

About this report

We strive to make this report as easy to read as possible, given regulation. This year, we have again included a summary of performance and remuneration outcomes in the 'At a glance' section on page 73 and an updated 'Wider context' section on pages 74 to 77 to give further insight on aspects of wider remuneration policy and practice at IHG in light of recent guidance.

The full DR Policy is available at www.ihgplc.com/investors under Corporate governance and was approved at the Annual General Meeting (AGM) on 5 May 2017. The section of this report which is subject to a formal advisory shareholder vote at the May 2019 AGM is the Annual Report on Directors' Remuneration starting on page 78.

Jo Harlow

Chair of the Remuneration Committee
18 February 2019

At a glance

How to use this report

Within the Directors' Remuneration Report we have used colour coding to denote different elements of remuneration. The colours used and the corresponding remuneration elements are:

- Salary
- Benefits
- Pension benefit
- Annual Performance Plan (APP)
50% cash and 50% deferred shares
- Long Term Incentive Plan (LTIP)
- Shareholding

AUDITED

Audited information

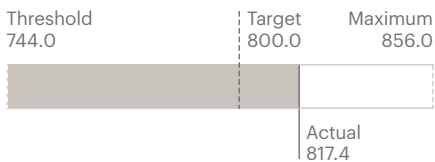
Content contained within a tinted panel highlighted with an 'Audited' tab indicates that all the information within the panel is audited.

How we performed in 2018

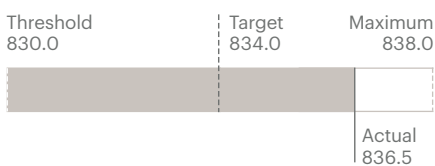
The 2018 outcomes reflect the progress made as a result of our focus on high-quality growth and superior value-creation through our brands, our people and our systems. We achieved our target for EBIT, delivered strong net system size growth and exceeded our maximum target for savings to reinvest in the business for future growth. In respect of our long-term goals for 2016-18, we again delivered great shareholder returns and met our three-year threshold target for rooms but fell short of our three-year threshold target RevPAR growth.

Measures used for APP

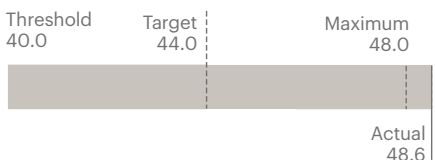
EBIT: (\$m)^a
(70% weighting)



Net system size growth (k rooms)
(15% weighting)

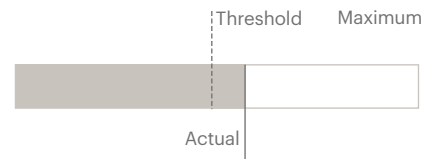


Savings for reinvestment (\$m)
(15% weighting)



Measures used for LTIP

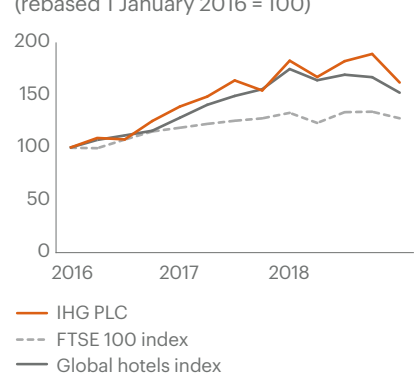
Rooms
(25% weighting)



RevPAR
(25% weighting)



Total Shareholder Return (TSR)
(50% weighting)
(rebased 1 January 2016 = 100)



The TSR element of 2016/18 LTIP cycle depended on the three-year TSR performance to 31 December 2018.

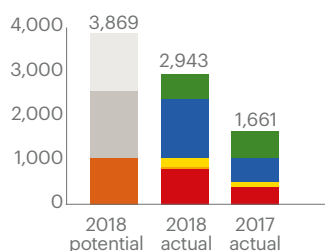
^a Further details of APP and LTIP outcomes, and EBIT definition, can be found on pages 78 to 80.

Executive Director remuneration

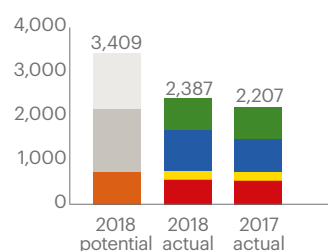
2018 remuneration

The table below shows the 2018 potential remuneration opportunity and actual achievement compared to 2017 actual achievement. For Keith Barr, the 2017 actual achievement relates to the period 1 July to 31 December 2017 and no comparative data is shown for Elie Maalouf as this was prior to his appointment to the Board. The relevant figures for each of the elements that make up the single total figure of remuneration, as shown below for the Executive Directors, can be found in the table on page 78.

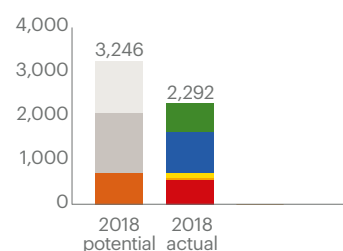
**Keith Barr^a,
Chief Executive Officer**
Value (£000)



**Paul Edgecliffe-Johnson,
Chief Financial Officer**
Value (£000)



**Elie Maalouf,
Chief Executive Officer, Americas**
Value (£000)



Key for potential

- Maximum = Fixed pay and maximum award under APP and LTIP
- Target = Fixed pay and on-target award for APP (115%) and 50% of maximum LTIP vesting
- Minimum = Fixed pay

^a The 2018 and 2017 amounts for Keith Barr exclude the localisation payments detailed on page 78

Directors' Remuneration Report

Remuneration at IHG – the wider context

Remuneration Committee remit

The Committee has reviewed wider workforce remuneration and related policies on an ad-hoc basis. For example, given our global scale and growth agenda, the Committee reviewed IHG's updated International Mobility policy during 2018. This is an important aspect of remuneration for our globally mobile population as we develop the skills and experience of our employees working in specialist functions around the world. During 2019, the Committee will commence a formal rolling programme of reviewing all aspects of remuneration and related policies for the wider workforce in terms of alignment with executive remuneration and IHG's culture, values and strategy.

Remuneration Committee

The Committee has historically taken a wider view of the remuneration matters that it considers necessary to carry out its role in relation to executive pay than has been required under the 2018 Corporate Governance Code (the new Code). The new Code, issued in the summer of 2018, puts more formal obligations on the Board and its Committees in respect of remuneration and wider employee relations and employment practices. The accountability for some of these responsibilities, such as the review of workforce remuneration and related policies and the setting of remuneration for the Executive Committee, will be with the Remuneration Committee. Indeed, the Committee already has the latter responsibility at IHG. We show in this section some of the relevant remuneration governance topics already addressed by the Committee, as well as selected topics that will be addressed as we review the DR Policy this year.

Compliance with Corporate Governance Code

The existing approved DR Policy is already in line with a great majority of the new Code in relation to remuneration. Our policy on long-term incentives does not currently impose a compulsory holding period for shares which vest after the three-year performance period. As explained on page 75, the Committee has determined that a two-year holding period will apply for Executive Directors in respect of the 2019/21 plan cycle.

On pensions, our current Directors' Remuneration Policy, supported by shareholders in 2017, provides for Executive Director pension contributions of up to 30%. The current CEO has received a company pension contribution of 25% since appointment in 2017. The CFO has volunteered to receive a pension contribution reduced from 30% to 25% of salary, effective April 2019. Following the recent guidance given in the new Code and subsequent input from other external stakeholders, the Committee will review Executive Director pension provision as part of the wider review of the Directors' Remuneration Policy taking place in 2019.

Pension Provision

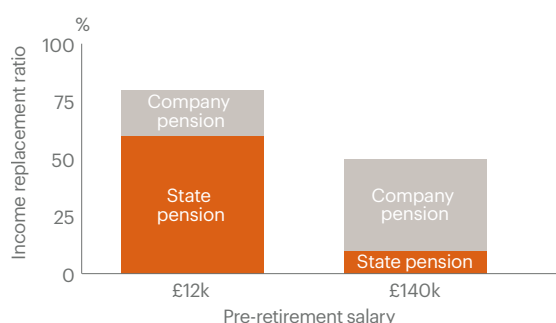
Our global retirement benefit policy is to provide access to an appropriate defined contribution retirement savings plan where such a vehicle is typically offered, and with benefit levels in line with the local market.

The UK pension plan applies for UK-based Executive Directors and the current contribution rates for new employees are shown opposite. Where employees would otherwise exceed relevant tax limits on pension contribution or accrual, a cash equivalent may be offered in lieu of pension at an equivalent value to the maximum Company matching contribution.

We operate a tiered pension contribution structure and maximum contributions increase with employee grade, consistent with market practice and reflecting the structure under the previous defined benefit pension. In addition, a tiered contribution structure balances the 'income replacement ratio' for all levels of employee, taking into account State pension provision (see example illustration opposite) and the increased levels of non-pensionable variable pay for more senior employees. For example, the pension benefit for Keith Barr in 2018 represented 6.4% of his overall earnings for the year.

Further to recent guidance in relation to the new Code and subsequent input from other external stakeholders including institutional investors, the Committee will review pension provisions for Executive Directors as part of the wider review of the Directors' Remuneration Policy taking place in 2019.

Employee grade	Employee contribution (%)	Matching contribution multiple	Maximum matching contribution (up to %)
Corporate band 1			30 (25 for new CEO and 25 for CFO from April 2019)
Corporate bands 2 and 3	3-7.5	4	20
Corporate band 4	3-5	2.5	12.5
Corporate band 5	3-5	2	10
Corporate bands 6-8 and hotel employees	3-5	1.5	7.5



Figures based on a Pensions Commission study carried out in 2014. This shows that, although the recommended salary replacement ratio in retirement is lower for high earners (50% of pre-retirement salary vs 80% in the example), the relative percentage of retirement income which is required from a Company pension is significantly higher.

Long term incentives – vesting and holding period

The new Code includes a provision that shares earned under long term incentive plans, such as our LTIP, should be subject to a total vesting and holding period of five years or more. Under our existing DR Policy, LTIP shares are granted subject to performance conditions measured over a period of at least three years, and the Committee has the ability to impose a further holding period in respect of those shares. The Committee has determined that, following the three-year performance period for the 2019/21 LTIP, Executive Directors will be subject to a further two-year holding period in respect of all vested shares from that cycle. This is in addition to a number of other existing aspects of our DR Policy which match or exceed the expectations under the new Code and related guidance in respect of shareholdings and incentive arrangements:

Shareholding requirements

Executive Directors are expected to hold all shares earned, net of any sales required to meet personal tax liabilities, until the guideline shareholding of 300% of salary for the CEO and 200% of salary for other Executive Directors is met. This shareholding can include unvested shares that are not subject to any further performance conditions;

Discretion

The Committee has the discretion under both the short and long-term incentive arrangements to override formulaic outcomes. The use of discretion enables the Committee to ensure that outcomes are consistent with business performance and the interests of shareholders. It also enables the Committee to treat Executive Directors who leave IHG in a fair and equitable manner. It was not considered necessary for the Committee to apply discretion in respect of remuneration outcomes in 2018;

Malus and clawback

Provisions are in place to withhold or recover sums or share awards under specific circumstances in which it would be appropriate to do so, including misconduct likely to result in significant reputational damage to the Company, a material adverse effect on the Company's financial position or the business opportunities and prospects, or a material misstatement or restatement in the accounts; and

Shareholding post-cessation of employment

Prior to the introduction of post-employment shareholding requirements under the new Code, we introduced a condition under our DR Policy for the full guideline minimum shareholding requirement to continue for six months after cessation of employment and 50% of the requirement to continue for an additional six months.

We will further consider our Executive Director shareholding requirements in light of the new Code and developing practice and guidelines as part of the review of our DR Policy in 2019.

Wider workforce remuneration and policies

Remuneration for all employees

The quantum and composition of remuneration and annual incentives differs between employees throughout the Group in a number of ways, most notably based on their role and position in the organisation. There is a strong alignment at all levels between remuneration and the delivery of outcomes that are key to the continued success of the business. As responsibility increases, so too does an employee's potential total remuneration, with the most significant aspects of the remuneration in more senior roles being dependant on the successful delivery of these outcomes.

All employees are rewarded for meeting objectives aligned to our strategy, although the mix and weighting of particular objectives may differ depending on an individual's role or grade. Our Strategic Model (pages 18 to 20) and Key Performance Indicators (pages 31 to 35) have been established to maintain focus on the key areas of our strategy for high-quality growth.

- Performance conditions for annual and long-term incentive awards are aligned to the strategic priorities over the performance period, for example net system size growth is a measure under all corporate employees' short-term incentive plans;
- Stretching and measurable targets for all performance conditions reward employees for the successful delivery of the objectives set by the Committee. Details of those set in respect of Executive Directors' 2018 remuneration are shown in the 'At a glance' section on page 73 and measures for 2019 incentive plans are covered on page 83;
- A range of strategic metrics is set each year, which can reduce annual incentive payouts if minimum conditions are not met. For 2018, at least 4 out of 10 global metrics had to be achieved before the net system size growth achievement could be counted for short-term incentive plan purposes; and
- Additional measures are in place to ensure poor performance is not rewarded, such as payout restrictions based on financial performance and Remuneration Committee discretions.

Directors' Remuneration Report

Remuneration at IHG – the wider context continued

CEO Pay Ratio disclosure

As mentioned in last year's Annual Report, although it is not yet compulsory to include a CEO Pay Ratio in the Annual Report on Directors' Remuneration, now that the statutory calculation method has been set out in legislation, we include this below. Whilst this information may add value to the Committee over time, ratios will differ significantly between companies, even within the same industry, depending on demographics and business model. For example, our ratio may differ from other leisure and hospitality companies which do not follow the same largely franchised UK business model under which the majority of hotel employees are not directly employed by IHG. The 2018 ratio will also be impacted by the CEO's LTIP award, as this was originally granted in 2016 in respect of his prior role and salary.

What drives the difference in pay between our CEO and other employees?

Pay ratios reflect how remuneration arrangements differ as responsibility increases for more senior roles within the organisation, for example:

- A greater proportion of performance-related variable pay and share-based incentives applies for more senior executives, including Executive Directors, who will have a greater degree of influence over performance outcomes;
- Additional and enhanced benefit provision, such as company car, pension and healthcare benefits, apply as roles and responsibilities increase throughout the organisation;
- Role-specific specialist plans apply in certain areas such as corporate reservations, sales, and hotel development. Incentive plans for General Managers of IHG owned, leased and managed lease and managed hotels commonly include targets based on gross operating profit, guest satisfaction and employee engagement. The target and maximum amounts that can be earned under these plans are typically a higher percentage of base salary for more senior employees, which in turn affects the pay ratio; and
- Incentive plans for other corporate employees are typically based on a combination of individual performance and the Group's EBIT.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Financial year ending 31 December 2018	Option C	71:1	47:1	29:1

Identifying percentile UK employees

Option C has been selected for the identification of the percentile employees as, under this method, we are able to produce the most accurate total remuneration figure for all UK employees on a basis comparable with the statutory reporting for Executive Directors and using the data available at the time of producing the Annual Report. Specifically, this involves:

- Starting with the April 2018 Gender Pay Gap salary, bonus and long term incentive data for all UK employees;
- Adjusting the value of total bonus so that it reflects only the amount earned in respect of FY 2017 and does not include the value of any deferred shares from the 2014 bonus which vested in 2018;
- Adding the employer pension contribution from pension plan data as at April 2018; and
- Adding non-cash benefit data (e.g. company car, healthcare, etc.) from the 2017/18 tax year P11D report.

Calculating the pay ratio

Option C requires three UK employees to be identified as the equivalent of the 25th, 50th and 75th percentile. Having identified these employees, the 2018 total remuneration is calculated on the same basis as the CEO single total figure of remuneration. The only exception being that the Overall Performance element of the APP bonus applicable to the relevant employees is assumed to be the respective target value, as the actual value is not known at the time of producing the Annual Report.

The 2018 salary and benefits figures for the percentile employees included in the above ratios are:

- 25th Percentile: £38,437 salary and £5,242 benefits including pension and bonus (total remuneration of £43,679);
- Median: £53,639 salary and £11,975 benefits including pension and bonus (total remuneration of £65,614); and
- 75th Percentile: £75,151 salary and £32,313 benefits including pension and bonus (total remuneration of £107,464).

Alignment of incentives with business strategy and culture

Link to strategy

Remuneration outcomes at IHG are linked to our strategic business objectives, which are focused on the delivery of high-quality, sustainable growth and value-creation through preferred brands, delivering a superior owner proposition, leveraging scale and generating revenue through the lowest cost direct channels. The 'At a glance' section of this report shows the outcomes for 2018 and the link between performance outcomes and pay for this year. The link to our Strategic Model for each measure linked to remuneration outcomes in 2018 is shown below:

Strategic Model components	Measures used for APP			Measures used for LTIP			
	EBIT (70%)	Net system size growth (15%)	Savings for reinvestment (15%)	TSR (40%)	Net system size growth (20%)	Total gross revenue (20%)	Cash flow (20%)
Build and leverage scale	■	■	■	■	■	■	
Strengthen loyalty programme			■	■			
Enhance revenue delivery	■		■			■	■
Evolve owner proposition	■	■	■		■		■
Optimise our preferred portfolio of brands for owners and guests		■	■		■		

Culture and behaviours

Remuneration structures are designed to provide a link between an individual's contribution and the organisation's culture and values as well as its strategic aims, while providing the flexibility to keep pace with IHG's changing priorities:

- All corporate employees are eligible for a bonus and a significant proportion (up to 40%) of the target award for employees below the Executive Committee is based on an Overall Performance measure aligned to strategic goals, behaviours and personal development; and
- Overall Performance achievements are also a key driver in the consideration of salary increases for all employees.



In addition, a global employee recognition programme enables colleagues to recognise and reward each other for achievements which exemplify either our values or the cultural behaviours necessary to underpin the Company's long-term success.

Diversity and inclusion

We have a global diversity and inclusion strategy, led by a Global Diversity and Inclusion Board (D&I Board), with specific and targeted actions to address any inequalities in the workplace, including:

- Addressing hotspots of under-representation in operational and senior leadership roles;
- Targeted leadership programmes aimed at accelerating the development of diverse leadership and talent;
- Maintaining a culture of inclusion through support networks, resource groups, awareness campaigns and training for our people; and
- Active senior leader engagement as part of the Global D&I Board.

In addition to these focused efforts to create value for IHG through increased diversity and inclusion, it is the Company's policy to comply with international, national and local regulatory requirements and, where required, take any affirmative action as stipulated by local laws. In respect of remuneration, this includes undertaking the UK Gender Pay Gap analysis.

Further information on this is available on IHG's website at www.ihgplc.com/responsible-business

Directors' Remuneration Report continued

Annual Report on Directors' Remuneration

This Annual Report on Directors' Remuneration explains how the Directors' Remuneration Policy (DR Policy) was implemented in 2018 and the resulting payments each of the Executive Directors received.

This report is subject to an advisory vote by shareholders at the 2019 AGM. The notes to the single-figure table provide further detail, where relevant, for each of the elements that make up the total single figure of remuneration in respect of each of the Executive Directors.

AUDITED

Single total figure of remuneration – Executive Directors

Executive Directors	Fixed pay						Variable pay				Other		Total	
	■ Salary		■ Benefits		■ Pension benefit		■ APP		■ LTIP		2018 £000	2017 £000	2018 £000	2017 £000
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2016/18 cycle (value of shares) £000 ^a	2015/17 cycle (value of shares) £000 ^a				
Keith Barr ^b	792	388	51	17	198	97	1,343	545	559	614	150	500	3,093	2,161
Paul Edgecliffe-Johnson	554	530	24	27	166	159	942	747	701	744			2,387	2,207
Elie Maalouf ^{c, d}	559		34		109		947		643				2,292	

^a Figures for 2015/17 LTIP cycle have been restated using actual share price on date of vesting.

^b 2017 figures for Keith Barr (excluding LTIP) relate to the period 1 July to 31 December 2017.

^c There is no comparative data for 2017 as Elie Maalouf did not serve as an Executive Director prior to 1 January 2018.

^d Elie Maalouf is paid in US dollars and the sterling equivalent is calculated using an exchange rate of \$1 = £0.75 (page 116).

Notes to single figure table

Fixed pay

■ **Salary:** salary paid for the year. Elie Maalouf joined the Board on 1 January 2018.

■ **Benefits:** for Executive Directors, this includes, but is not limited to, taxable benefits such as company car and healthcare. Provision during 2018 was in line with previous years and the approved DR Policy.

■ **Pension benefit:** for current Executive Directors, in line with DR Policy, the value of IHG contributions to pension plans and any cash allowances, paid in lieu of pension contributions.

Keith Barr and Paul Edgecliffe-Johnson did not participate in any IHG pension plan in 2018 and instead received cash allowances of 25% and 30% of salary respectively. Life assurance cover is provided for both Keith and Paul at four times base salary.

Elie Maalouf participated in the US 401(k) Plan and the US Deferred Compensation Plan. The US 401(k) Plan is a tax qualified plan providing benefits on a defined contribution basis, with the member and 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, Elie Maalouf in these plans for the year ended 31 December 2018 were:

	£ ^a
Director's contributions to US Deferred Compensation Plan	176,544
Director's contributions to US 401(k) Plan	18,348
Company contributions to US Deferred Compensation Plan	100,600
Company contributions to US 401(k) Plan	8,200
Age at 31 December 2018	54

^a Sterling values have been calculated using an exchange rate of \$1=0.75

Other: Keith received a lump sum of £500,000 in July 2017 and a further £150,000 in July 2018 to cover the transitional and transactional costs of localising to the UK. This was fully reported in the 2017 Annual Report, page 69.

Variable pay

■ **APP** (cash and deferred shares)

Operation

Award levels are determined based on salary as at 31 December 2018 on a straight-line basis between threshold and target, and target and maximum, and are based on achievement vs target under each measure:

- **Threshold** is the minimum level that must be achieved for there to be an award in relation to that measure; no award is made for achievement below threshold. For 2018, the Remuneration Committee set a threshold award level of 57.5% of salary.
- **Target** is the target level of achievement and results in a target award for that measure.
- **Maximum** is the level of achievement at which a maximum award for that measure is received (capped at 200% of salary).

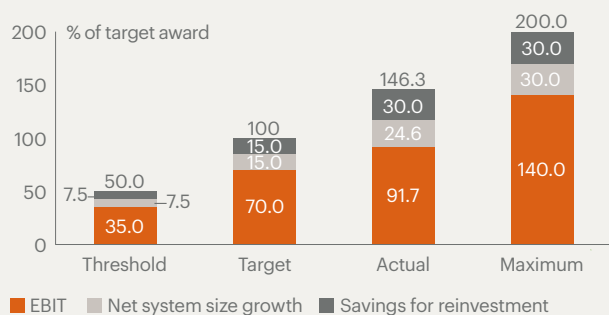
Net system size growth was also dependent on achieving at least 4 out of 10 of the global metrics for 2018.

The threshold award was subject to global EBIT affordability gates:

- If global EBIT achievement was less than 85% of target, no award under net system size growth and savings for reinvestment would be made; and
- If global EBIT was 85% or more, but less than 93% of target, half of any award under net system size growth and savings for reinvestment would be made.

Outcome for 2018

The performance measures for the 2018 APP were EBIT (70%), net system size growth (15%) and savings for reinvestment (15%) and were determined in accordance with the DR Policy. The table below shows threshold, target and maximum opportunity, as well as weighting and actual 2018 achievement.



APP

Performance	Achievement	Weighting	Weighted achievement
EBIT: performance relative to target			
Threshold	\$744.0m	50%	
Target	\$800.0m	100%	
Actual	\$817.4m	131%	70%
Maximum	\$856.0m	200%	91.7%
Net system size growth (k rooms)			
Threshold	830.0	50%	
Target	834.0	100%	
Actual	836.5	164%	15%
Maximum	838.0	200%	24.6%
Savings for reinvestment			
Threshold	\$40.0m	50%	
Target	\$44.0m	100%	
Maximum	\$48.0m	200%	
Actual	\$48.6m	200% ^a	15%

^a Maximum award

EBIT is operating profit from reportable segments^b. However, in determining EBIT for APP purposes, budgeted exchange rates for the year are used and certain adjustments to reported 2018 operating profit were agreed by the Committee in order to ensure a like-for-like comparison with the APP EBIT target set at the start of the year:

Operating profit from reportable segments ^b (at actual exchange rates)	\$815.5m
Net benefit of unbudgeted items	\$0.0m
Difference due to exchange rates	\$1.9m
Operating profit from reportable segments ^b , after adjustments (at 2018 budget exchange rates)	\$817.4m

^b See page 36 for Non-GAAP definitions.

The total weighted achievement for Keith Barr, Paul Edgecliffe-Johnson and Elie Maalouf is 146.3% of target bonus. The APP award for 2018 was therefore 168.2% of salary for each.

Awards for 2018 are payable 50% in cash and 50% in deferred shares, vesting three years after the date of grant, in February 2022. The deferred share awards are made in the form of forfeitable shares that receive dividends during the three-year vesting period and include the right to vote at shareholder meetings. They are not subject to any further performance conditions.

Executive Director	Salary as at 31 December 2018 £000	Award as % of salary	Total value of award £000
Keith Barr	798	168.2	1,343
Paul Edgecliffe-Johnson	560	168.2	942
Elie Maalouf ^a	563	168.2	947

^a Elie Maalouf is paid in US dollars and the sterling equivalent is calculated using an exchange rate of \$0.75

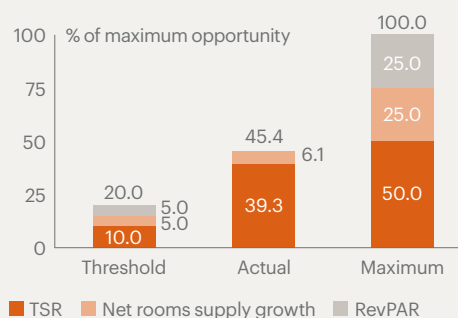
2016/18 LTIP (shares)

Awards are made annually and eligible executives will receive shares at the end of that cycle, subject to achievement of the performance measures. Growth in net room openings and RevPAR is measured on a relative basis against the comparator group. This group comprises the following major, globally branded competitors: Accor Hotels; Choice Hotels International Inc.; Hilton Worldwide; Hyatt Hotels Corporation; Marriott International Inc.; Starwood Hotels and Resorts; and Wyndham Worldwide Corp. In respect of Marriott's acquisition of Starwood in September 2016, Starwood was retained as a separate entity for the period up to its last independently published results. In respect of Wyndham Worldwide's split into two publicly traded companies in May 2018, results post-split relating to Wyndham Destinations and Wyndham Hotels & Resorts were treated as relating to one entity. TSR measures the return to shareholders by investing in IHG relative to a broader set of appropriate hotel and lodging competitors, as per data provided by our corporate bankers sourced from Thomson Reuters Datastream.

The share price in respect of the 2015/17 LTIP cycle has been restated using the volume weighted average price of 4,571p on the date of actual vesting on 20 February 2018. The corresponding values shown in the 2017 report (prior to the actual vesting) were an estimate calculated using an average share price over the final quarter of 2017 of 4,317p.

Outcome for 2016/18 cycle

The performance measures for the 2016/18 three-year LTIP cycle were in line with the 2014 DR Policy. The table below shows threshold and maximum opportunity, as well as weighting and actual achievement, for each performance measure.



■ TSR ■ Net rooms supply growth ■ RevPAR

Directors' Remuneration Report continued

Annual Report on Directors' Remuneration continued

AUDITED

LTIP

Performance	Vesting achievement	Weighting	Weighted achievement
Total Shareholder Return: three-year growth relative to average of competitors			
Threshold	20%		
Actual	78.6%	50%	39.3%
Maximum	100%		
Net rooms supply: three-year growth relative to average of competitors			
Threshold	20%		
Actual	24.4%	25%	6.1%
Maximum	100%		
RevPAR: three-year growth relative to average of competitors			
Actual	0%		
Threshold	20%	25%	0%
Maximum	100%		
Total achievement (% of maximum opportunity vested)			45.4%

Net rooms supply and RevPAR growth were measured by reference to the three years ending 30 September 2018; TSR was measured by reference to the three years ending 31 December 2018. This cycle will vest on 20 February 2019 and the individual outcomes for this cycle are shown below.

The share price of 4,193p used to calculate the 2016/18 LTIP cycle value shown in the single-figure table is the average over the final quarter of 2018.

Executive Director	Maximum opportunity at grant (number of shares)	% of maximum opportunity vested	Outcome (number of shares awarded at vest)	Total value of award £000
Keith Barr ^a	29,367	45.4	13,332	559
Paul Edgecliffe-Johnson	36,841	45.4	16,725	701
Elie Maalouf ^a	33,801	45.4	15,345	643

^a Granted prior to appointment to the Board.

Other outstanding awards

During 2017, awards were granted under the 2017/19 LTIP cycle and made to each Executive Director over shares with a maximum value of 205% of salary using the closing mid-market share price in the table below. These are in the form of conditional awards over Company shares and do not carry the right to dividends or dividend equivalents during the vesting period.

Executive Director	Award date	Maximum shares awarded	Market price per share at grant £	Face value of award at grant £000	Number of shares received if minimum performance achieved
2017/19 cycle					
Keith Barr ^a	9 August 2017	12,481	43.14	538	2,496
Paul Edgecliffe-Johnson	22 May 2017	25,811	42.57	1,099	5,162
Elie Maalouf ^b	22 May 2017	21,822	42.57	929	4,364

^a Keith Barr received an increased award, pro-rated from 1 July 2017, for the 2017/19 LTIP in accordance with the DR Policy as a result of his appointment to the Board. Prior to this, he was granted 17,822 shares and 2,160 restricted stock units on 22 May 2017 with a market price of £42.57 per share.

^b The award for Elie Maalouf was granted prior to his appointment to the Board. Elie was also granted 2,645 restricted stock units on 22 May 2017 with a market price of £42.57 per share.

The vesting date for these awards is the day after the announcement of our Annual 2019 Preliminary Results in February 2020. These awards will vest and shares will be transferred to the award-holder in February 2020, to the extent performance targets are met.

The performance measures are as agreed in the 2017 Remuneration Policy. Total gross revenue, net system size growth, cash flow and total shareholder return will all be measured by reference to the three years ending 31 December 2019. Minimum performance is equal to 20% of the maximum award.

AUDITED

Scheme interests awarded during 2018

During 2018, awards were granted under the 2018/20 LTIP cycle. Awards were made to each Executive Director over shares with a maximum value of 205% of salary using an average of the closing mid-market share price for the five days prior to grant. At the date of grant on 8 May 2018, this was 4,625p. These are in the form of conditional awards over Company shares and do not carry the right to dividends or dividend equivalents during the vesting period.

Executive Director	Award date	Maximum shares awarded	Market price per share at grant £	Face value of award at grant £000	Number of shares received if minimum performance achieved
2018/20 cycle					
Keith Barr	8 May 2018	35,381	46.25	1,636	7,076
Paul Edgecliffe-Johnson	8 May 2018	24,830	46.25	1,148	4,966
Elie Maalouf	8 May 2018	24,426	46.25	1,130	4,885

The vesting date for these awards is the day after the announcement of our Annual 2020 Preliminary Results in February 2021. These awards will vest and shares will be transferred to the award-holder in February 2021, to the extent performance targets are met.

The performance measures are as agreed in the 2017 Remuneration Policy. Total gross revenue, net system size growth, cash flow and total shareholder return are measured by reference to the three years ending 31 December 2020. Minimum performance is equal to 20% of the maximum award.

AUDITED

Statement of Directors' shareholdings and share interests

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

Guideline Executive Director shareholding requirement

Executive Directors are required to hold shares equal to 300% of salary for the Chief Executive Officer and 200% for any other Executive Directors within five years of their appointment. The number of shares held outright includes all Directors' beneficial interests and those held by their spouses and other connected persons.

Percentages are calculated using the number of shares held outright and the 31 December 2018 share price of 4,237p.

From 2018, the full guideline shareholding requirements continued for six months, and 50% of the requirements for a further six months, post-cessation of employment.

Current Directors' shareholdings

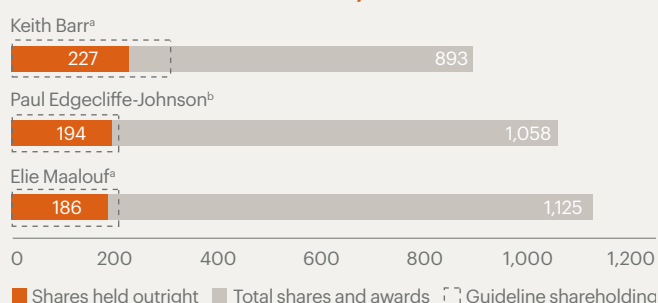
The APP deferred share awards are not subject to performance conditions. Details on the performance conditions to which the unvested LTIP awards are still subject can be found on page 80.

Shares and awards held by Executive Directors as at 31 December 2018: number of shares

	Number of shares held outright		APP deferred share awards		LTIP share awards (unvested)		Total number of shares and awards held	
	2018	2017	2018	2017	2018	2017	2018	2017
Keith Barr	42,782	31,116	28,262	24,586	97,211	90,987	168,255	146,689
Paul Edgecliffe-Johnson	25,669	27,443	26,742	28,384	87,482	97,970	139,893	153,797
Elie Maalouf ^a	24,773		42,058		82,694		149,525	

^a Includes 35,961 shares granted prior to appointment to the Board

Shares and awards held by Executive Directors as at 31 December 2018: % of salary



^a In line with Policy, Keith Barr's and Elie Maalouf's shareholding requirement are 300% and 200% of salary respectively, and they are required to meet this within five years of appointment. They are expected to hold all shares earned (net of any share sales required to meet tax liabilities), until the shareholding requirement is achieved.

^b Paul Edgecliffe-Johnson sold shares on 9 August 2018 at a share price of £47.00, and at the time held in excess of the 200% shareholding requirement. The share price at 31 December 2018, used for this calculation, has resulted in the below minimum shareholding requirements.

AUDITED

Payments for loss of office

There were no payments for loss of office in 2018.

Pension entitlements

No Executive Director is entitled to any Defined Benefit pension or related benefit from IHG.

Payments to past Directors – benefits

Sir Ian Prosser

Sir Ian Prosser, who retired as a Director on 31 December 2003, had an ongoing healthcare benefit of £2,152 during the year.

Other information relating to Directors' remuneration

Non-executive directorships of other companies

Paul Edgecliffe-Johnson has served as a Non-Executive Director of Thomas Cook Group plc since 26 July 2017. Paul received fees of £60,000 during 2018 in respect of this appointment.

This appointment is permitted under the DR Policy and the amount is not included in the single figure table of remuneration table on page 78. No other current Executive Director holds any Non-Executive Director appointments at any other company.

Service contracts and notice periods for Executive Directors

In accordance with the UK Corporate Governance Code, all Executive Directors have rolling service contracts with a notice period of 12 months and are subject to election and annual re-election by shareholders at the AGM.

Dividends paid to Executive Directors

A final dividend for 2017 of 50.2p per ordinary share (71.0¢ per ADR) was paid on 11 May 2018 to shareholders on the Register of members at the close of business on 3 April 2018.

An interim dividend of 27.7p per ordinary share (36.3¢ per ADR) was paid on 5 October 2018 to shareholders on the Register of members at the close of business on 31 August 2018.

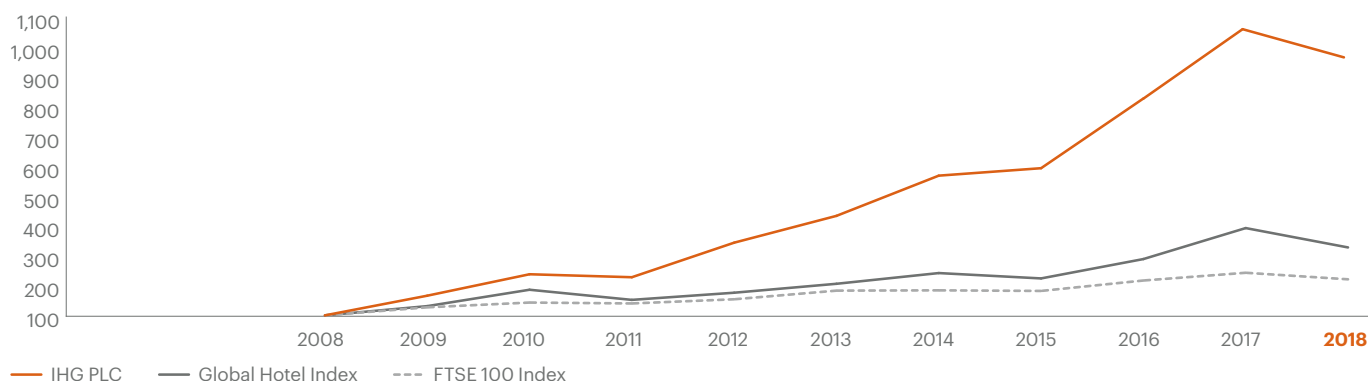
Directors' Remuneration Report continued

Annual Report on Directors' Remuneration continued

Relative performance graph

For LTIP purposes, a TSR comparator group of a global hotels index was used. InterContinental Hotels Group PLC is a member of the FTSE 100 share index, and the graph below shows the Company's TSR performance from 31 December 2008 to 31 December 2018, assuming dividends are reinvested, compared with the TSR performance achieved by the FTSE 100 and global hotels indices.

All indices are shown in sterling. This data is sourced directly from Thomson Reuters Datastream by Bank of America Merrill Lynch for IHG.



Chief Executive Officer's remuneration

The table below shows the Chief Executive Officer's single figure of total remuneration for the 10 years to 31 December 2018.

Single figure	CEO	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Single figure of remuneration £000	Keith Barr									2,161 ^a	3,093
	Richard Solomons			4,724	4,881	3,131	6,611 ^b	3,197	3,662	2,207 ^c	
	Andrew Cosslett	1,953	5,430	3,770							
Annual incentive received (% of maximum)	Keith Barr									69.7	84.1
	Richard Solomons			83.0	68.0	74.0	74.0	75.0	63.9	66.8	
	Andrew Cosslett	0.0	100.0	43.3							
Shares received under the LTIP (% of maximum)	Keith Barr									46.1	45.4
	Richard Solomons			73.9	100.0	59.0	56.1	50.0	49.4	46.1	
	Andrew Cosslett	46.0	73.8	61.6							

^a For Keith Barr, the 2017 figure, in respect of the period 1 July to 31 December 2017, includes a one-off cash payment for relocation costs in lieu of benefits received whilst on international assignment prior to CEO position, fully explained in the 2017 report.

^b For Richard Solomons, the 2014 figure includes a one-off cash payment in respect of pension entitlements which was fully explained in the 2014 report.

^c In respect of period 1 January to 30 June 2017.

Percentage change in remuneration of Chief Executive Officer

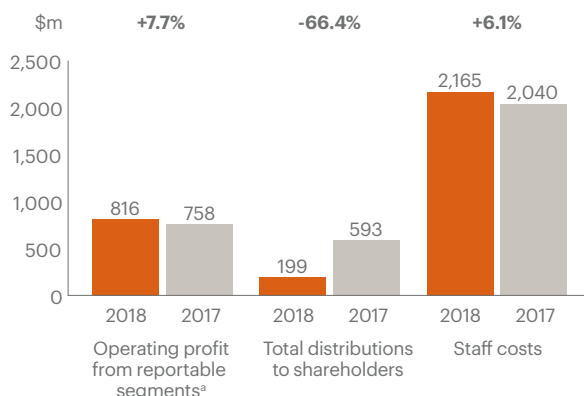
We believe that a group comprised of UK-based employees is an appropriate comparator for salary and taxable benefits because the structure and composition of remuneration for that group most closely reflects that of the UK-based Chief Executive Officer.

The table below shows the percentage change in the remuneration of the Chief Executive Officer compared with UK employees between 2017 and 2018. The salary figure for the UK employee population has been calculated using the 2018 budget for the annual pay review, taking into account any promotions/market adjustments made during the year. The taxable benefits figure is based on P11D taxable benefits for tax years ending 5 April 2017 and 2018 and therefore relates to Richard Solomons, as no comparative data is available for Keith Barr. For the annual incentive, a group of executives, who report directly to the CEO, is used as a comparator group as they are subject to the same performance measures as the CEO.

	Chief Executive Officer (% change)	UK employees (% change)
Salary	+3.0	+2.5
Taxable benefits	+3.7	+4.6
Annual incentive	+22.2	+36.8

Relative importance of spend on pay

The chart below sets out the actual expenditure of the Group in 2018 and 2017, showing the differences between those years. Further information, including where 2017 figures have been reinstated, can be found on the Group Financial Statements starting on page 96 and the accompanying notes. For 2017, the total distributions to shareholders included a special dividend of 156.4p per share.



^a See page 36 for Non-GAAP definitions.

Implementation of Directors' Remuneration Policy in 2019

This section explains how the DR Policy will be applied in 2019.

Salary: Executive Directors

Directors' salaries are agreed annually in line with the DR Policy. The following salaries will apply from 1 April 2019.

Executive Director	Increase %	2019 £	2019 \$	2018 £	2018 \$
Keith Barr	5.0	838,200		798,250	
Paul Edgecliffe-Johnson ^a	10.0	616,300		560,200	
Elie Maalouf ^b	8.0	812,200			752,000

^a The salary increases for Paul Edgecliffe-Johnson and Elie Maalouf above are comprised of a 3% performance-related increase (which is fully in line with that applied to the wider workforce), and a 7% and 5% increase respectively in respect of additional responsibilities.

^b Elie Maalouf is paid in US dollars and his annual base salary for 2018 and 2019 is shown in US dollars. The sterling equivalent values calculated using an exchange rate of \$1 = £0.75 are: 2018 - £564,000; and 2019 - £609,150.

Keith Barr was appointed to the Board and the role of Chief Executive Officer effective from 1 July 2017. In line with the DR Policy for newly appointed or promoted Executive Directors, he was appointed on a salary set below benchmark policy level and, following strong performance in his first full year in role, an increase higher than that of the corporate UK and US employee population has been agreed by the Remuneration Committee for 2019.

The changes to Paul Edgecliffe-Johnson and Elie Maalouf's salaries reflect the expanded responsibilities explained in the Remuneration Committee Chair's Statement on page 72.

LTIP and APP performance measures and targets

LTIP

The measures for the 2019/21 LTIP cycle are as per the 2018/20 cycle and the Directors' Remuneration Policy available on the Company website, www.ihgplc.com/investors under Corporate governance. The performance measures and weightings, together with the full cash flow target disclosures for the 2018/20 cycle as referenced in last year's report, are shown below.

Performance measure	Definition	Threshold (%)/ maximum vesting (%)	Weighting (%)	Maximum award (% of salary)	2018/20 cycle		2019/21 cycle	
					Threshold performance	Maximum performance	Threshold performance	Maximum performance
Relative TSR	IHG's performance against a comparator group of global hotel companies. TSR is the aggregate of share price growth and dividends paid, assuming reinvestment of dividends in the Company's shares during the three-year performance period.	20/100	40	82	Median of comparator group	Upper quartile of comparator group	Median of comparator group	Upper quartile of comparator group
Cash flow	Cumulative annual cash generation over three-year performance period.	20/100	20	41	USD 1.63 bn	USD 2.18 bn	USD 1.87 bn	USD 2.49 bn
Total gross revenue	Cumulative increase over three-year performance period.	20/100	20	41	The targets for these measures are, in the opinion of the Directors, commercially sensitive, and will therefore be disclosed in full retrospectively at the end of the LTIP cycle. Disclosure in advance would give IHG's major competitors an unfair commercial advantage, providing them with access to key financial and growth targets from IHG's three-year plan. These competitors would not be subject to the same obligation to make such information available, as they are either unlisted or listed on a stock exchange other than the London Stock Exchange. Full disclosure of targets and performance will be provided retrospectively after the end of the performance period.			
Net system size growth	Increase in number of IHG rooms over three-year performance period.	20/100	20	41				

APP

The 2019 APP measures are in line with the approved DR Policy and will be 70% based on EBIT achievement vs target, 15% based on net system size growth and 15% based on other key strategic measures that are reviewed annually and set in line with business priorities. EBIT is a focal measure of business performance for our shareholders and is a function of other critical measures, such as RevPAR, profit margin and fee revenues. The Committee has determined that it is particularly important to incentivise and reward management for achieving a stretching target for net system size growth over the next year, so this will make up 15% of the 2019 APP. The remaining 15% will be based on a savings target for reinvestment to support IHG's future growth. Further detail and rationale in respect of the key strategic objectives will be disclosed in the 2019 remuneration report.

The Committee has determined that the targets under the EBIT, net system size growth and other strategic measures are commercially sensitive at this time. However, the targets set and the outcomes against those targets will be disclosed in full in the 2019 remuneration report and are in line with the DR Policy.

Measure	Definition	Weighting (%)	Performance objective
EBIT	Earnings Before Interest and Tax – a measure of IHG's operating profit from reportable segments ^a for the year	70	Achievement against target
Net system size growth	Increase in absolute number of rooms	15	Achievement against target
Strategic measures	Key strategic measures which are reviewed annually and set in line with strategic priorities	15	Achievement against target

^a See page 36 for Non-GAAP definitions.

Directors' Remuneration Report continued

Annual Report on Directors' Remuneration continued

AUDITED

Single total figure of remuneration: Non-Executive Directors

Non-Executive Director	Committee appointments	Date of original appointment	Fees £000		Taxable benefits £000		Total £000	
			2018	2017	2018	2017	2018	2017
Patrick Cescau	N	01/01/13	422	422	20	21	442	443
Anne Busquet	A C N	01/03/15	74	74	7	6	81	80
Ian Dyson	A N R	01/09/13	99	99	3	3	102	102
Jo Harlow	N R	01/09/14	99	81	2	3	101	84
Luke Mayhew	A C N	01/07/11	74	93	2	2	76	95
Jill McDonald	A C N	01/06/13	87	87	4	5	91	92
Dale Morrison	A N R	01/06/11	107	107	66	55	173	162
Malina Ngai	C N R	01/03/17	74	62	4	7	78	69



See page 55 for Board and Committee membership key and attendance.

Fees: Fees paid are in line with the DR Policy.

Benefits: For Non-Executive Directors, benefits include taxable travel and accommodation expenses to attend Board meetings away from the designated home location. Under concessionary HM Revenue and Customs rules, non-UK based Non-Executive Directors are not subject to tax on travel expenses for the first five years; this is reflected in the taxable benefits for Anne Busquet and Malina Ngai.

Incentive awards: Non-Executive Directors are not eligible for any incentive awards.

Pension benefit: Non-Executive Directors are not eligible for any pension contributions or benefit.

Shares held by Non-Executive Directors as at 31 December 2018: number of shares

The Non-Executive Directors who held shares are listed in the table below:

Non-Executive Director	2018	2017
Patrick Cescau	3,795	-
Jo Harlow ^a	1,000	1,000
Luke Mayhew	1,373	1,373
Dale Morrison ^a	3,116	3,116

^a Shares held in the form of American Depository Receipts.

Fees: Non-Executive Directors

The fees for Non-Executive Directors are reviewed and agreed annually in line with the DR Policy. The fee levels for 2019 will be as follows:

Non-Executive Director	Role	2019 £000	2018 £000
Patrick Cescau	Chair of the Board	435	422
Anne Busquet	Non-Executive Director	77	74
Ian Dyson	Chair of Audit Committee	102	99
Jo Harlow	Chair of Remuneration Committee	102	99
Luke Mayhew	Non-Executive Director	77	74
Jill McDonald	Chair of Corporate Responsibility Committee	90	87
Dale Morrison	Senior Independent Non-Executive Director	110	107
Malina Ngai	Non-Executive Director	77	74

Non-Executive Directors' letters of appointment and notice periods

Non-Executive Directors have letters of appointment, which are available upon request from the Company Secretary's office.

Patrick Cescau, Non-Executive Chair, is subject to 12 months' notice. No other Non-Executive Directors are subject to notice periods. All Non-Executive Directors are subject to election and annual re-election by shareholders at the AGM.

Remuneration Committee details

Key objectives and summary of responsibilities

The Remuneration 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 the senior executives who have a significant influence over the Group's ability to meet its strategic objectives. The Committee's role and responsibilities are set out in its Terms of Reference (ToR), which are reviewed annually and approved by the Board.



The ToR are available on IHG's website at www.ihgplc.com/investors under Corporate governance.

The Committee's key focus areas during the year have been:

- Reviewing and approving 2017 annual and long-term incentive results for the Executive Directors and other members of the Executive Committee;
- Approving and monitoring 2018 annual and ongoing long-term incentive plans; and
- Changes to the UK Corporate Governance Code.

Membership and attendance at meetings

Details of the Committee's membership and attendance at the meetings are set out on page 55.

During 2018 the Committee was supported internally by the Chair, the Group's CEO and CFO, and the heads of Human Resources and Reward as necessary. All attend by invitation to provide further background information and context to assist the Committee in its duties. They are not present for any discussions that relate directly to their own remuneration or where their attendance would not be appropriate.

Reporting to the Board

The Committee Chair updates the Board on all key issues raised at Committee meetings. Papers and minutes for each meeting are also circulated to all Board members for review and comment.

Looking forward

The Committee will complete a comprehensive review of the Directors' Remuneration Policy in 2019, taking into consideration the changing strategic focus and competitive environment of the Company, as well as the additional requirements and expectations resulting from external regulation and increased shareholder scrutiny of executive remuneration arrangements.

Voting at the Company's AGMs

There is no binding vote in respect of the DR Policy at the 2018 AGM as it remained unchanged from 2017.

The outcome of the votes in respect of the DR Policy and Report for 2014 to 2018 are shown below:

AGM	Directors' Remuneration Policy (binding vote)			Directors' Remuneration Report (advisory vote)		
	Votes for	Votes against	Abstentions	Votes for	Votes against	Abstentions
2018	-	-	-	118,770,985 (82.33%)	25,486,193 (17.67%)	2,664,237
2017	120,328,350 (95.76%)	5,332,320 (4.24%)	261,819	119,155,451 (96.42%)	4,426,549 (3.58%)	2,340,489
2016	-	-	-	167,998,487 (98.58%)	2,427,740 (1.42%)	5,056,017
2015	-	-	-	149,415,662 (96.99%)	4,633,208 (3.01%)	3,642,496
2014	155,440,907 (90.94%)	15,483,775 (9.06%)	906,025	158,131,479 (94.01%)	10,076,027 (5.99%)	3,623,200

Jo Harlow

Chair of the Remuneration Committee
18 February 2019

Stakeholder engagement

The Committee participated in active dialogue with the Finance Reporting Council (FRC) prior to the publication of the 2018 Corporate Governance Code and subsequently consulted a number of major shareholders to discuss potential changes to the Company's executive remuneration practices in the context of the revised principles outlined in the 2018 Code.

Effectiveness of the Committee

The effectiveness of the Committee is monitored and assessed regularly by myself, as Chair of the Committee, and by the Chair of the Board. The composition, qualifications and experience of the members of the Committee are compliant with the provisions of the new Corporate Governance Code and the ToR have been updated to formally document that compliance. The Committee concluded that it remains effective.

Other focus areas and activities

The focus areas and activities discussed by the Committee during 2018 were: review and approval of performance outcomes and set targets for 2018; diversity and inclusion including the UK Gender Pay disclosure; and consideration of external remuneration developments and best practice.

Remuneration advisers

The Committee continued to retain PricewaterhouseCoopers LLP (PwC) throughout 2018 as independent advisers. Fees of £168,743 were paid to PwC in respect of advice provided to the Committee. This was in the form of an agreed fee for support in preparation of papers and attendance at meetings, with work on additional items charged at hourly rates. The terms of engagement for PwC are available from Company Secretary's office upon request.

PwC is a member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK and the professional standards to which they have committed to adhere when advising remuneration committees. PwC was appointed following a competitive tender process and the Committee is satisfied that the advice received from PwC is objective and independent.

Group Financial Statements

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HOTEL INDIGO



Statement of Directors' Responsibilities

Financial Statements and accounting records

The Directors are required to prepare financial statements for the Company and the Group at the end of each financial year in accordance with all applicable laws and regulations. Under company law directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the profit or loss of the Group for that period. In preparing these Financial Statements, IHG Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and accounting estimates that are reasonable;
- State whether the Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), for use in the EU and Article 4 of the EU IAS Regulation;
- State for the Company Financial Statements whether applicable UK accounting standards have been followed; 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 proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company to enable them to ensure that the Financial Statements comply with the Companies Act 2006 and, as regards the Consolidated Financial Statements, Article 4 of the EU IAS Regulation. The Directors are also responsible for the system of internal control, for safeguarding the assets of the Group and the Company, and taking reasonable steps to prevent and detect fraud and other irregularities.

Disclosure Guidance and Transparency Rules

The Board confirms that to the best of its knowledge:

- The Financial Statements have been prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group taken as a whole; and
- The Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Group taken as a whole, together with a description of the principal risks and uncertainties that it faces.

UK Corporate Governance Code

Having taken advice from the Audit Committee, the Board considers that this Annual Report and Form 20-F, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Disclosure of information to Auditor

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 (as defined by Section 418(3) of the Companies Act 2006). None of the Directors are aware of any relevant audit information which has not been disclosed to the Company's Auditor.

Management's report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Group, as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Group's internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Group's transactions and dispositions of assets;
- Are designed to provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the Financial Statements in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU, and that receipts and expenditure are being made only in accordance with authorisation of management and the Directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the Group's assets that could have a material effect on the Financial Statements.

Any internal control framework has inherent limitations and internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate.

Management has undertaken an assessment of the effectiveness of the Group's internal control over financial reporting at 31 December 2018 based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria).

Based on this assessment, management has concluded that as at 31 December 2018 the Group's internal control over financial reporting was effective.

During the period covered by this document there were no changes in the Group's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the effectiveness of the internal controls over financial reporting.

The Group's internal control over financial reporting at 31 December 2018, together with the Group's Consolidated Financial Statements, were audited by Ernst & Young LLP, an independent registered public accounting firm. Their report on internal control over financial reporting can be found on page 95.

For and on behalf of the Board



Keith Barr
Chief Executive Officer
18 February 2019



Paul Edgecliffe-Johnson
Chief Financial Officer
18 February 2019

Independent Auditor's UK Report

Independent Auditor's Report to the members of InterContinental Hotels Group PLC

Our opinion on the Financial Statements

In our opinion:

- InterContinental Hotels Group PLC's Group Financial Statements and Parent Company Financial Statements (the Financial Statements) give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- The Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'; and
- The Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

What we have audited

InterContinental Hotels Group PLC's (IHG's, the Group's) Financial Statements for the year ended 31 December 2018 comprise:

Group	Company
Group income statement	Parent Company statement of financial position
Group statement of comprehensive income	Parent Company statement of changes in equity
Group statement of changes in equity	Related notes 1 to 12 to the Parent Company Financial Statements
Group statement of financial position	
Group statement of cash flows	
Related notes 1 to 34 to the Group Financial Statements and accounting policies, new accounting standards and presentational changes and new standards issued but not yet effective	

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • The valuation of deferred revenue related to the IHG Rewards Club loyalty programme. • Allocation of revenues and costs to the System Fund. • The carrying value of the Kimpton assets and the investment in the Barclay associate. • Presentation of reorganisation costs in the Group income statement. • Acquisition accounting for the Regent and UK portfolio transactions.
Audit scope	<ul style="list-style-type: none"> • We performed a full scope audit of 22 components and specific audit procedures on a further 28 components. • For 20 full scope components audit procedures were performed by a combination of the Primary Team and one or more component teams. • The components where we performed full or specific audit procedures accounted for 94% of profit before tax adjusted for pre-tax exceptional items and the System Fund and 92% of revenue.
Materiality	<ul style="list-style-type: none"> • Overall Group materiality of \$35m was applied which represents 5% of profit before tax adjusted for pre-tax exceptional items and the System Fund. We considered it appropriate to maintain our planning materiality rather than increasing it to \$37m based on the final reported results.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:


- The disclosures in the Annual Report set out on page 26 that describe the principal risks and explain how they are being managed or mitigated;
- The Directors' confirmation set out on page 88 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- The Directors' statement set out on page 88 in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements;
- Whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- The Directors' explanation set out on page 30 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.


Independent Auditor’s UK Report continued

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had



the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Group Financial Statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Risk direction	Our response to the risk	Key observations communicated to the Audit Committee
<p>The valuation of deferred revenue related to the IHG Rewards Club (IHGRC) loyalty programme</p> <p><i>Refer to the Audit Committee Report (page 65); Critical accounting policies and the use of judgements, estimates and assumptions (page 108); and note 3 of the Group Financial Statements (page 121).</i></p> <p>Revenue related to loyalty points earned by members or sold under co-branding arrangements is deferred until the points are consumed.</p> <p>We focus on this area due to:</p> <ul style="list-style-type: none"> • The changes in accounting for the IHGRC loyalty programme revenues following the adoption of IFRS 15 – <i>Revenue from Contracts with Customers</i>. • The size of the deferred revenue balance (\$1,181m at 31 December 2018, \$1,057m at 31 December 2017). • The complexity of the model and the high volume of input data to determine the deferred revenue balance. • The judgement involved in estimating the future consumption rate of points by the members of the loyalty programme. 		<p>We verified management’s conclusion to defer the recognition of revenue until points are consumed to be consistent with the principles of IFRS 15 and audited the impact on the Group’s 2018 financial statements.</p> <p>We assessed the reasonableness of the estimated future consumption of earned points, which is the key estimate in the determination of the deferred revenue liability, by:</p> <ul style="list-style-type: none"> • Engaging EY actuarial specialists to assist in challenging and evaluating the appropriateness of the methodology, data and assumptions applied by management and its actuarial specialist. • Developing our own model to form an independent view of an acceptable range for the consumption rate. <p>We tested internal financial controls, including IT controls, over the valuation of revenue and deferred revenue, in particular:</p> <ul style="list-style-type: none"> • The integrity of the deferred revenue model and the completeness and accuracy of data used and provided to management’s actuarial specialist. • Management’s review process of the inputs and assumptions used in the deferred revenue model and the valuation output. <p>In addition, we undertook the following audit procedures:</p> <ul style="list-style-type: none"> • Tested controls and detailed transactions for assessments received and points earned, consumed, and expired throughout the year. • Tested the roll forward of the points balance from the prior year to 31 December 2018. <p>In addressing this area of focus, audit procedures were performed by the component team in the United States under our supervision.</p>	<p>We concluded:</p> <ul style="list-style-type: none"> • IFRS 15 has been appropriately applied. • The valuation of deferred revenue related to the IHGRC loyalty programme is within an acceptable range.
<p>Allocation of revenues and costs to the System Fund</p> <p><i>Refer to the Strategic Report (page 15); the Audit Committee Report (page 65); and the accounting policies and notes of the Group Financial Statements.</i></p> <p>The Group operates a System Fund to collect and administer cash assessments from hotel owners for the specific purpose of use in marketing, reservation and loyalty programmes in accordance with contracts with customers and the agreement with the Owners Association.</p> <p>We focus on this area due to:</p> <ul style="list-style-type: none"> • The changes in accounting for the System Fund revenues and expenses following the adoption of IFRS 15 – <i>Revenue from Contracts with Customers</i>. • The size of the System Fund revenues and expenses of \$1,233m and \$1,379m, respectively, for the year ended 31 December 2018 (2017: \$1,242m and \$1,276m, respectively). • The risk of misclassification in determining which revenues and expenses are chargeable to the System Fund. • The exclusion of the System Fund revenues and expenses from the underlying performance of the Group (as defined on page 36 as a non-GAAP measure). 		<p>We verified management’s conclusion regarding the accounting for the System Fund marketing and reservation revenues and expenses on a gross basis in the Group income statement and concurred it is consistent with IFRS 15.</p> <p>We tested the internal financial controls, including IT controls, over the recognition of hotel assessments in the System Fund revenues and the identification of direct and indirect costs allocated to the System Fund.</p> <p>For a sample of revenues and expenses recorded as System Fund related, based on our inspection of supporting documentation, we made an independent assessment of whether they relate to the System Fund activities in accordance with contracts with customers and the agreement with the Owners Association.</p> <p>Our testing of controls and transactions included the reorganisation costs allocated to the System Fund.</p> <p>We verified the appropriateness of the related disclosures provided in the notes of the Group Financial Statements.</p> <p>In addressing this area of focus, audit procedures were performed by the component audit team in the United States under our supervision.</p>	<p>We concluded:</p> <ul style="list-style-type: none"> • IFRS 15 has been appropriately applied. • The System Fund revenues and expenses have been identified in accordance with contracts with customers and the agreement with the Owners Association.

Risk	Risk direction	Our response to the risk	Key observations communicated to the Audit Committee
<p>The carrying value of the Kimpton assets and the investment in the Barclay associate</p> <p>Refer to the Audit Committee Report (page 65); Critical accounting policies and the use of judgements, estimates and assumptions (page 108); and notes 13 and 14 of the Group Financial Statements (pages 134 and 136).</p> <p>The Group's intangible assets and investments in associates and joint ventures are tested for impairment using valuation techniques involving judgements and estimates.</p> <p>We assessed the related risk of material misstatement in the current year and focused on the Kimpton assets and the investment in the Barclay associate, considering:</p> <ul style="list-style-type: none"> • The potential incentive to conceal an impairment, given the assets' strategic importance. • The higher likelihood and magnitude of a potential impairment charge, considering the assets' carrying values and historic headroom. <p>At 31 December 2018, the carrying value of the Kimpton assets were \$421m (excluding key money) (note 13) (2017: \$424m) and the investment in the Barclay associate was \$59m (note 14) (2017: \$65m).</p>		<p>We tested internal financial controls over management's assessment of impairment. These included controls over the underlying projections prepared through the forecasting process, the assumptions applied and the completeness and accuracy of the data provided to management's external specialist.</p> <p>We, assisted by our valuation specialists, verified the integrity of the impairment models and the appropriateness of the methodology and assumptions used. We inspected external valuation reports and performed our own sensitivities on the key assumptions used and determined whether adequate headroom remained.</p> <p>We performed detailed testing to assess the key inputs to the model including:</p> <ul style="list-style-type: none"> • Assessing the historical accuracy of management's budgets and forecasts through comparison with actual performance. • Corroborating management's assumptions with reference to historical data and, where applicable, external benchmarks to assess if the assumptions used are within an acceptable range. The main assumptions include discount rates, fee margins, average daily room rates, comparable room key sales data and occupancy. <p>We verified the appropriateness of the disclosures provided in the Group Financial Statements.</p> <p>In addressing this area of focus, audit procedures were performed mainly by the Primary Team, with the support of our valuation specialists.</p>	<p>We concluded:</p> <ul style="list-style-type: none"> • The carrying value of the Kimpton assets and the investment in the Barclay associate are supported at 31 December 2018. • Appropriate disclosures have been provided.

"Capitalisation of software assets and carrying value" was included last year as a key audit matter due to the amount capitalised in the year and the technology being in its development phase. In 2018, following the go live of the Guest Reservation System and the start of amortisation, the risk of a material misstatement in the capitalisation of software assets was no longer considered to be at a higher level.

In addition to the risks identified as part of our audit planning, the Group undertook the following material non-routine transactions in the year which affected the allocation of resources and the direction of our audit efforts and for which our audit response was as follows:

Risk	Risk direction	Our response to the risk	Key observations communicated to the Audit Committee
<p>Presentation of reorganisation costs in the Group income statement</p> <p>Refer to the Audit Committee Report (page 65); and note 6 of the Group Financial Statements (page 124).</p> <p>The incorrect classification of certain items as exceptional could present a misleading view to the financial statement users about the overall performance of the underlying business.</p> <p>At 31 December 2018, the Group incurred reorganisation costs of \$103m (2017: \$45m), of which \$56m (2017: \$36m) was classified as exceptional and \$47m (2017: \$9m) was allocated to the System Fund.</p>		<p>We tested the internal financial controls, including IT controls, over the identification, measurement, monitoring and recording of the reorganisation costs.</p> <p>We challenged the classification as exceptional items to ensure compliance with accounting standards, the Group's accounting policies and the consistency of application against prior years. In particular, we tested on a sample basis that the costs were directly related to the 'Transform for Growth' initiative and incremental to the normal course of business.</p> <p>We performed detailed testing on the allocation to the System Fund to confirm consistency with the communication to the Owners Association.</p> <p>We considered the appropriateness of the disclosure and transparency within the Group Financial Statements.</p>	<p>The disclosure of reorganisation costs as exceptional items is in accordance with the Group's disclosed accounting policy for exceptional items and consistent with the requirements of IAS 1 – Presentation of Financial Statements.</p>
<p>Acquisition accounting for the Regent and UK portfolio transactions</p> <p>Refer to the Audit Committee Report (page 65); and note 11 of the Group Financial Statements (page 131).</p> <p>We focused on this area given the judgements and estimates involved in assessing the fair value of assets and liabilities acquired.</p> <p>In addition, the transactions contain complexity in determining how to account for the acquisitions in accordance with IFRS 3 – Business Combinations and IFRS 10 – Consolidated Financial Statements.</p>		<p>We tested internal financial controls over the acquisition accounting, fair valuation of assets and liabilities acquired, and the migration of legacy data into the Group's systems.</p> <p>We verified management's accounting treatment for the acquisitions in accordance with IFRS 3 and IFRS 10. In particular:</p> <ul style="list-style-type: none"> • Assessing whether the Group has a present ownership interest over the 49% shareholding in Regent Hotels & Resorts not yet acquired and the recognition of contingent consideration in respect of the put and call options over the remaining shares. • Assessing the substance of the lease agreement entered into at the same time as the UK portfolio acquisition and the fair value of the contingent consideration embedded in the lease. In addition, we verified the classification as an operating lease agreement and the disclosure in the Group Financial Statements. <p>Assisted by our valuation specialists, we challenged management's key assumptions underpinning the valuations in the purchase price allocation. We assessed the fair value of the identified assets and liabilities, and evaluated the adequacy of the acquisition disclosures in note 11 of the Group Financial Statements.</p>	<p>The fair values of the assets and liabilities recognised on the Regent and UK portfolio acquisitions have been measured on a reasonable basis.</p> <p>The acquisition accounting is consistent with IFRS 3 and IFRS 10.</p>

"Impact of the US tax reform" was included as an area of audit focus last year in view of the complexity of the changes in the US tax law, the proximity of the announcement to the year-end and the materiality to the Group, which affected the allocation of resources and the direction of our audit efforts. This year, our procedures on the US tax reform have been more routine in nature.

Independent Auditor's UK Report continued

The scope of our audit**Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the Group Financial Statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as Global Internal Audit's results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts in the Group Financial Statements, we selected 50 components covering entities within India, the United States, the United Kingdom, Germany and China, which represent the principal business units within the Group.

Of the 50 components selected, we performed an audit of the complete financial information of 22 components (full scope components) which were selected based on their size or risk characteristics. For full scope components, procedures were performed by a combination of the Primary Team and one or more component teams.

For the remaining 28 components (specific scope components), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the Group Financial Statements either because of the size of these accounts or their risk profile.

The table below illustrates the coverage obtained from the work performed by our audit teams.

	2018			2017		
	Number	% profit before tax adjusted for pre-tax exceptional items and the System Fund	% revenue	Number	% profit before tax adjusted for pre-tax exceptional items	% revenue
Full scope ¹	22	79	63	22	81	69
Specific scope ²	28	15	29	22	11	8
Full and specific scope coverage	50	94	92	44	92	77
Remaining components³		6	8		8	23
Total		100	100		100	100

Notes

¹ The Group audit risks included in the tables on pages 90 to 91 were subject to full audit procedures.

² The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

³ Of the remaining components that together represent 6% of the Group's profit before tax adjusted for pre-tax exceptional items and the System Fund; none are individually greater than 2% of the Group's profit before tax adjusted for pre-tax exceptional items and the System Fund. We performed specified procedures over System Fund revenue for two components (2017: two) in addition to performing specified procedures over the components acquired in the year. For two (2017: three) components, we performed review scope procedures. For the remaining components, we performed other procedures, including analytical review at both regional levels and at owned hotels, inquiry of management, and testing of journals across the Group to respond to any potential risks of material misstatement to the Group Financial Statements.

Changes from the prior year

In 2017, the audit scope for components was determined using an overall Group materiality assessed using profit before tax adjusted for pre-tax exceptional items. In 2018, the audit scope for components was determined using an overall Group materiality assessed using profit before tax adjusted for pre-tax exceptional items and the System Fund.

Following the adoption of IFRS 15 – *Revenue from Contracts with Customers* (IFRS 15), System Fund revenues and expenses are now included in the Group income statement. As the System Fund continues to be managed on a break-even basis, the System Fund result for the year was adjusted from our materiality to remove the timing difference arising from revenues received and costs incurred in the year.

The 2017 coverage analysis provided in the table above has not been restated to reflect the impact of the adoption of IFRS 15 on the 2017 Group Financial Statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the Primary Team, or by component auditors from other EY global network firms operating under our instruction. Of the 22 full scope components, audit procedures were performed on two of these directly by the Primary Team and 20 by a combination of the primary and component audit teams. For the 28 specific scope components, audit procedures were performed on three of these directly by the Primary Team and 25 by component audit teams. We determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Primary Team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor, or her delegate, visits each of the key locations at both the interim and year-end stages of the audit process. During the current year's audit cycle, visits were undertaken, at least twice, by the Primary Team to the component teams at key locations in the United States and India.

These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, and reviewing key audit working papers on the Group's risk areas. The Primary Team interacted regularly with the component teams, during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group Financial Statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the Group Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be \$35m (2017: \$32m), which is 5% of profit before tax adjusted for pre-tax exceptional items and the System Fund (2017: 5% of profit before tax adjusted for

pre-tax exceptional items). We believe profit before tax adjusted for pre-tax exceptional items and the System Fund is the most relevant performance measure to the stakeholders of the entity, as IHG's management and investors monitor performance with this as a key metric. Detailed audit procedures are performed on material exceptional items and the System Fund.

Starting basis	<ul style="list-style-type: none"> • Profit before tax of \$485m
↓	
Adjustments	<ul style="list-style-type: none"> • Adjust for pre-tax exceptional items of \$104m and the System Fund result of \$146m to determine adjusted profit before tax
↓	
Materiality	<ul style="list-style-type: none"> • Totals \$735m (materiality basis) • Materiality maintained at planning level at \$35m (versus \$37m based on 5% of final reported results)

During the course of our audit, we reassessed initial materiality and the actual profit before tax adjusted for pre-tax exceptional items and the System Fund was higher than the Group's initial estimates used in planning. However, due to the status of our procedures we did not change our materiality assessment to reflect this.

We determined materiality for the Parent Company to be £19m (2017: £11m), which is 1% (2017: 1%) of equity.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely \$27m (2017: \$24m). We have set performance materiality at this percentage to ensure the total uncorrected and undetected audit differences in all accounts did not exceed our materiality.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was \$2m to \$27m (2017: \$1m to \$24m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of \$1.8m (2017: \$1.6m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 2 to 85 and pages 172 to 208,

other than the Financial Statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 88** – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on pages 64-67** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on pages 70-71** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Financial Statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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

Independent Auditor's UK Report continued

- 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.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 88, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the Financial Statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the Financial Statements are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the Financial Statements, being the Listing Rules of the UK Listing Authority and those laws and regulations relating to health and safety and employee matters.
- We understood how the Group is complying with those frameworks by making enquiries of management, Internal Audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies.

- We assessed the susceptibility of the Group Financial Statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where management considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the Financial Statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, Group management, Internal Audit, divisional management and all full and specific scope management; and focused testing, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company on 4 May 2018 to audit the Financial Statements for the year ending 31 December 2018 and subsequent financial periods.
- We have served as auditors since the Company's listing in April 2003 and the period of total uninterrupted engagement, including previous renewals and reappointments with the Group's predecessor businesses, is at least 31 years since 1988.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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.

Sarah Kokot (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor, London
18 February 2019

The maintenance and integrity of the InterContinental Hotels Group Plc web site 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 web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's US Report

Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Shareholders of InterContinental Hotels Group PLC.

Opinion on Internal Control over Financial Reporting

We have audited InterContinental Hotels Group PLC's internal control over financial reporting as of 31 December 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, InterContinental Hotels Group PLC (the Company) maintained, in all material respects, effective internal control over financial reporting as of 31 December 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Group statement of financial position of the Company as of 31 December 2018 and 2017, and the related Group statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended 31 December 2018, and the related notes, and our report dated 18 February 2019 expressed an unqualified opinion thereon.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are

subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ERNST & YOUNG LLP

London, England
18 February 2019

Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Shareholders of InterContinental Hotels Group PLC.

Opinion on the Financial Statements

We have audited the accompanying Group statement of financial position of InterContinental Hotels Group PLC (the Company) as of 31 December 2018 and 2017, and the related Group statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended 31 December 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended 31 December 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of 31 December 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated 18 February 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

ERNST & YOUNG LLP

We have served as auditors since IHG's listing in April 2003 and of the Company's predecessor businesses since 1988.
London, England
18 February 2019

The maintenance and integrity of the InterContinental Hotels Group Plc web site 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 web site.

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Group Financial Statements

Group income statement

For the year ended 31 December 2018	Note	2018 \$m	2017 Restated ^a \$m	2016 Restated ^a \$m
Revenue from fee business	3	1,486	1,379	1,329
Revenue from owned, leased and managed lease hotels	3	447	351	338
System Fund revenues		1,233	1,242	1,199
Reimbursement of costs		1,171	1,103	1,046
Total revenue	2	4,337	4,075	3,912
Cost of sales		(706)	(571)	(548)
System Fund expenses		(1,379)	(1,276)	(1,164)
Reimbursed costs		(1,171)	(1,103)	(1,046)
Administrative expenses before exceptional items		(344)	(337)	(345)
Share of (losses)/gains of associates and joint ventures	2	(1)	3	(2)
Other operating income		14	11	9
Depreciation and amortisation	2	(80)	(78)	(75)
Operating profit before exceptional items		670	724	741
Impairment charges	6	-	(18)	(16)
Other exceptional items	6	(104)	22	(13)
Operating profit	2	566	728	712
Financial income	7	5	4	6
Financial expenses	7	(86)	(76)	(86)
Profit before tax		485	656	632
Tax	8	(133)	(115)	(173)
Profit for the year from continuing operations		352	541	459
Attributable to:				
Equity holders of the parent		351	540	456
Non-controlling interest		1	1	3
		352	541	459
Earnings per ordinary share:				
Continuing and total operations:				
Basic	10	184.7	279.8	215.1
Diluted		182.8	278.4	213.1

^a Restated for the adoption of IFRS 15 and other presentational changes (see pages 109 to 114).



Notes on pages 103 to 161 form an integral part of these Financial Statements.

Group statement of comprehensive income

For the year ended 31 December 2018	2018 \$m	2017 Restated ^a \$m	2016 Restated ^a \$m
Profit for the year	352	541	459
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Gains on valuation of available-for-sale financial assets ^b , net of related tax charge of \$nil (2017: \$3m, 2016: \$nil)	-	41	5
Fair value gains reclassified to profit on disposal of available-for-sale financial assets ^b	-	(73)	(7)
Gains on cash flow hedges, including related tax credit of \$1m (2017: \$nil, 2016: \$nil)	5	-	-
Costs of hedging	(1)	-	-
Hedging gains reclassified to financial expenses	(8)	-	-
Exchange gains/(losses) on retranslation of foreign operations, including related tax credit of \$2m (2017: net of related tax credit of \$1m, 2016: net of related tax charge of \$3m)	43	(88)	190
	39	(120)	188
Items that will not be reclassified to profit or loss:			
Losses on equity instruments classified as fair value through other comprehensive income, including related tax charge of \$2m (2017: \$nil, 2016: \$nil)	(14)	-	-
Re-measurement gains/(losses) on defined benefit plans, net of related tax charge of \$4m (2017: \$nil, 2016: credit of \$4m)	8	(4)	-
Deferred tax charge on defined benefit plans arising from significant US tax reform	-	(11)	-
	(6)	(15)	-
Total other comprehensive income/(loss) for the year	33	(135)	188
Total comprehensive income for the year	385	406	647
Attributable to:			
Equity holders of the parent	383	404	644
Non-controlling interest	2	2	3
	385	406	647

^a Restated for the adoption of IFRS 15 (see pages 109 to 113).

^b IFRS 9 has been applied from 1 January 2018. Under the transition method chosen, comparative information has not been restated.



Notes on pages 103 to 161 form an integral part of these Financial Statements.

Group Financial Statements continued

Group statement of changes in equity

	Equity share capital \$m	Capital redemption reserve \$m	Shares held by employee share trusts \$m	Other reserves \$m	Fair value reserve \$m	Cash flow hedging reserve \$m	Currency translation reserve \$m	Retained earnings \$m	IHG share-holders' equity \$m	Non-controlling interest \$m	Total equity \$m
At 1 January 2018 (restated for IFRS 15)	154	10	(5)	(2,874)	79	-	377	951	(1,308)	7	(1,301)
Impact of adopting IFRS 9 (page 113)	-	-	-	-	(18)	-	-	18	-	-	-
At 1 January 2018	154	10	(5)	(2,874)	61	-	377	969	(1,308)	7	(1,301)
Profit for the year	-	-	-	-	-	-	-	351	351	1	352
Other comprehensive income											
Items that may be subsequently reclassified to profit or loss:											
Gains on cash flow hedges	-	-	-	-	-	5	-	-	5	-	5
Costs of hedging	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Hedging gains reclassified to financial expenses	-	-	-	-	-	(8)	-	-	(8)	-	(8)
Exchange gains on retranslation of foreign operations	-	-	-	-	-	-	42	-	42	1	43
	-	-	-	-	-	(4)	42	-	38	1	39
Items that will not be reclassified to profit or loss:											
Losses on equity instruments classified as fair value through other comprehensive income	-	-	-	-	(14)	-	-	-	(14)	-	(14)
Re-measurement gains on defined benefit plans	-	-	-	-	-	-	-	8	8	-	8
	-	-	-	-	(14)	-	-	8	(6)	-	(6)
Total other comprehensive (loss)/ income for the year	-	-	-	-	(14)	(4)	42	8	32	1	33
Total comprehensive income for the year	-	-	-	-	(14)	(4)	42	359	383	2	385
Transfer of treasury shares to employee share trusts	-	-	(19)	-	-	-	-	19	-	-	-
Purchase of own shares by employee share trusts	-	-	(3)	-	-	-	-	-	(3)	-	(3)
Release of own shares by employee share trusts	-	-	24	-	-	-	-	(24)	-	-	-
Equity-settled share-based cost	-	-	-	-	-	-	-	39	39	-	39
Tax related to share schemes	-	-	-	-	-	-	-	3	3	-	3
Equity dividends paid	-	-	-	-	-	-	-	(199)	(199)	(1)	(200)
Exchange adjustments	(8)	-	(1)	9	-	-	-	-	-	-	-
At 31 December 2018	146	10	(4)	(2,865)	47	(4)	419	1,166	(1,085)	8	(1,077)

All items above are shown net of tax.



Notes on pages 103 to 161 form an integral part of these Financial Statements.

	Equity share capital \$m	Capital redemption reserve \$m	Shares held by employee share trusts \$m	Other reserves \$m	Fair value reserve \$m	Currency translation reserve \$m	Retained earnings \$m	IHG share-holders' equity \$m	Non-controlling interest \$m	Total equity \$m
At 1 January 2017 (restated for IFRS 15)	141	9	(11)	(2,860)	111	466	990	(1,154)	8	(1,146)
Profit for the year	-	-	-	-	-	-	540	540	1	541
Other comprehensive income										
Items that may be subsequently reclassified to profit or loss:										
Gains on valuation of available-for-sale financial assets	-	-	-	-	41	-	-	41	-	41
Fair value gain reclassified to profit on disposal of available-for-sale financial asset	-	-	-	-	(73)	-	-	(73)	-	(73)
Exchange losses on retranslation of foreign operations	-	-	-	-	-	(89)	-	(89)	1	(88)
	-	-	-	-	(32)	(89)	-	(121)	1	(120)
Items that will not be reclassified to profit or loss:										
Re-measurement losses on defined benefit plans	-	-	-	-	-	-	(4)	(4)	-	(4)
Deferred tax charge on defined benefit plans arising from significant US tax reform	-	-	-	-	-	-	(11)	(11)	-	(11)
	-	-	-	-	-	-	(15)	(15)	-	(15)
Total other comprehensive (loss)/income for the year	-	-	-	-	(32)	(89)	(15)	(136)	1	(135)
Total comprehensive income for the year	-	-	-	-	(32)	(89)	525	404	2	406
Transfer of treasury shares to employee share trusts	-	-	(20)	-	-	-	20	-	-	-
Purchase of own shares by employee share trusts	-	-	(3)	-	-	-	-	(3)	-	(3)
Release of own shares by employee share trusts	-	-	29	-	-	-	(29)	-	-	-
Equity-settled share-based cost	-	-	-	-	-	-	29	29	-	29
Tax related to share schemes	-	-	-	-	-	-	9	9	-	9
Equity dividends paid	-	-	-	-	-	-	(593)	(593)	(3)	(596)
Exchange adjustments	13	1	-	(14)	-	-	-	-	-	-
At 31 December 2017	154	10	(5)	(2,874)	79	377	951	(1,308)	7	(1,301)

All items above are shown net of tax.



Notes on pages 103 to 161 form an integral part of these Financial Statements.

Group Financial Statements continued

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	Fair value reserve \$m	Currency translation reserve \$m	Retained earnings \$m	IHG share-holders' equity \$m	Non-controlling interest \$m	Total equity \$m
At 1 January 2016 (as previously reported)	169	11	(18)	(2,888)	113	269	2,653	309	10	319
Impact of adopting IFRS 15 (pages 109-113)	-	-	-	-	-	7	(444)	(437)	-	(437)
At 1 January 2016	169	11	(18)	(2,888)	113	276	2,209	(128)	10	(118)
Profit for the year	-	-	-	-	-	-	456	456	3	459
Other comprehensive income										
Items that may be subsequently reclassified to profit or loss:										
Gains on valuation of available-for-sale financial assets	-	-	-	-	5	-	-	5	-	5
Fair value gain reclassified to profit on disposal of available-for-sale financial assets	-	-	-	-	(7)	-	-	(7)	-	(7)
Exchange gains on retranslation of foreign operations	-	-	-	-	-	190	-	190	-	190
Total other comprehensive (loss)/income for the year	-	-	-	-	(2)	190	-	188	-	188
Total comprehensive income for the year	-	-	-	-	(2)	190	456	644	3	647
Transfer of treasury shares to employee share trusts	-	-	(24)	-	-	-	24	-	-	-
Purchase of own shares by employee share trusts	-	-	(10)	-	-	-	-	(10)	-	(10)
Release of own shares by employee share trusts	-	-	39	-	-	-	(39)	-	-	-
Equity-settled share-based cost	-	-	-	-	-	-	23	23	-	23
Tax related to share schemes	-	-	-	-	-	-	11	11	-	11
Equity dividends paid	-	-	-	-	-	-	(1,693)	(1,693)	(5)	(1,698)
Transaction costs relating to shareholder returns	-	-	-	-	-	-	(1)	(1)	-	(1)
Exchange adjustments	(28)	(2)	2	28	-	-	-	-	-	-
At 31 December 2016	141	9	(11)	(2,860)	111	466	990	(1,154)	8	(1,146)

All items above are shown net of tax.



Notes on pages 103 to 161 form an integral part of these Financial Statements.

Group statement of financial position

31 December 2018	Note	2018 \$m	2017 Restated ^a \$m	2016 Restated ^a \$m
ASSETS				
Property, plant and equipment	12	447	425	419
Goodwill and other intangible assets	13	1,143	967	858
Investment in associates and joint ventures	14	104	141	111
Trade and other receivables		-	-	8
Retirement benefit assets	25	-	3	-
Other financial assets	15	260	228	248
Derivative financial instruments	22	7	-	-
Non-current tax receivable		31	16	23
Deferred tax assets	8	60	75	69
Contract costs	3	55	51	45
Contract assets	3	270	241	185
Total non-current assets		2,377	2,147	1,966
Inventories		5	3	3
Trade and other receivables	16	613	551	469
Current tax receivable		27	101	77
Other financial assets	15	1	16	20
Derivative financial instruments	22	1	-	-
Cash and cash equivalents	17	704	168	206
Contract costs	3	5	7	8
Contract assets	3	20	17	13
Total current assets		1,376	863	796
Total assets	2	3,753	3,010	2,762
LIABILITIES				
Loans and other borrowings	20	(120)	(126)	(106)
Derivative financial instruments		-	-	(3)
Trade and other payables	18	(618)	(597)	(526)
Deferred revenue	3	(572)	(490)	(462)
Provisions	19	(10)	(3)	(3)
Current tax payable		(50)	(64)	(50)
Total current liabilities		(1,370)	(1,280)	(1,150)
Loans and other borrowings	20	(2,129)	(1,893)	(1,606)
Retirement benefit obligations	25	(91)	(104)	(96)
Trade and other payables	18	(158)	(36)	(29)
Deferred revenue	3	(934)	(867)	(852)
Provisions	19	(17)	(5)	(5)
Non-current tax payable		-	(25)	-
Deferred tax liabilities	8	(131)	(101)	(170)
Total non-current liabilities		(3,460)	(3,031)	(2,758)
Total liabilities	2	(4,830)	(4,311)	(3,908)
Net liabilities		(1,077)	(1,301)	(1,146)
EQUITY				
Equity share capital	27	146	154	141
Capital redemption reserve	27	10	10	9
Shares held by employee share trusts	27	(4)	(5)	(11)
Other reserves	27	(2,865)	(2,874)	(2,860)
Fair value reserve	27	47	79	111
Cash flow hedging reserve	27	(4)	-	-
Currency translation reserve	27	419	377	466
Retained earnings		1,166	951	990
IHG shareholders' equity		(1,085)	(1,308)	(1,154)
Non-controlling interest	27	8	7	8
Total equity		(1,077)	(1,301)	(1,146)

^a Restated for the adoption of IFRS 15 (see pages 109 to 113).

Signed on behalf of the Board,

Paul Edgecliffe-Johnson

18 February 2019



Notes on pages 103 to 161 form an integral part of these Financial Statements.

Group Financial Statements continued

Group statement of cash flows

For the year ended 31 December 2018	Note	2018 \$m	2017 Restated ^a \$m	2016 Restated ^a \$m
Profit for the year		352	541	459
Adjustments reconciling profit for the year to cash flow from operations before contract acquisition costs	24	502	308	491
Cash flow from operations before contract acquisition costs	24	854	849	950
Contract acquisition costs, net of repayments		(54)	(57)	(42)
Cash flow from operations		800	792	908
Interest paid		(70)	(69)	(72)
Interest received		2	1	4
Tax paid on operating activities	8	(66)	(147)	(130)
Net cash from operating activities		666	577	710
Cash flow from investing activities				
Purchase of property, plant and equipment		(46)	(44)	(32)
Purchase of intangible assets		(112)	(172)	(130)
Investment in associates and joint ventures		(1)	(47)	(14)
Loan advances to associates and joint ventures		-	-	(2)
Investment in other financial assets		(33)	(30)	(13)
Acquisition of businesses, net of cash acquired	11	(38)	-	-
Capitalised interest paid	7	(5)	(6)	(5)
Landlord contributions to property, plant and equipment		8	14	-
Disposal of hotel assets, net of costs and cash disposed		-	-	(5)
Loan repayments by associates and joint ventures		-	9	-
Distributions from associates and joint ventures		32	-	2
Repayments of other financial assets		8	20	25
Disposal of equity securities	15	-	75	-
Tax paid on disposals	8	(2)	(25)	-
Net cash from investing activities		(189)	(206)	(174)
Cash flow from financing activities				
Purchase of own shares by employee share trusts		(3)	(3)	(10)
Dividends paid to shareholders	9	(199)	(593)	(1,693)
Dividend paid to non-controlling interest		(1)	(3)	(5)
Transaction costs relating to shareholder returns		-	-	(1)
Issue of long-term bonds, including effect of currency swaps	20	554	-	459
Long-term bonds repaid		-	-	(315)
(Decrease)/increase in other borrowings	20	(268)	153	109
Proceeds from currency swaps		3	-	-
Net cash from financing activities		86	(446)	(1,456)
Net movement in cash and cash equivalents in the year		563	(75)	(920)
Cash and cash equivalents at beginning of the year	17	58	117	1,098
Exchange rate effects		(21)	16	(61)
Cash and cash equivalents at end of the year	17	600	58	117

^a Restated for the adoption of IFRS 15 (see pages 109 to 113).



Notes on pages 103 to 161 form an integral part of these Financial Statements.

Accounting policies

General information

This document constitutes the Annual Report and Financial Statements in accordance with UK Listing Rules requirements and the Annual Report on Form 20-F in accordance with the US Securities Exchange Act of 1934.

The Consolidated Financial Statements of InterContinental Hotels Group PLC (the Group or IHG) for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 18 February 2019. InterContinental Hotels Group PLC (the Company) is incorporated and domiciled in Great Britain and registered in England and Wales.

Significant accounting policies

Basis of preparation

The Consolidated Financial Statements of IHG have been prepared on a going concern basis and under the historical cost convention, except for assets classified as fair value through other comprehensive income (FVOCI) and liabilities and derivatives measured at fair value through profit or loss. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB and in accordance with IFRS as adopted by the European Union (EU) and as applied in accordance with the provisions of the Companies Act 2006. IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB. However, the differences have no impact on the Consolidated Financial Statements for the years presented.

The impact of adopting new accounting standards is disclosed on pages 109 to 114.

Presentational currency

The Consolidated Financial Statements are presented in millions of US dollars reflecting the profile of the Group's revenue and operating profit which are primarily generated in US dollars or US dollar-linked currencies.

In the Consolidated Financial Statements, 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 is 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 sterling dividends and of interest on sterling denominated external borrowings and inter-company balances.

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Parent Company and entities controlled by the Group. Control exists when the Group has:

- power over an investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

All intra-group balances and transactions are eliminated on consolidation.

The assets, liabilities and results of those businesses acquired or disposed of are consolidated for the period during which they were under the Group's control.

The Group operates a deferred compensation plan in the US which allows certain employees to make additional provision for retirement, through the deferral of salary with matching company contributions. Employees can draw down on the plan in certain

limited circumstances during employment. The assets of the plan are held in a company-owned trust which is not consolidated as the relevant activity of the trust, being the investment of the funds in the trust, is directed by the participating employees of the plan and the company has no exposure to the gains and losses resulting from those investment decisions. The assets of the trust are held solely for the benefit of the participating employees and to pay plan expenses, other than in the case of a company insolvency in which case they can be claimed by the general creditors of the company. At 31 December 2018, the trust had assets with a fair value of \$193m (2017: \$197m).

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 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 of disposal 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'.

Business combinations and goodwill

On the acquisition of a business, identifiable assets and liabilities acquired are measured at their fair value. Contingent liabilities

Accounting policies continued

assumed are measured at fair value unless this cannot be measured reliably, in which case they are not recognised but are disclosed in the same manner as other contingent liabilities. The measurement of deferred tax assets and liabilities arising on acquisition is as described in the general principles detailed within the 'Taxes' accounting policy note on page 106 with the exception that no deferred tax is provided on taxable temporary differences in connection with the initial recognition of goodwill.

The cost of an acquisition is measured as the aggregate of the fair value of the consideration transferred. Contingent and deferred consideration is remeasured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is recorded at cost, being the difference between the fair value of the consideration and the fair value of net assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised.

Goodwill is tested for impairment at least annually by comparing carrying values of cash-generating units with their recoverable amounts. Impairment losses relating to goodwill cannot be subsequently reversed.

Transaction costs are expensed and are not included in the cost of acquisition.

Intangible assets**Brands**

Externally acquired brands are initially recorded at cost if separately acquired or fair value if acquired as part of a business combination, provided the brands are controlled through contractual or other legal rights, or are separable from the rest of the business, and the fair value can be reliably measured. Brands are amortised over their estimated useful lives (and tested for impairment if there are indicators of impairment) or tested for impairment at least annually if determined to have indefinite lives.

The costs of developing internally generated brands are expensed as incurred.

Management contracts

Management contracts acquired as part of a business combination are initially recorded at the fair value attributed to those contracts on acquisition.

The value of management contracts is amortised on a straight-line basis over the life of the contract including any extension periods at IHG's option, up to a maximum of 50 years.

Software

Acquired and internally developed software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs are generally 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.

Associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is not control or joint control over those policies.

A joint venture exists when two or more parties have joint control over, and rights to the net assets of, the venture. Joint control is the contractually agreed sharing of control which only exists when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Associates and joint ventures are accounted for using the equity method unless the associate or joint venture 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 joint venture.

If there is objective evidence that an associate or joint venture is impaired, an impairment charge is recognised if the carrying amount of the investment exceeds its recoverable amount.

Upon loss of significant influence over an associate or joint control of a joint venture, any retained investment is measured at fair value with any difference to carrying value recognised in the income statement.

Financial assets**Policy from 1 January 2018**

On initial recognition, the Group classifies its financial assets as being subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss.

Financial assets which are held to collect contractual cash flows and give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding are subsequently measured at amortised cost. Interest on these assets is calculated using the effective interest rate method and is recognised in the income statement as interest income. The Group recognises a provision for expected credit losses for all debt instruments held at amortised cost. Where there has not been a significant increase in credit risk since initial recognition, provision is made for defaults that are possible within the next 12 months. Where there has been a significant increase in credit risk since initial recognition, provision is made for credit losses expected over the remaining life of the asset.

The Group has elected to irrevocably designate equity investments as FVOCI when they meet the definition of equity under IAS 32 'Financial Instruments: Presentation' and are not held for trading. Changes in the value of equity investments classified as FVOCI are recorded directly in equity within the fair value reserve and are never recycled to the income statement. Dividends from equity investments classified as FVOCI are recognised in the income statement as other operating income and expenses. Equity instruments classified as FVOCI are not subject to impairment assessment.

The Group does not currently hold any financial assets, other than derivatives, which are measured at fair value through profit or loss.

Policy prior to 1 January 2018

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 equity investments). 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 equity investments are recorded directly in equity within the fair value reserve. On disposal, the accumulated fair value adjustments recognised in equity are recycled to the income statement. Dividends from equity investments 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 measured at fair value, a significant or prolonged decline in fair value below cost is evidence that the asset is impaired. If an available-for-sale equity investment 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.

Trade receivables

Policy from 1 January 2018

Trade receivables are recorded at their original amount less provision for expected credit losses. The Group has elected to apply the simplified version of the expected credit loss model permitted by IFRS 9 in respect of trade receivables, which involves assessing lifetime expected credit losses on all balances. The Group has established a provision matrix that is based on its historical credit loss experience by region and may be adjusted for specific forward-looking factors. 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. Balances which are more than 180 days past due are considered to be in default and are written off the ledgers but continue to be actively pursued. Adjustments to this policy may be made in specific circumstances.

At each reporting date, the Group assesses whether trade receivables are credit-impaired, for example if the customer is in significant financial difficulty.

Policy prior to 1 January 2018

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. 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

Assets and 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 and expected to complete within one year. For a sale to be highly probable, management need to be committed to a plan to sell the asset and the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

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.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Group statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. To meet these criteria, the right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances: the normal course of business, the event of default and the event of insolvency or bankruptcy of the Group and all of the counterparties.

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 re-measured at fair value. The method of recognising the re-measurement 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 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 arrangement 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.

Cash flow hedges

Financial instruments are classified as cash flow hedges when hedging exposure to variability in cash flows that are attributable to either a highly probable forecast transaction or a particular risk associated with a recognised asset or liability.

Changes in the fair value are recorded in other comprehensive income and the cash flow hedging 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.

Net investment hedges

Financial instruments are classified as net investment hedges when they hedge the Group's net investment in foreign operations.

Changes in the fair value 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.

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 using a current pre-tax discount rate that reflects the risks specific to the liability.

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.

Accounting policies continued

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 at 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 on fixed assets, software, application fees, contract costs, unrelieved tax losses, unremitted profits from subsidiaries, gains rolled over into replacement assets, and other short-term temporary differences.

Judgement is used when assessing the extent to which deferred tax assets, particularly in respect of tax losses, should be recognised. Deferred tax assets are therefore recognised to the extent that it is regarded as probable that there will be sufficient and suitable taxable profits (including the future release of deferred tax liabilities) in the relevant legal entity or tax group against which such assets can be utilised in the future. For this purpose, forecasts of future taxable profits are considered by assessing the Group's forecast revenue and profit models, taking into account future growth predictions and operating cost assumptions. Accordingly, changes in assumptions to the Group's forecasts may have an impact on the amount of future taxable profits and therefore the period over which any deferred tax assets might be recovered.

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.

Where deferred tax assets and liabilities arise in the same entity or group of entities and there would be a legal right to offset the assets and liabilities were they to reverse, the assets and liabilities are also offset on the Group statement of financial position. Similarly, if there is no legal right to offset assets against liabilities, the assets and liabilities are not offset.

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, discounted 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.

The service cost of providing pension benefits to employees, together with the net interest expense or income for the year, is charged to the income statement within 'administrative expenses'. Net interest is calculated by applying the discount rate to the net defined benefit asset or liability, after any asset restriction. Past service costs and gains, which are the change in the present value of the defined benefit obligation for employee service in prior periods resulting from plan amendments, are recognised immediately the plan amendment occurs. Settlement gains and losses, being the difference between the settlement cost and the present value of the defined benefit obligations being settled, are recognised when the settlement occurs.

Re-measurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest) and changes in the amount of any asset restrictions. Actuarial gains and losses may result from: 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. Re-measurement gains and losses, and taxation thereon, are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods.

Actuarial valuations are carried out on a regular basis and are updated for material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

Revenue recognition

Revenue is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer.

Fee business revenue

Under franchise agreements, the Group's performance obligation is to provide a licence to use IHG's trademarks and other intellectual property. Franchise royalty fees are typically charged as a percentage of hotel gross rooms revenues and are treated as variable consideration, recognised as the underlying hotel revenues occur.

Under management agreements, the Group's performance obligation is to provide hotel management services and a licence to use IHG's trademarks and other intellectual property. Base and incentive management fees are typically charged. Base management fees are typically a percentage of total hotel revenues and incentive management fees are generally based on the hotel's profitability or cash flows. Both are treated as variable consideration. Like franchise fees, base management fees are recognised as the underlying hotel revenues occur. Incentive management fees are recognised over time when it is considered highly probable that the related performance criteria will be met, provided there is no expectation of a subsequent reversal of the revenue.

Application and re-licensing fees are not considered to be distinct from the franchise performance obligation and are recognised over the life of the related contract.

Contract assets

Amounts paid to hotel owners to secure management contracts and franchise agreements ('key money') are treated as consideration payable to a customer. A contract asset is initially recorded which is recognised as a deduction to revenue over the initial term of the contract.

Revenue from owned and leased hotels

At its owned, leased and managed lease hotels, the Group's performance obligation is to provide accommodation and other goods and services to guests. Revenue includes rooms revenue and food and beverage sales, which is recognised when the rooms are occupied and food and beverages are sold.

Cost reimbursements

In a managed property, the Group acts as employer of the general manager and other employees at the hotel and is entitled to reimbursement of these costs. The performance obligation is satisfied over time as the employees perform their duties, consistent with when reimbursement is received. Reimbursements for these services are shown as revenue with an equal matching employee cost, with no profit impact. Certain other costs relating to both managed and franchised hotels are also contractually reimbursable to IHG and, where IHG is deemed to be acting as principal in the provision of the related services, the revenue and cost are shown on a gross basis.

System Fund revenues

The Group operates a System Fund (the Fund) to collect and administer cash assessments from hotel owners for the specific purpose of use in marketing, the Guest Reservation Systems and hotel loyalty programme. The Fund also receives proceeds from the sale of loyalty points under third-party co-branding arrangements. The Fund is not managed to generate a profit or loss for IHG, but is managed for the benefit of hotels in the IHG System with the objective of driving revenues for the hotels.

Under both franchise and management agreements, the Group is required to provide marketing and reservations services, as well as other centrally managed programmes. These services are provided by the Fund and are funded by assessment fees. Costs are incurred and allocated to the Fund in accordance with the principles agreed with the IHG Owners Association. The Group acts as principal in the provision of the services as the related expenses primarily comprise payroll and marketing expenses under contracts entered into by the Group. The assessment fees from hotel owners are generally levied as a percentage of hotel revenues and are recognised as those hotel revenues occur.

Certain travel agency commission revenues within the Fund are recognised on a net basis, where it has been determined that IHG is acting as agent.

In respect of the loyalty programme (IHG Rewards Club), the related performance obligation is to arrange for the provision of future benefits to members on consumption of previously earned reward points. Members have a choice of benefits: reward nights at an IHG hotel or other goods or services provided by third parties. Under its franchise and management contracts, IHG receives assessment fees based on total qualifying hotel revenue from IHG Rewards Club members' hotel stays.

The Group's performance obligation is not satisfied in full until the member has consumed the points at a participating hotel or selected a reward from a third-party. Accordingly, loyalty assessments are deferred in an amount that reflects the stand-alone selling price of the future benefit to the member. The amount of revenue ultimately recognised is impacted by a "breakage" estimate of the number of points that will never be consumed. On an annual basis, the Group engages an external actuary who uses statistical formulae to assist in formulating this estimate.

As materially all of the points will be either consumed at IHG managed or franchised hotels owned by third parties, or exchanged for awards provided by third parties, IHG is deemed to be acting as agent on consumption and therefore recognises the related revenue net of the cost of reimbursing the hotel or third-party that is providing the benefit.

Performance obligations under the Group's co-branding arrangements comprise:

- arranging for the provision of future benefits to members who have earned points or free night certificates;
- marketing services; and
- providing the co-brand partner with the right to access the loyalty programme.

Fees from these agreements comprise fixed amounts normally payable at the beginning of the contract, and variable amounts paid on a monthly basis. Variable amounts are typically based on the number of points and free night certificates issued to members and the marketing services performed by the Group. Total fees are allocated to the performance obligations based on their estimated stand-alone selling prices. Revenue allocated to marketing and licensing obligations is recognised on a monthly basis as the obligation is satisfied. Revenue relating to points and free night certificates is recognised when the member has consumed the points or certificates at a participating hotel or has selected a reward

from a third party, net of the cost of reimbursing the hotel or third-party that is providing the benefit.

Judgement is required in estimating the stand-alone selling prices which are based upon generally accepted valuation methodologies regarding the value of the licence provided, and the number of points and certificates expected to be issued. However the value of revenue recognised and the deferred revenue balance at the end of the year is not materially sensitive to changes in these assumptions.

Contract costs

Certain costs incurred to secure management and franchise contracts, typically developer commissions, are capitalised and amortised over the initial term of the related contract. These costs are presented as 'Contract costs' in the Group statement of financial position.

Contract assets and contract costs are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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.

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.

Accounting policies continued

Fair value measurement

The Group measures financial liabilities at fair value through profit or loss, financial assets measured at FVOCI, and derivatives at fair value on a recurring basis and other assets when impaired by reference to fair value less costs of disposal. Additionally, the fair value of other financial assets and liabilities requires disclosure.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is measured by reference to the principal market for the asset or liability assuming that market participants act in their economic best interests.

The fair value of a non-financial asset assumes the asset is used in its highest and best use, either through continuing ownership or by selling it.

The Group uses valuation techniques that maximise the use of relevant observable inputs using the following valuation hierarchy:

- 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.

For assets and liabilities measured at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Further disclosures on the particular valuation techniques used by the Group are provided in note 23.

Where significant assets (such as property) are valued by reference to fair value less costs of disposal, an external valuation will normally be obtained using professional valuers who have appropriate market knowledge, reputation and independence.

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 the financial performance of the Group and its regional operating segments. Exceptional items can include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals and restructuring costs.

Critical accounting policies and the use of judgements, estimates and assumptions

In determining and applying the Group's accounting policies, management are required to make judgements, estimates and assumptions. An accounting policy is considered to be critical if its selection or application could materially 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. Management consider that critical estimates and assumptions are used in impairment testing and for measuring the loyalty programme liability, as discussed in further detail below. Estimates and assumptions are evaluated by management using historical experience and other factors believed to be reasonable based on current circumstances. Actual results could differ under different

policies, judgements, estimates and assumptions or due to unforeseen circumstances.

Loyalty programme – the hotel loyalty programme, IHG Rewards Club, enables members to earn points, funded through hotel assessments, during each qualifying stay at an IHG branded hotel and consume points at a later date for free accommodation or other benefits. The Group recognises deferred revenue in an amount that reflects IHG's unsatisfied performance obligations, valued at the stand-alone selling price of the future benefit to the member. The amount of revenue recognised and deferred is impacted by 'breakage'. On an annual basis the Group engages an external actuary who uses statistical formulae to assist in the estimate of the number of points that will never be consumed 'breakage'.

Following the introduction of a points expiration policy in 2015, breakage has become more judgemental due to there being limited historical data on the impact of such a change. Actuarial gains and losses would correspondingly adjust the amount of System Fund revenues recognised and deferred revenue in the Group statement of financial position.

At 31 December 2018, deferred revenue relating to the loyalty programme was \$1,181m (2017: \$1,057m). Based on the conditions existing at the balance sheet date, a one percentage point decrease in the breakage estimate relating to outstanding points would increase this liability by approximately \$14m.

Impairment testing – intangible assets with definite useful lives, property, plant and equipment, contract assets and contract costs are tested for impairment when events or circumstances indicate that their carrying value may not be recoverable. Goodwill and intangible assets with indefinite useful lives are subject to an impairment test on an annual basis or more frequently if there are indicators of impairment. Assets that do not generate independent cash flows are combined into cash-generating units. Associates and joint ventures are tested for impairment when there is objective evidence that they might be impaired.

The impairment testing of individual assets or cash-generating units requires an assessment of the recoverable amount of the asset or cash-generating unit. If the carrying value of the asset or cash-generating unit exceeds its estimated recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs of disposal 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 is based on the Group's weighted average cost of capital adjusted to reflect the risks specific to the business model and territory of the cash-generating unit or asset being tested. The outcome of such an assessment is subjective, and the result sensitive to the assumed future cash flows to be generated by the cash-generating units or assets and discount rates applied in calculating the value in use.

At 31 December 2018, the Group had goodwill of \$313m (2017: \$237m) and brands of \$250m (2017: \$193m), both of which are subject to annual impairment testing. Information on the impairment tests performed is included in note 13.

At 31 December 2018, the Group also had property, plant and equipment, intangible assets (excluding goodwill and brands) and investments in associates and joint ventures with a net book value of \$447m, \$580m and \$104m (2017: \$425m, \$537m and \$141m) respectively. No impairment was recognised during the year. In respect of those assets requiring an impairment test and depending on how recoverable amount was assessed, a 10% reduction in fair value or estimated future cash flows would have resulted in an impairment charge of \$10m.

New accounting standards and presentational changes

IFRS 15 'Revenue from Contracts with Customers'

With effect from 1 January 2018, the Group has adopted IFRS 15 'Revenue from Contracts with Customers' which introduces a new five-step approach to measuring and recognising revenue from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has elected to apply the full retrospective method in adopting IFRS 15 and has applied the following practical expedients:

- the transaction price at the date of contract completion was used for contracts that had variable consideration and were completed before 1 January 2018;
- for contracts modified before 1 January 2016, the aggregate effect of all modifications has been reflected when (i) identifying satisfied and unsatisfied performance obligations, (ii) determining the transaction price and (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.

Prior to adoption of IFRS 15, the Group's revenue was primarily comprised of fee-based revenue from franchise and management contracts, and hotel revenue in owned, leased and managed lease properties. The recognition of these revenue streams is largely unchanged by IFRS 15 (see accounting policy on page 106).

The key changes resulting from the adoption of IFRS 15 are as follows:

Managed and franchised hotel cost reimbursements

Under IFRS 15, the provision of employees to managed hotels is not considered to be a service that is distinct from the general hotel management service. Reimbursements for the cost of IHG employees working in managed hotels are therefore shown as revenue with an equal matching cost, with no profit impact. Certain other costs relating to both managed and franchised hotels are also contractually reimbursable to IHG and where IHG is deemed to be acting as principal in the provision of the related services, the revenue and cost are shown on a gross basis under IFRS 15 in the lines 'Reimbursement of costs' and 'Reimbursed costs'. Under previous accounting policies, no revenue or matching cost was recognised. This change increased 2017 revenue and expense by \$1,103m, with no profit impact.

Initial application and re-licensing fees

Under previous accounting, application and re-licensing fees were recognised as revenue when billed as the monies received are not refundable and IHG has no further obligations to satisfy. Under IFRS 15, there is a requirement to consider whether the payment of these fees transfers a distinct good or service to the customer that is separate from the promise to provide franchise services. As this is not the case, IFRS 15 requires initial application and re-licensing fees to be recognised as services are provided, over the life of the related contract. The spreading of these fees results in an initial reduction to revenue and operating profit, and the recognition of deferred revenue on the statement of financial position, reflecting the profile of increased amounts received in recent years. This change reduced 2017 revenue from fee business by \$14m and increased 2017 deferred revenue by \$163m, comprising \$24m current and \$139m non-current. There was also a \$40m decrease in deferred tax liabilities related to this adjustment.

Contract costs

Contract costs related to securing management and franchise contracts were previously charged to the income statement as incurred. Under IFRS 15, certain costs qualify to be capitalised as the cost of obtaining a contract and are amortised over the initial term of the related contract. This change increased 2017 operating profit by \$5m and the capitalisation of contract costs on the statement of financial position at 31 December 2017 by \$58m, comprising \$7m current and \$51m non-current. There was also a \$15m increase in deferred tax liabilities related to this adjustment.

Amortisation of amounts paid to hotel owners to secure management contracts and franchise agreements ('key money')

Under previous accounting, key money payments were capitalised as intangible assets and amortised over the life of the related contracts. Under IFRS 15, these payments are treated as 'consideration payable to a customer' and therefore recorded as a contract asset and recognised as a deduction to revenue over the contract term. This change results in a reduction to revenue and depreciation and amortisation for the year ended 31 December 2017 of \$17m, with no change to operating profit, and the reclassification of key money on the statement of financial position from intangible assets to contract assets at 31 December 2017 of \$257m, of which \$17m was classified as current and \$240m was classified as non-current.

In the Group statement of cash flows, these contract acquisition costs are reclassified from investing activities to cash flow from operations.

Owned hotel disposals subject to a management contract

Under previous accounting, when hotels were sold and the Group retained management of the hotel, the consideration recognised included both the cash received and the fair value of the management contract which was capitalised as an intangible asset and subsequently amortised to the income statement. This accounting was governed by the 'exchange of assets' criteria included in IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets'. IFRS 15 specifically includes property sales in its scope and results in the sales consideration being recorded at the fair value of the encumbered hotel, which generally will be equivalent to the cash received. This change resulted in the derecognition of historic intangible asset balances at 31 December 2017 of \$243m and a lower amortisation charge in the income statement for the year ended 31 December 2017 of \$8m. This change also resulted in an increase in deferred tax assets and reduction in deferred tax liabilities of \$19m and \$32m respectively at 31 December 2017.

Other adjustments

Other adjustments, which are immaterial, include re-assessments of IHG's role as principal in other revenue transactions and the treatment of payments under performance guarantees as a reduction to the transaction price within management contracts.

System Fund adjustments

The Group operates a System Fund (the Fund) to collect and administer cash assessments from hotel owners for the specific purpose of use in marketing, the Guest Reservation Systems and hotel loyalty programme. The Fund also receives proceeds from the sale of loyalty points under third-party co-branding arrangements. The Fund is not managed to generate a profit or loss for IHG, but is managed for the benefit of hotels in the System with the objective of driving revenues for the hotels. Consequently, under previous accounting these revenues and expenses were not recorded in the Group income statement.

Under IFRS 15, an entity is regarded as a principal if it controls a service prior to transfer to the customer. As marketing and reservations expenses primarily comprise payroll and marketing expenses under contracts entered into by the Group, management has determined that the Group controls these services. Fund revenues and expenses are therefore recognised on a gross basis in the Group income statement. Assessment fees from hotel owners are generally levied as a percentage of hotel revenues and are recognised as those hotel revenues occur.

In respect of the loyalty programme (IHG Rewards Club), the Group has determined that the related performance obligation is not satisfied in full until the member has consumed the points at a participating hotel. Accordingly, revenue related to loyalty points earned by members or sold under co-branding arrangements is

New accounting standards and presentational changes continued

deferred in an amount that reflects the stand-alone selling price of the future benefit to the member. As materially all of the points will be consumed at IHG managed or franchised hotels owned by third parties, IHG is deemed to be acting as agent on redemption and therefore recognises the related revenue net of the cost of reimbursing the hotel that is providing the hotel stay. The deferred revenue balance under IFRS 15 (31 December 2017: \$1,057m) is higher than the points redemption cost liability that was recognised under previous accounting (31 December 2017: \$760m) resulting in an increase in the Group's net liabilities.

Management has also determined that in addition to the performance obligation for the redemption of points, co-branding arrangements contain other performance obligations including marketing services and the right to access the loyalty programme. Revenue attributable to the stand-alone selling price of these additional services is recognised as the Group performs its obligations over the term of the co-branding arrangement.

Certain travel agency commission revenues within the Fund will be recognised on a net basis, where it has been determined that IHG acts as agent under IFRS 15.

Under previous accounting, any short-term timing surplus or deficit in the Fund was carried in the Group statement of financial position within working capital. Under IFRS 15, the in-year Fund surplus or deficit is recognised in the Group income statement. Both the previous accounting treatment and the change on applying IFRS 15, (and the equivalent US GAAP standard), are consistent with other companies in the hotel industry. The Fund surplus of \$158m at 31 December 2017 was derecognised resulting in a reduction in the Group's net liabilities.

IHG also records an interest charge on the accumulated balance of cash in advance of the consumption of IHG Rewards Club points. In 2017 these interest payments totalled \$7m, and were recognised as interest income for the Fund and interest expense for IHG. The System Fund also benefits from the capitalisation of interest related to the development of the next-generation Guest Reservation System, which totalled \$6m in 2017. As the Fund is now included on the Group income statement, these amounts are included in the reported net Group financial expenses.

The System Fund accounting changes result in an increase in recorded revenue and expenses for the year ended 31 December 2017 of \$1,217m and \$1,251m respectively. However, since the Group has an agreement with the IHG Owners Association that the Fund is not managed to a gain or loss for IHG, any in-year profit or loss resulting from Fund activity is excluded from the calculation of underlying operating profit and adjusted earnings per share as the agreement is to spend these funds for the benefit of hotels in the System.

Opening total equity at 1 January 2016 decreases from \$319m to \$(118)m (see page 100).

The impact of adopting IFRS 15 and other presentational changes on previously reported line items in the Group Financial Statements is set out on the following pages.

Impact of IFRS 15 and other presentational changes on the Group income statement

Year ended 31 December 2017	As previously reported \$m	IFRS 15 – Core IHG \$m	IFRS 15 – System Fund \$m	Other changes (page 114) \$m	As restated \$m
Revenue from fee business	1,600	(33)	–	(188)	1,379
Revenue from owned, leased and managed lease hotels	184	4	–	163	351
System Fund revenues	–	–	1,217	25	1,242
Reimbursement of costs	–	1,103	–	–	1,103
Total revenue	1,784	1,074	1,217	–	4,075
Cost of sales	(608)	12	–	25	(571)
System Fund expenses	–	–	(1,251)	(25)	(1,276)
Reimbursed costs	–	(1,103)	–	–	(1,103)
Administrative expenses	(328)	(9)	–	–	(337)
Share of gains/(losses) of associates and joint ventures	3	–	–	–	3
Other operating income	11	–	–	–	11
Depreciation and amortisation	(103)	25	–	–	(78)
Operating profit before exceptional items	759	(1)	(34)	–	724
Impairment charges	(18)	–	–	–	(18)
Other exceptional items	22	–	–	–	22
Operating profit	763	(1)	(34)	–	728
Financial income	4	–	–	–	4
Financial expenses	(89)	–	13	–	(76)
Tax	(85)	(28)	(2)	–	(115)
Profit after tax	593	(29)	(23)	–	541

Impact of IFRS 15 on the Group statement of comprehensive income

Year ended 31 December 2017	As previously reported \$m	IFRS 15 adoption \$m	As restated \$m
Profit for the year	593	(52)	541
Exchange losses on retranslation of foreign operations, net of related tax credit of \$1m	(77)	(11)	(88)
Other items	(47)	–	(47)
Total comprehensive income for the year	469	(63)	406

New accounting standards and presentational changes continued

Impact of IFRS 15 on the Group statement of financial position

	31 December 2017		
	As previously reported \$m	IFRS 15 adoption \$m	As restated \$m
Goodwill and other intangible assets	1,467	(500)	967
Deferred tax assets	56	19	75
Contract costs	-	51	51
Contract assets	-	241	241
Other non-current assets	813	-	813
Total non-current assets	2,336	(189)	2,147
Contract costs	-	7	7
Contract assets	-	17	17
Other current assets	839	-	839
Total current assets	839	24	863
Total assets	3,175	(165)	3,010
Loyalty programme liability	(343)	343	-
Trade and other payables	(768)	171	(597)
Deferred revenue	-	(490)	(490)
Other current liabilities	(193)	-	(193)
Total current liabilities	(1,304)	24	(1,280)
Loyalty programme liability	(417)	417	-
Trade and other payables	(121)	85	(36)
Deferred revenue	-	(867)	(867)
Deferred tax liabilities	(157)	56	(101)
Other non-current liabilities	(2,027)	-	(2,027)
Total non-current liabilities	(2,722)	(309)	(3,031)
Total liabilities	(4,026)	(285)	(4,311)
Net liabilities	(851)	(450)	(1,301)
Equity share capital	154	-	154
Capital redemption reserve	10	-	10
Shares held by employee share trusts	(5)	-	(5)
Other reserves	(2,874)	-	(2,874)
Fair value reserve	79	-	79
Currency translation reserve	373	4	377
Retained earnings	1,405	(454)	951
IHG shareholders' equity	(858)	(450)	(1,308)
Non-controlling interest	7	-	7
Total equity	(851)	(450)	(1,301)

Impact of IFRS 15 on the Group statement of cash flows

	As previously reported \$m	IFRS 15 adoption \$m	As restated \$m
Year ended 31 December 2017			
Profit for the year	593	(52)	541
Adjustments reconciling profit for the year to cash flow from operations before contract acquisition costs	263	45	308
Cash flow from operations before contract acquisition costs	856	(7)	849
Contract acquisition costs, net of repayments	-	(57)	(57)
Cash flow from operations	856	(64)	792
Interest paid	(76)	7	(69)
Interest received	1	-	1
Tax paid on operating activities	(147)	-	(147)
Net cash from operating activities	634	(57)	577
Purchase of intangible assets	(229)	57	(172)
Other cash flows from investing activities	(34)	-	(34)
Net cash from investing activities	(263)	57	(206)
Net cash from financing activities	(446)	-	(446)
Net movement in cash and cash equivalents in the year	(75)	-	(75)
Cash and cash equivalents at beginning of the year	117	-	117
Exchange rate effects	16	-	16
Cash and cash equivalents at end of the year	58	-	58

Impact of IFRS 15 on basic and diluted earnings per ordinary share

	As previously reported cents	IFRS 15 adoption cents	As restated cents
Year ended 31 December 2017			
Basic earnings per ordinary share	306.7	(26.9)	279.8
Diluted earnings per ordinary share	305.2	(26.8)	278.4

IFRS 9 'Financial Instruments'

With effect from 1 January 2018, the Group has adopted IFRS 9 'Financial Instruments'. IFRS 9 introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment and hedge accounting.

The Group has applied the requirements of IFRS 9 retrospectively, except for hedge accounting. The new rules for hedge accounting will be applied prospectively in line with the requirements of the standard. The Group has not applied any practical expedients available under IFRS 9. The Group has not restated prior periods as allowed by the transition provisions of IFRS 9 as restatement is impracticable without the use of hindsight. Accordingly, the information presented for 2017 reflects the classification of assets under IAS 39, not IFRS 9.

The only impact of IFRS 9 on the Group Financial Statements is to reclassify the impact of historic impairments on equity instruments measured at fair value through other comprehensive income (FVOCI). These impairments were originally recorded in the Group income statement, but under IFRS 9 they would have been recorded in the fair value reserve and only transferred to retained earnings when the equity investments are derecognised. An adjustment of \$18m has been made to the Group statement of changes in equity at 1 January 2018 to reflect this reclassification.

Changes to the Group's accounting policies resulting from the adoption of IFRS 9 are detailed on pages 104 and 105.

New accounting standards and presentational changes continued

Amendments to IFRS 2

From 1 January 2018 the Group has applied Amendments to IFRS 2 'Classification and Measurement of Share-Based Payment Transactions'. The amendments address the effects of vesting conditions on the measurement of cash-settled share-based payment transactions; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Adoption of this amendment has had no impact on the Financial Statements.

Other changes

In addition to the adoption of IFRS 15 and IFRS 9, these Financial Statements have been restated to reflect several other changes to the presentation of the Group's financial results.

Exceptional items

Exceptional items, which were previously shown in a separate column of the Group income statement, are now presented as a separate line item, with detailed disclosure in note 6.

New operating segments

See note 2.

Reporting of fee business results

Revenue and operating profit from management and franchise agreements, together with regional and Central overheads, have

been combined into one category, 'fee business', to more closely reflect the way the business is now reported as a result of the ongoing reorganisation (see note 2).

Reporting of managed lease hotels

The revenue and operating profit of managed lease hotels, previously reported as part of the Group's managed operations, are now reported with owned and leased hotels. As the full results of these hotels are consolidated into IHG's income statement, this gives a clearer view of the reported fee business revenues and profits.

Overhead allocations

Minor changes have been made to the basis for allocating overheads to the regional and central operating segments.

InterContinental reservation fees and costs

Reservation fees and costs associated with the InterContinental brand have previously been recognised in IHG's income statement. These fees and costs have now been moved to the System Fund to align with the treatment of IHG's other brand programmes. As this programme is not managed to make a profit or loss for IHG, there is no operating profit impact.

Prior year comparatives have been restated to reflect these presentational changes and the impact on the Group income statement for the years ended 31 December 2017 and 31 December 2016 is as follows:

	Year ended 31 December 2017			Year ended 31 December 2016		
	Managed leases \$m	InterContinental reservations \$m	Total \$m	Managed leases \$m	InterContinental reservations \$m	Total \$m
Revenue from fee business	(163)	(25)	(188)	(162)	(23)	(185)
Revenue from owned, leased and managed lease hotels	163	-	163	162	-	162
System Fund revenues	-	25	25	-	23	23
Total revenue	-	-	-	-	-	-
Cost of sales	-	25	25	-	23	23
System Fund expenses	-	(25)	(25)	-	(23)	(23)
Operating profit	-	-	-	-	-	-

New standards issued but not yet effective

IFRS 16 'Leases'

The Group will adopt IFRS 16 'Leases' with effect from 1 January 2019. IFRS 16 eliminates the classification of leases as either operating or finance leases for lessees and introduces a single accounting model which is similar to the current accounting model for finance leases under IAS 17.

Lessees will be required to recognise on the balance sheet 'right-of-use' assets which represent the right to use underlying assets during the lease term and a lease liability representing the minimum lease payment for all leases. Depreciation of 'right-of-use' assets and interest on lease liabilities will be charged to the income statement, replacing the corresponding operating lease rentals.

Management's assessment of the impact of IFRS 16 is substantially complete; 90% of the Group's lease liability relates to nine leases; 62% relating to hotels and 28% relating to offices.

The Group will take the elections available under IFRS 16 not to apply the lease accounting model to intangible assets, leases which are considered low value or which have a term of less than 12 months. The Group will apply the full retrospective method of application.

In respect of accounting for variable leases with guaranteed amounts, the guaranteed amount has been judged to be 'in-substance fixed' and will be included in the lease liability under IFRS 16.

If the results for the year ended 31 December 2018 had been reported under IFRS 16, the estimated impacts would have been as follows:

	\$m
Cost of sales	18
Administrative expenses	33
Depreciation and amortisation	(34)
Interest expense	(19)
Tax	1
Total profit impact	(1)
Leased assets	323
Deferred tax assets	3
Other assets	(2)
Lease liabilities	(431)
Deferred tax liabilities	7
Other liabilities	31
Net assets impact	(69)

These estimates are subject to further refinement as the implementation project is finalised.

Other standards

From 1 January 2019, the Group will also apply the amendments to:

- IAS 28 'Investments in Associates and Joint Ventures' relating to long-term interests to which the equity method is not applied;
- IFRS 9 'Financial Instruments' relating to prepayment features with negative compensation;
- IFRIC 23 'Uncertainty over Income Tax Treatments';
- IAS 19 'Plan Amendment, Curtailment or Settlement'; and
- Other existing standards arising from the Annual Improvements to IFRSs 2015–2017 cycle.

These amendments are not expected to have a material impact on the Group's reported financial performance or position.

The effective date for IFRS 17 'Insurance Contracts' has been delayed to 1 January 2022. The Group has not yet determined the impact of this standard on the Group's reported financial performance or position.

Notes to the Group Financial Statements

1. Exchange rates

The results of operations have been translated into US dollars at the average rates of exchange for the year. In the case of sterling, the translation rate is \$1=£0.75 (2017: \$1=£0.78, 2016: \$1=£0.74). In the case of the euro, the translation rate is \$1=€0.85 (2017: \$1=€0.89, 2016: \$1=€0.90).

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=£0.78 (2017: \$1=£0.74, 2016: \$1=£0.81). In the case of the euro, the translation rate is \$1=€0.87 (2017: \$1=€0.83, 2016: \$1=€0.95).

2. Segmental information

With effect from 1 January 2018, an internal reorganisation resulted in the formation of a new operating segment, Europe, Middle East, Asia and Africa (EMEAA), bringing together the former segments of Europe and Asia, Middle East and Africa (AMEA). By bringing together two strong, established regions, there will be an increased focus on growth through increased agility and effectiveness.

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

- Americas;
- EMEAA; and
- Greater China.

These, together with Central functions, comprise the Group's four reportable segments. Each of the geographical regions is led by its own Chief Executive Officer who reports to the Group Chief Executive Officer. 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; Central revenue arises principally from technology fee income.

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. The System Fund is not viewed as being part of the Group's core operations as IHG is unable to profit from its activities. As such, its results are not regularly reviewed by the Chief Operating Decision Maker (CODM) and it does not constitute an operating segment under IFRS 8. Similarly, reimbursements of costs are not reported to the CODM and so are not included within the reportable segments.

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 System Fund and exceptional items. Group financing activities and income taxes are managed on a Group basis and are not allocated to reportable segments.

Comparatives have been restated for IFRS 15 and presentational changes (see pages 109 to 114) to show segmental information on a consistent basis.

Revenue

Year ended 31 December	2018 \$m	2017 Restated \$m	2016 Restated \$m
Americas	1,051	999	969
EMEAA	569	457	439
Greater China	143	117	112
Central	170	157	147
Revenue from reportable segments	1,933	1,730	1,667
System Fund revenues	1,233	1,242	1,199
Reimbursement of costs	1,171	1,103	1,046
Total revenue	4,337	4,075	3,912

2. Segmental information continued

Profit

Year ended 31 December	2018 \$m	2017 Restated \$m	2016 Restated \$m
Americas	662	637	626
EMEA	202	171	157
Greater China	69	52	46
Central	(117)	(102)	(123)
Operating profit from reportable segments	816	758	706
System Fund	(146)	(34)	35
Exceptional items (note 6)	(104)	4	(29)
Operating profit	566	728	712
Net finance costs	(81)	(72)	(80)
Profit before tax	485	656	632
Tax	(133)	(115)	(173)
Profit for the year	352	541	459

All items above relate to continuing operations.

Assets

31 December	2018 \$m	2017 Restated \$m
Americas	1,568	1,500
EMEA	666	504
Greater China	110	105
Central	579	541
Segment assets	2,923	2,650
Unallocated assets:		
Derivative financial instruments	8	-
Tax receivable	58	117
Deferred tax assets	60	75
Cash and cash equivalents	704	168
Total assets	3,753	3,010

Liabilities

31 December	2018 \$m	2017 Restated \$m
Americas	(676)	(620)
EMEA	(241)	(232)
Greater China	(61)	(64)
Segment liabilities	(978)	(916)
Unallocated liabilities:		
Loyalty and co-brand deferred revenue and other payables	(1,291)	(1,186)
Loans and other borrowings	(2,249)	(2,019)
Tax payable	(50)	(89)
Deferred tax liabilities	(131)	(101)
Deferred and contingent purchase consideration	(131)	-
Total liabilities	(4,830)	(4,311)

Notes to the Group Financial Statements continued

2. Segmental information continued

Other segmental information

	Americas \$m	EMEAA \$m	Greater China \$m	Central \$m	Group \$m
Year ended 31 December 2018					
Capital expenditure (page 119)	74	33	2	134	243
Non-cash items:					
Depreciation and amortisation ^a	27	8	3	42	80
Share-based payments cost	8	4	3	12	27
Share of losses/(gains) of associates and joint ventures	6	(5)	-	-	1
Year ended 31 December 2017 (Restated)					
Capital expenditure (page 119)	120	26	2	188	336
Non-cash items:					
Depreciation and amortisation ^a	23	7	1	47	78
Share-based payments cost	6	4	3	8	21
Share of losses/(gains) of associates and joint ventures	1	(4)	-	-	(3)
Impairment charges	18	-	-	-	18
Year ended 31 December 2016 (Restated)					
Capital expenditure	67	22	1	148	238
Non-cash items:					
Depreciation and amortisation ^a	21	7	1	46	75
Share-based payments cost	6	4	3	4	17
Share of losses/(gains) of associates and joint ventures	7	(5)	-	-	2
Impairment charges	16	-	-	-	16

^a Included in the \$80m (2017: \$78m, 2016: \$75m) of depreciation and amortisation is \$61m (2017: \$53m, 2016: \$54m) relating to administrative expenses and \$19m (2017: \$25m, 2016: \$21m) relating to cost of sales. A further \$45m of depreciation and amortisation was recorded within System Fund expenses (2017: \$36m, 2016: \$31m).

2. Segmental information continued

Reconciliation of capital expenditure

	Americas \$m	EMEA \$m	Greater China \$m	Central \$m	Group \$m
Year ended 31 December 2018					
Capital expenditure per management reporting	74	33	2	134	243
Contract acquisition costs	(32)	(26)	-	-	(58)
Landlord contributions to property, plant and equipment	-	-	-	8	8
Timing differences and other adjustments	1	-	-	-	1
Additions per the Financial Statements	43	7	2	142	194
Comprising additions to:					
Property, plant and equipment	13	2	2	30	47
Intangible assets	-	-	-	112	112
Investment in associates and joint ventures	3	-	-	-	3
Other financial assets	27	5	-	-	32
	43	7	2	142	194
Year ended 31 December 2017 (Restated)					
Capital expenditure per management reporting	120	26	2	188	336
Contract acquisition costs	(36)	(21)	-	-	(57)
Landlord contributions to property, plant and equipment	-	-	-	14	14
Timing differences and other adjustments	(12)	-	-	(1)	(13)
Additions per the Financial Statements	72	5	2	201	280
Comprising additions to:					
Property, plant and equipment	10	-	2	32	44
Intangible assets	3	-	-	169	172
Investment in associates and joint ventures	47	-	-	-	47
Other financial assets	12	5	-	-	17
	72	5	2	201	280

Geographical information

Year ended 31 December	2018 \$m	2017 Restated \$m	2016 Restated \$m
Revenue			
United Kingdom	151	74	72
United States	1,950	1,845	1,750
China	222	201	192
Rest of World	781	713	699
	3,104	2,833	2,713
System Fund (note 32)	1,233	1,242	1,199
	4,337	4,075	3,912

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. System Fund revenues are not included in the geographical analysis as the Group does not monitor the Fund's revenue by location of the hotel, or in the case of the loyalty programme, according to the location where members consume their rewards.

Notes to the Group Financial Statements continued

2. Segmental information continued

31 December	2018 \$m	2017 Restated \$m
Non-current assets		
United Kingdom	148	52
United States	1,510	1,476
Rest of World	361	297
	2,019	1,825

For the purposes of the above table, non-current assets comprise property, plant and equipment, goodwill and other intangible assets, investments in associates and joint ventures, non-current trade and other receivables, non-current contract costs and non-current contract assets. In addition to the United Kingdom, 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. Revenue

A description of the Group's contracts with customers and its performance obligations under those contracts is contained on pages 106-107 and 109-110.

Disaggregation of revenue

The following table presents Group revenue disaggregated by type of revenue stream and by reportable segment:

	Americas \$m	EMEAA \$m	Greater China \$m	Central \$m	Group \$m
Year ended 31 December 2018					
Franchise and base management fees	835	227	94	-	1,156
Incentive management fees	18	93	49	-	160
Central revenue	-	-	-	170	170
Revenue from fee business	853	320	143	170	1,486
Revenue from owned, leased and managed lease hotels	198	249	-	-	447
	1,051	569	143	170	1,933
System Fund revenues (note 32)					1,233
Reimbursement of costs					1,171
Total revenue					4,337
Year ended 31 December 2017					
Franchise and base management fees	795	204	73	-	1,072
Incentive management fees	16	90	44	-	150
Central revenue	-	-	-	157	157
Revenue from fee business	811	294	117	157	1,379
Revenue from owned, leased and managed lease hotels	188	163	-	-	351
	999	457	117	157	1,730
System Fund revenues (note 32)					1,242
Reimbursement of costs					1,103
Total revenue					4,075
Year ended 31 December 2016					
Franchise and base management fees	781	194	71	-	1,046
Incentive management fees	15	80	41	-	136
Central revenue	-	-	-	147	147
Revenue from fee business	796	274	112	147	1,329
Revenue from owned, leased and managed lease hotels	173	165	-	-	338
	969	439	112	147	1,667
System Fund revenues (note 32)					1,199
Reimbursement of costs					1,046
Total revenue					3,912

3. Revenue continued

Contract balances

The following tables present information about trade receivables, contract assets, and deferred revenue:

	2018 \$m	2017 Restated \$m
Trade receivables (note 16)	474	452
Contract assets	290	258
Deferred revenue	1,506	1,357

A trade receivable is recorded when the Group has issued an invoice and has an unconditional right to receive payment. In respect of franchise fees, base and incentive management fees, Central revenue and revenues from owned, leased and managed lease hotels, the invoice is typically issued as the related performance obligations are satisfied, as described on page 106.

Contract assets

Contract assets are recorded in respect of key money payments made to customers, normally at the beginning of the contract term, and payments under performance guarantees. These payments are recognised in the Group income statement as a deduction to revenue over the contract term and, in the Group statement of cash flows, key money payments are described as 'contract acquisition costs'.

	2018 \$m	2017 \$m
At 1 January	258	198
Costs paid	58	73
Recognised as a deduction to revenue	(19)	(17)
Repayments	(2)	-
Exchange and other adjustments	(5)	4
At 31 December	290	258
Analysed as:		
Current	20	17
Non-current	270	241
	290	258

Deferred revenue

Deferred revenue is recognised when payment is received before the related performance obligation is satisfied. The main categories of deferred revenue relate to the Loyalty programme, co-branding agreements, and franchise application and re-licensing fees.

	Loyalty programme \$m	Other co-brand fees \$m	Application & re-licensing fees \$m	Other \$m	Total \$m
At 1 January 2018	1,057	88	163	49	1,357
Acquisition of businesses	-	-	-	8	8
Increase in deferred revenue	540	-	36	67	643
Recognised as revenue	(416)	(11)	(23)	(47)	(497)
Exchange and other adjustments	-	-	(1)	(4)	(5)
At 31 December 2018	1,181	77	175	73	1,506
Analysed as:					
Current	491	11	23	47	572
Non-current	690	66	152	26	934
	1,181	77	175	73	1,506
At 1 January 2017	1,033	100	148	33	1,314
Increase in deferred revenue	480	-	39	34	553
Recognised as revenue	(456)	(12)	(24)	(18)	(510)
At 31 December 2017	1,057	88	163	49	1,357
Analysed as:					
Current	422	11	24	33	490
Non-current	635	77	139	16	867
	1,057	88	163	49	1,357

Notes to the Group Financial Statements continued

3. Revenue continued

The table on the previous page does not include amounts which were received and recognised as revenue in the year. Amounts recognised as revenue were included in deferred revenue at the beginning of the year.

Loyalty programme revenues, shown gross in the table on the previous page, are presented net of the corresponding redemption cost in the Group income statement.

Other deferred revenue includes guest deposits received by owned, leased and managed lease hotels.

Transaction price allocated to remaining performance obligations

The Group has applied the practical expedient in IFRS 15 not to disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied as at the end of the reporting period for all amounts where the Group has a right to consideration in an amount that corresponds directly with the value to the customer of the Group's performance completed to date (including franchise and management fees).

Amounts received and not yet recognised related to performance obligations that were unsatisfied at 31 December 2018 are as follows:

Expected to be recognised in:	2018			2017		
	Loyalty and co-brand \$m	Other \$m	Total \$m	Loyalty and co-brand \$m	Other \$m	Total \$m
Less than one year	502	70	572	433	57	490
Between one and two years	257	31	288	221	29	250
Between two and three years	158	26	184	137	24	161
Between three and four years	106	22	128	95	22	117
Between four and five years	75	20	95	69	20	89
More than five years	160	79	239	190	60	250
	1,258	248	1,506	1,145	212	1,357

Contract costs

Movements in contract costs, typically developer commissions, are as follows:

	2018 \$m	2017 \$m
At 1 January	58	53
Costs incurred	9	12
Amortisation	(7)	(7)
At 31 December	60	58
Analysed as:		
Current	5	7
Non-current	55	51
	60	58

4. Staff costs and Directors' emoluments

	2018 \$m	2017 \$m	2016 \$m
Staff costs			
Wages and salaries	1,956	1,868	1,738
Social security costs	127	106	106
Pension and other post-retirement benefits:			
Defined benefit plans (note 25)	19	5	5
Defined contribution plans	63	61	58
	2,165	2,040	1,907
Analysed as:			
Costs borne by IHG ^a	708	645	594
Costs borne by the System Fund ^b	347	339	311
Costs reimbursed	1,110	1,056	1,002
	2,165	2,040	1,907
	2018	2017	2016
Average number of employees, including part-time employees			
Employees whose costs are borne by IHG:			
Americas	2,225	2,149	2,121
EMEA	3,255	2,267	2,380
Greater China	324	294	299
Central	1,794	1,948	1,787
	7,598	6,658	6,587
Employees whose costs are borne by the System Fund	5,214	5,555	5,434
Employees whose costs are reimbursed	22,518	22,577	22,002
	35,330	34,790	34,023

^a Includes \$36m (2017: \$13m, 2016: \$1m) classified as exceptional relating to the comprehensive efficiency programme.

^b Includes \$21m (2017: \$9m, 2016: \$nil) relating to the comprehensive efficiency programme.

	2018 \$m	2017 \$m	2016 \$m
Directors' emoluments			
Base salaries, fees, performance payments and benefits	7.1	4.9	6.1



More detailed information on the emoluments, pensions, share awards and shareholdings for each Director is shown in the Directors' Remuneration Report on pages 72 to 85.

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

	2018 \$m	2017 \$m	2016 \$m
Audit of the Financial Statements ^a	3.3	3.0	2.4
Audit of subsidiaries	2.9	2.2	2.2
Audit-related assurance services	0.2	0.2	0.2
Other assurance services	1.3	1.0	1.2
Tax compliance	-	0.1	0.4
Tax advisory	-	-	0.1
Other non-audit services not covered by the above	0.1	0.2	0.1
	7.8	6.7	6.6

^a Includes \$0.4m (2017: \$0.5m, 2016: \$nil) of additional fees for specific procedures performed in relation to the implementation of new accounting standards.

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

Notes to the Group Financial Statements continued

6. Exceptional items

	2018 \$m	2017 Restated \$m	2016 \$m
Exceptional items before tax			
Administrative expenses:			
Acquisition and integration costs ^a	(15)	(15)	(13)
Litigation ^b	(18)	-	-
Reorganisation costs ^c	(56)	(36)	-
Pension settlement cost ^d	(15)	-	-
	(104)	(51)	(13)
Other operating income and expenses:			
Gain on disposal of equity securities measured at fair value (note 15)	-	73	-
	-	73	-
Impairment charges:			
Associates (note 14)	-	(18)	(16)
	-	(18)	(16)
	(104)	4	(29)
Tax			
Tax on exceptional items ^e	22	(2)	12
Exceptional tax ^f	5	90	-
	27	88	12
Exceptional items before tax analysed as:			
Americas	(36)	37	(29)
EMEA	(12)	(4)	-
Greater China	(1)	-	-
Central	(55)	(29)	-
	(104)	4	(29)

^a In 2018, relates to the acquisitions of Regent (see note 11), the UK portfolio (see note 11) and Six Senses (see note 33) and, in 2017 and 2016, related to the cost of integrating Kimpton into the operations of the Group. Kimpton was acquired on 16 January 2015 and the integration programme was completed in 2017.

^b Primarily relates to a material settlement agreed in respect of a lawsuit filed against the Group in the Americas region, together with associated legal fees.

^c In September 2017, the Group launched a comprehensive efficiency programme funding a series of new strategic initiatives to drive an acceleration in IHG's future growth. The programme is centred around strengthening the Group's organisational structure to redeploy resources to leverage scale in the highest opportunity markets and segments. The programme is expected to be completed in 2019. The cost includes consultancy fees of \$25m (2017: \$24m) and severance costs of \$18m (2017: \$8m). An additional \$47m (2017: \$9m) has been charged to the System Fund.

^d Arises from the termination of the US funded Inter-Continental Hotels Pension Plan (see note 25).

^e In 2018, comprises a current tax credit of \$11m on reorganisation costs (2017: \$13m), a \$5m current tax credit in respect of litigation costs, a \$6m tax credit (\$5m current tax and \$1m deferred tax) arising from the US pension settlement, a \$2m current tax credit in respect of acquisition costs and a \$2m prior year current tax charge on the sale of a minority investment in 2017 (2017: \$28m). In 2017 there was also a \$7m (2016: \$6m) deferred tax credit in respect of the impairment charge relating to the InterContinental Barclay associate, and a \$6m (2016: \$5m) deferred tax credit on Kimpton integration costs. In 2016 there was also a \$1m credit in respect of other items.

^f In 2018, \$5m (2017: \$32m current tax charge) relates to a prior year current tax credit in respect of the "transition tax" introduced in December 2017 as a result of significant US tax reform. 2017 has been restated to reflect the re-measurement arising from the significant US tax reform on the deferred taxes created or eliminated by IFRS 15. The 2017 restated amounts include a \$112m deferred tax credit as a result of the US tax reform and a \$10m deferred tax credit representing a reduction in the Group's unremitted earnings provision.

All items above relate to continuing operations.



The above items are treated as exceptional by reason of their size or nature, as further described on page 108.

7. Finance costs

	2018 \$m	2017 Restated \$m	2016 Restated \$m
Financial income			
Interest income on deposits	2	1	3
Interest income on loans and receivables	3	3	3
	5	4	6
Financial expenses			
Interest expense on borrowings	66	62	71
Finance charge payable under finance leases	20	20	20
Capitalised interest	(5)	(6)	(5)
Change in fair value of deferred and contingent purchase consideration	5	-	-
	86	76	86

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

During the year, \$14m (2017: \$7m, 2016: \$3m) was payable to the IHG Rewards Club loyalty programme relating to interest on the accumulated balance of cash received in advance of the consumption of points awarded. The expense and corresponding System Fund interest income are eliminated within financial expenses.

Included within capitalised interest is \$5m (2017: \$6m, 2016: \$4m) relating to the System Fund. The rate used for capitalisation of interest was 3.0% (2017: 3.0%, 2016: 3.8%).

The change in fair value relating to deferred and contingent purchase consideration relates to the acquisitions of Regent and the UK portfolio (see note 11).

8. Tax

Tax on profit

	2018 \$m	2017 Restated \$m	2016 Restated \$m
Income tax			
UK corporation tax at 19.00% (2017: 19.25%, 2016: 20.00%):			
Current period	10	10	10
Benefit of tax reliefs on which no deferred tax previously recognised	-	-	(7)
Adjustments in respect of prior periods	4	(2)	(1)
	14	8	2
Foreign tax:			
Current period	95	210	151
Benefit of tax reliefs on which no deferred tax previously recognised	(1)	(13)	-
Adjustments in respect of prior periods ^a	(13)	2	(97)
	81	199	54
Total current tax	95	207	56
Deferred tax:			
Origination and reversal of temporary differences	40	(8)	54
Changes in tax rates and tax laws ^b	1	(59)	(2)
Adjustments to estimated recoverable deferred tax assets ^c	(2)	(9)	(25)
Adjustments in respect of prior periods ^a	(1)	(16)	90
Total deferred tax	38	(92)	117
Total income tax charge for the year	133	115	173
Further analysed as tax relating to:			
Profit before exceptional items ^d	160	203	185
Exceptional items:			
Tax on exceptional items (note 6)	(22)	2	(12)
Exceptional tax (note 6)	(5)	(90)	-
	133	115	173

^a In 2016, included \$83m in respect of a change in tax treatment being approved by the US tax authority.

^b In 2017, predominantly reflects a change in US tax rates following significant US tax reforms.

^c Represents a re-assessment of the recovery of recognised and off-balance sheet deferred tax assets in line with the Group's profit forecasts.

^d Includes \$94m (2017: \$157m, 2016: \$160m) in respect of US taxes.

All items above relate to continuing operations.

Notes to the Group Financial Statements continued

8. Tax continued

	Total ^a			Before exceptional items and System Fund ^b		
	2018 %	2017 Restated %	2016 Restated %	2018 %	2017 Restated %	2016 Restated %
Reconciliation of tax charge						
UK corporation tax at standard rate	19.0	19.3	20.0	19.0	19.3	20.0
Tax credits	(0.5)	(0.5)	(2.2)	(0.3)	(0.5)	(2.2)
System Fund results ^c	5.0	0.9	(1.2)	(0.5)	(0.4)	(0.2)
Other permanent differences	0.6	0.8	3.5	0.3	0.6	3.6
Non-recoverable withholding taxes ^d	0.7	0.3	0.7	0.5	0.3	0.7
Net effect of different rates of tax in overseas businesses ^e	4.6	14.6	12.6	3.8	13.7	13.4
Effects of changes in tax rates resulting from significant US tax reform	-	(9.3)	-	-	-	-
Release of provision for taxation on unremitted earnings following significant US tax reform	-	(7.8)	-	-	-	-
Transition tax liability arising from significant US tax reform	-	4.8	-	-	-	-
Effect of other changes in tax rates and tax laws	0.3	0.3	0.3	0.2	0.3	0.3
Benefit of tax reliefs on which no deferred tax previously recognised	(0.4)	(1.9)	(1.1)	(0.3)	(1.8)	(1.1)
Effect of adjustments to estimated recoverable deferred tax assets	0.1	(1.4)	(4.0)	0.1	(1.3)	(4.0)
Adjustment to tax charge in respect of prior periods	(2.0)	(2.6)	(1.2)	(1.0)	(1.1)	(1.1)
	27.4	17.5	27.4	21.8	29.1	29.4

^a Calculated in relation to total profits including exceptional items.

^b Calculated in relation to profits excluding exceptional items and System Fund earnings.

^c The System Fund results are, in general, not subject to taxation.

^d In 2018, IHG recognised a benefit in respect of the offset of foreign taxes arising in 2018 against its 2017 tax. The Group does not anticipate such benefit in future periods, leading to an increase in irrecoverable tax by up to 2%ppts on to the underlying rate before exceptional items and System Fund.

^e Before exceptional items and System Fund includes 4.2%ppts (2017: 13.3%ppts, 2016: 12.2%ppts) driven by the relatively high US federal tax rate.

A reconciliation between total tax rate and tax rate before exceptional items and System Fund is shown below:

	2018			2017 Restated			2016 Restated		
	Profit \$m	Tax \$m	Rate %	Profit \$m	Tax \$m	Rate %	Profit \$m	Tax \$m	Rate %
Group income statement	485	133	27.4	656	115	17.5	632	173	27.4
Adjust for:									
Exceptional items and tax (note 6)	104	27		(4)	88		29	12	
System Fund revenues	(1,233)	-		(1,242)	-		(1,199)	-	
System Fund expenses	1,379	-		1,276	-		1,164	-	
Other	-	-		-	(3)		-	(1)	
	735	160	21.8	686	200	29.1	626	184	29.4

Tax paid

Total net tax paid during the year of \$68m (2017: \$172m, 2016: \$130m) comprises \$66m (2017: \$147m, 2016: \$130m) paid in respect of operating activities and \$2m (2017: \$25m, 2016: \$nil) paid in respect of investing activities. A reconciliation of tax paid to the total tax charge in the income statement is as follows:

	2018 \$m	2017 \$m	2016 \$m
Current tax charge in the income statement	95	207	56
Current tax credit in the statement of comprehensive income	(1)	-	(12)
Current tax credit taken directly to equity	(8)	(12)	(8)
Total current tax charge	86	195	36
Movements to tax contingencies within the income statement ^a	4	3	11
Timing differences of cash tax paid and foreign exchange differences ^b	(22)	(26)	83
Tax paid per cash flow	68	172	130

^a Tax contingency movements are included within the current tax charge but do not impact cash tax paid in the year.

^b The timing difference in 2016 was predominantly in respect of the US where the payment regulations resulted in a large overpayment in the year.

8. Tax continued

Current tax

Within current tax payable is \$29m (2017: \$42m) in respect of uncertain tax positions.

The calculation of the Group's total tax charge involves consideration of applicable tax laws and regulations in many jurisdictions throughout the world. From time to time, the Group is subject to tax audits and uncertainties in these jurisdictions. The issues involved can be complex and disputes may take a number of years to resolve.

Where the interpretation of local tax law is not clear, management relies on judgement and accounting estimates to ensure all uncertain tax positions are adequately provided for in the Group Financial Statements. This may involve consideration of some or all of the following factors:

- Strength of technical argument, impact of case law and clarity of legislation;
- Professional advice;
- Experience of interactions, and precedents set, with the particular taxing authority; and
- Agreements previously reached in other jurisdictions on comparable issues.

The largest single contingency item within the current tax payable balance does not exceed \$8m (2017: \$8m).

Deferred tax

	Property, plant, equipment and software \$m	Other intangible assets ^a \$m	Application fees and contract costs ^a \$m	Deferred gains on loan notes \$m	Deferred gains on investments \$m	Losses \$m	Employee benefits \$m	Undistributed earnings of subsidiaries ^b \$m	Other short-term temporary differences ^{a,c} \$m	Total ^a \$m
At 1 January 2017	120	(5)	(36)	52	78	(44)	(27)	59	(96)	101
Income statement ^d	(22)	13	11	(18)	(24)	1	(4)	(61)	12	(92)
Statement of comprehensive income	-	-	-	-	-	-	10	(1)	4	13
Statement of changes in equity	-	-	-	-	-	-	-	-	3	3
Exchange and other adjustments	-	(1)	-	-	-	3	1	3	(5)	1
At 31 December 2017	98	7	(25)	34	54	(40)	(20)	-	(82)	26
Income statement	26	9	(4)	1	2	4	-	2	(2)	38
Assets of businesses acquired	(4)	11	-	-	-	-	-	-	(10)	(3)
Statement of comprehensive income	-	-	-	-	-	-	2	-	2	4
Statement of changes in equity	-	-	-	-	-	-	-	-	5	5
Exchange and other adjustments	-	-	-	-	-	1	-	-	-	1
At 31 December 2018	120	27	(29)	35	56	(35)	(18)	2	(87)	71

^a Restated for the adoption of IFRS 15 (see pages 109 to 113).

^b In 2017, release largely as a result of the impact of the new US transition tax charge.

^c Primarily relates to provisions, accruals, amortisation and share-based payments and contingent purchase consideration.

^d Movements largely reflect the impact of significant US tax reform enacted in 2017.

Deferred gains on investments represent tax which would crystallise upon a sale of a related joint venture, associate or other equity investment. Deferred gains on loan notes represent tax which is expected to fall due for payment in 2025 (2017: 2025). The deferred tax asset recognised in respect of losses of \$35m (2017: \$40m) is wholly in respect of revenue losses. A deferred tax asset of \$nil (2017: \$2m) is recognised in a legal entity which suffered a tax loss in the current or preceding period in 2017; this asset was recognised based on the profit forecast of the entity in question. Offset against deferred tax assets is \$nil (2017: \$5m) in respect of uncertain tax positions.

Notes to the Group Financial Statements continued

8. Tax continued

The closing balance is further analysed by key territory as follows:

	Property, plant, equipment and software \$m	Other intangible assets \$m	Application fees and contract costs \$m	Deferred gains on loan notes \$m	Deferred gains on investments \$m	Losses \$m	Employee benefits \$m	Undistributed earnings of subsidiaries \$m	Other short-term temporary differences \$m	Total \$m
UK	(7)	(4)	1	-	-	(15)	(4)	-	(24)	(53)
US	127	27	(34)	35	56	(16)	(14)	2	(59)	124
Other	-	4	4	-	-	(4)	-	-	(4)	-
	120	27	(29)	35	56	(35)	(18)	2	(87)	71

The analysis of the deferred tax balance after considering the offset of assets and liabilities within entities where there is a legal right to do so is as follows:

	2018 \$m	2017 Restated \$m
Analysed as:		
Deferred tax assets	(60)	(75)
Deferred tax liabilities	131	101
	71	26

The Group does not recognise deferred tax assets if it cannot anticipate being able to offset them against future profits or gains.

The total unrecognised deferred tax position is as follows:

	Gross		Unrecognised deferred tax	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Revenue losses	448	452	67	76
Capital losses	516	515	90	99
Total losses	964	967	157	175
Other ^a	25	35	6	9
	989	1,002	163	184

^a Primarily relates to costs incurred in prior years for which relief has not been obtained.

There is no expiry date to any of the above unrecognised assets other than for the losses as shown in the table below:

	Gross		Unrecognised deferred tax	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Expiry date:				
2021	28	21	6	5
2022	10	11	2	3
2023	1	1	-	-
2024	4	20	-	1
2025	92	92	21	23
After 2025	46	26	3	3

No deferred tax liability has been recognised in respect of \$0.8bn (2017: \$0.5bn) of taxable temporary differences relating to subsidiaries (comprising undistributed earnings and net inherent gains) because the Group is in a position to control the timing of the reversal of these temporary differences and it is probable that such differences will not reverse in the foreseeable future.

8. Tax continued

Tax risks, policies and governance



Information concerning the Group's tax governance can be found in the Taxation section of the Strategic Report on page 50.

Factors that may affect the future tax charge

Many factors will affect the Group's future tax rate, the key ones being future legislative developments, future profitability of underlying subsidiaries and tax uncertainties.

There are many potential future changes to worldwide taxation systems as a result of the potential adoption by individual territories of recommendations of the OECD's Base Erosion and Profit Shifting project, and other similar initiatives being driven by governments and tax authorities. The Group continues to monitor activity in this area.

At the current time, the exact detail of the United Kingdom's exit from the European Union is unknown. Based upon the Group's profile and areas that have been publicly discussed, the Group does not anticipate the exit to cause a material impact on its future effective base tax rate.

9. Dividends

	2018 cents per share	2017 cents per share	2016 cents per share	2018 \$m	2017 \$m	2016 \$m
Paid during the year:						
Final (declared for previous year)	71.0	64.0	57.5	130	127	137
Interim	36.3	33.0	30.0	69	62	56
Special (note 27)	-	202.5	632.9	-	404	1,500
	107.3	299.5	720.4	199	593	1,693
Proposed (not recognised as a liability at 31 December):						
Final	78.1	71.0	64.0	141	135	126

The final dividend of 78.1¢ per ordinary share is proposed for approval at the Annual General Meeting (AGM) on 3 May 2019 and is payable on the shares in issue at 29 March 2019.

In October 2018, the Board announced a \$500m return of funds to shareholders by way of a special dividend of \$2.621 per ordinary share, together with a share consolidation. On 11 January 2019, shareholders approved the share consolidation on the basis of 19 new ordinary shares of 20³⁴⁰/₃₉₉ pence per share for every 20 existing ordinary shares of 19¹⁷/₂₁ pence, which became effective on 14 January 2019 and resulted in the consolidation of 10m shares. The special dividend was paid on 29 January 2019 at a cost of \$510m. The dividend and share consolidation had the same economic effect as a share repurchase at fair value, therefore reported earnings per share has not been restated.

Notes to the Group Financial Statements continued

10. 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 awards 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.

Additionally, following the adoption of IFRS 15 (see pages 109 to 113), earnings attributable to the System Fund are excluded from the calculation of adjusted earnings per ordinary share, as IHG has an agreement with the IHG Owners Association to spend Fund income for the benefit of hotels in the IHG System such that the Group does not make a gain or loss from operating the Fund.

IHG also records an interest charge on the outstanding cash balance relating to the IHG Rewards Club programme. These interest payments are recognised as interest income for the Fund and interest expense for IHG. The Fund also benefits from the capitalisation of interest related to the development of the next-generation Guest Reservation System. As the Fund is included in the Group income statement, these amounts are included in reported Group net financial expenses. Given that all results related to the Fund are excluded from the calculation of adjusted earnings per ordinary share, these interest amounts are deducted from profit available for equity holders.



Information concerning Non-GAAP measures can be found in the Strategic Report on page 36.

	2018	2017 Restated	2016 Restated
Continuing and total operations			
Basic earnings per ordinary share			
Profit available for equity holders (\$m)	351	540	456
Basic weighted average number of ordinary shares (millions)	190	193	212
Basic earnings per ordinary share (cents)	184.7	279.8	215.1
Diluted earnings per ordinary share			
Profit available for equity holders (\$m)	351	540	456
Diluted weighted average number of ordinary shares (millions)	192	194	214
Diluted earnings per ordinary share (cents)	182.8	278.4	213.1
Adjusted earnings per ordinary share			
Profit available for equity holders (\$m)	351	540	456
Adjusting items:			
System Fund revenues and expenses (\$m)	146	34	(35)
Interest attributable to the System Fund (\$m) (note 7)	(19)	(13)	(7)
Tax attributable to the System Fund (\$m)	-	3	1
Exceptional items before tax (\$m) (note 6)	104	(4)	29
Tax on exceptional items (\$m) (note 6)	(22)	2	(12)
Exceptional tax (\$m) (note 6)	(5)	(90)	-
Adjusted earnings (\$m)	555	472	432
Basic weighted average number of ordinary shares (millions)	190	193	212
Adjusted earnings per ordinary share (cents)	292.1	244.6	203.8
Adjusted diluted earnings per ordinary share			
Adjusted earnings (\$m)	555	472	432
Diluted weighted average number of ordinary shares (millions)	192	194	214
Adjusted diluted earnings per ordinary share (cents)	289.1	243.3	201.9
	2018	2017	2016
	millions	millions	millions
Diluted weighted average number of ordinary shares is calculated as:			
Basic weighted average number of ordinary shares	190	193	212
Dilutive potential ordinary shares	2	1	2
	192	194	214

11. Acquisition of businesses

Regent

On 1 July 2018, the Group completed the acquisition of a 51% controlling interest in an agreement with Formosa International Hotels Corporation (FIH) to acquire the Regent Hotels and Resorts brand and associated management contracts (Regent). The Group acquired 51% of the issued share capital of Regent Hospitality Worldwide, Inc (RHW), 100% of the issued share capital of Regent International Hotels Limited and 100% of the issued share capital of Regent Berlin GmbH.

Regent is a leading luxury hotel brand which adds to IHG's brand portfolio at the top end of the luxury segment.

Put and call options exist over the remaining 49% shareholding in RHW which are exercisable in a phased manner from 2026. As the decision-making powers related to the remaining shares are not substantive in driving RHW's returns and FIH do not share in any costs associated with the future development of the Regent brand, it has been determined that the Group has a present ownership interest in the remaining shares. As such, RHW has been accounted for as 100% owned with no non-controlling interest recognised.

Regent contributed revenue of \$10m and operating profit of \$nil for the period between the date of acquisition and the balance sheet date. The results of Regent are included in the EMEAA and Greater China business segments.

If the acquisition had taken place at 1 January 2018, reported Group revenue would have been \$9m higher, with no material difference to operating profit for the year ended 31 December 2018.

Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred:

	\$m
Cash paid on acquisition	13
Deferred consideration ^a	22
Contingent consideration ^b	53
Total purchase consideration	88

^a Comprises the present value of \$13m payable in 2021 and \$13m payable in 2024.

^b Comprises the present value of the expected amounts payable on exercise of the put and call options, assuming \$39m is paid in 2026 to acquire an additional 25% of RHW with the remaining 24% acquired in 2028 for \$42m. The amount payable on exercise of the options is based on the annual trailing revenue of RHW, with a floor applied. The range of possible outcomes is \$81m to \$261m (undiscounted). The final put and call options are exercisable in 2033. The value of the contingent consideration is subject to periodic re-assessment as interest rates and RHW revenue expectations change.

Identifiable assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Regent at the date of acquisition were as follows:

	\$m
Identifiable intangible assets:	
Brands	57
Management contracts	6
Property, plant and equipment	1
Deferred tax liability	(11)
Net identifiable assets acquired	53
Goodwill	35
Total purchase consideration	88

The goodwill is mainly attributable to the global growth opportunities identified for the acquired business. Goodwill is not expected to be deductible for income tax purposes. No contingent liabilities were recognised as a result of the acquisition.

If new information obtained within one year of the date of acquisition about the facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, then the accounting for the acquisition will be revised.

Notes to the Group Financial Statements continued

11. Acquisition of businesses continued**UK portfolio**

On 25 July 2018, the Group completed a deal to operate nine hotels under long-term leases from Covivio (formerly Foncière des Régions), which operated under the Principal and De Vere Hotels brands. An additional leased hotel was added to the portfolio on 13 November 2018, bringing the total to 10 (UK portfolio) at 31 December 2018. Two further leased hotels were added on 14 February 2019.

The deal establishes IHG as the leading luxury hotel operator in the UK. Over the next one to two years, the hotels will be rebranded to other brands in IHG's luxury and upscale portfolio.

The hotels contributed revenue of \$75m and an operating loss of \$1m for the period between the date of acquisition and the balance sheet date. The results are included in the EMEAA business segment.

If the acquisition had taken place at 1 January 2018, reported Group revenue would have been \$90m higher, with no material difference to operating profit for the year ended 31 December 2018.

Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred:

	\$m
Cash paid on acquisition	9
Working capital settlement due ^a	(3)
Contingent consideration ^b	56
Total purchase consideration	62

^a Subject to final agreement and receivable in early 2019.

^b Comprises the present value of the above-market element of the expected lease payments over the 25 year lives of the hotel lease agreements. The undiscounted amount is \$217m. The value of the contingent consideration has been assessed with the assistance of professional third party advisors and is subject to periodic re-assessment as interest rates and expected lease payments change. The above-market assessment has been determined by comparing the expected lease payments as a percentage of forecast hotel operating profit (before depreciation and rent) with market metrics, on a lease by lease basis. There is no floor to the amount payable and no maximum amount.

Identifiable assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of the UK portfolio at the date of acquisition were as follows:

	\$m
Identifiable intangible assets: Brands	1
Property, plant and equipment	25
Inventories	1
Trade and other receivables	11
Cash and cash equivalents	2
Trade and other payables	(18)
Deferred revenue	(8)
Stamp duty liability ^a	(14)
Deferred tax asset	14
Net identifiable assets acquired	14
Goodwill	48
Total purchase consideration	62

^a The stamp duty liability was settled post-acquisition.

The goodwill is attributable to the trading potential of the acquired hotel operations and growth opportunities. Goodwill is not expected to be deductible for income tax purposes. No contingent liabilities were recognised as a result of the acquisition.

Included in trade and other receivables are trade receivables with a gross contractual value of \$5m, which are expected to be collectable in full. The fair value of trade receivables approximates the book value of \$5m.

If new information obtained within one year of the date of acquisition about the facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, then the accounting for the acquisition will be revised.

11. Acquisition of businesses continued

Cash flows relating to acquisitions

	\$m
Regent	
Cash paid on acquisition	13
UK portfolio	
Cash paid on acquisition	9
Contingent consideration paid	4
Settlement of stamp duty liability	14
Less: cash and cash equivalents acquired	(2)
	25
Net cash outflow arising on acquisitions	38

12. Property, plant and equipment

	Land and buildings \$m	Fixtures, fittings and equipment \$m	Total \$m
Cost			
At 1 January 2017	378	429	807
Additions	9	35	44
Fully depreciated assets written off	-	(19)	(19)
Disposals	-	(4)	(4)
Exchange and other adjustments	1	8	9
At 31 December 2017	388	449	837
Acquisition of businesses (note 11)	-	26	26
Additions	8	39	47
Fully depreciated assets written off	(11)	(167)	(178)
Disposals	-	(29)	(29)
Exchange and other adjustments	(3)	(4)	(7)
At 31 December 2018	382	314	696
Depreciation and impairment			
At 1 January 2017	(78)	(310)	(388)
Provided	(7)	(28)	(35)
System Fund expense	-	(6)	(6)
Fully depreciated assets written off	-	19	19
Disposals	-	3	3
Exchange and other adjustments	(1)	(4)	(5)
At 31 December 2017	(86)	(326)	(412)
Provided	(6)	(34)	(40)
System Fund expense	-	(8)	(8)
Fully depreciated assets written off	11	167	178
Disposals	-	25	25
Exchange and other adjustments	-	8	8
At 31 December 2018	(81)	(168)	(249)
Net book value			
At 31 December 2018	301	146	447
At 31 December 2017	302	123	425
At 1 January 2017	300	119	419

The Group's property, plant and equipment mainly comprises hotels, but also offices and computer hardware, throughout the world. 41% (2017: 43%) of the net book value relates to the largest owned and leased hotel, of a total of 23 open hotels (2017: 12 open hotels). At 31 December 2018 and 31 December 2017, there were no hotels under construction.

The carrying value of property, plant and equipment held under finance leases at 31 December 2018 was \$174m (2017: \$181m).

25% (2017: 26%) of hotel properties by net book value were directly owned, with 53% (2017: 57%) held under leases having a term of 50 years or longer.

Notes to the Group Financial Statements continued

12. Property, plant and equipment continued

The table below analyses the net book value of the Group's property, plant and equipment by operating segment at 31 December 2018:

	Americas \$m	EMEA \$m	Greater China \$m	Central \$m	Total \$m
Land and buildings	289	-	-	12	301
Fixtures, fittings and equipment	40	34	-	72	146
	329	34	-	84	447

13. Goodwill and other intangible assets

	Goodwill \$m	Brands \$m	Software \$m	Management contracts Restated ^a \$m	Other intangibles Restated ^a \$m	Total \$m
Cost						
At 1 January 2017	370	193	583	71	10	1,227
Additions	-	-	168	-	4	172
Capitalised interest	-	-	6	-	-	6
Disposals	-	-	(14)	-	-	(14)
Exchange and other adjustments	7	-	2	-	(1)	8
At 31 December 2017	377	193	745	71	13	1,399
Acquisition of businesses (note 11)	83	58	-	6	-	147
Additions	-	-	107	-	5	112
Capitalised interest	-	-	5	-	-	5
Disposals	-	-	(72)	-	-	(72)
Exchange and other adjustments	(5)	(1)	(4)	-	-	(10)
At 31 December 2018	455	250	781	77	18	1,581
Amortisation and impairment						
At 1 January 2017	(138)	-	(223)	(5)	(3)	(369)
Provided	-	-	(40)	(2)	(1)	(43)
System Fund expense	-	-	(30)	-	-	(30)
Disposals	-	-	14	-	-	14
Exchange and other adjustments	(2)	-	(2)	-	-	(4)
At 31 December 2017	(140)	-	(281)	(7)	(4)	(432)
Provided	-	-	(36)	(3)	(1)	(40)
System Fund expense	-	-	(37)	-	-	(37)
Disposals	-	-	67	-	-	67
Exchange and other adjustments	(2)	-	6	-	-	4
At 31 December 2018	(142)	-	(281)	(10)	(5)	(438)
Net book value						
At 31 December 2018	313	250	500	67	13	1,143
At 31 December 2017	237	193	464	64	9	967
At 1 January 2017	232	193	360	66	7	858

^a Restated for the adoption of IFRS 15 (see pages 109 to 113).

Goodwill and brands

During the year, the Group acquired Regent and the UK portfolio (see note 11) resulting in the recognition of goodwill of \$83m and brands of \$58m, together with management contracts of \$6m. The Kimpton acquisition in 2015 resulted in the recognition of goodwill of \$167m, brands of \$193m and management contracts of \$71m.

The Regent and Kimpton brands are both considered to have an indefinite life given their strong brand awareness and reputation, and management's commitment to continued investment in their growth. The brands are protected by trademarks and there are not believed to be any legal, regulatory or contractual provisions that limit the useful lives of the brands. In the hotel industry there are a number of brands that have existed for many years and IHG has brands that are over 60 years old.

The Group tests goodwill and indefinite life intangible assets for impairment annually, or more frequently if there are any indicators that an impairment may have arisen.

13. Goodwill and other intangible assets continued

The year-end carrying value of goodwill and indefinite life brands have been allocated to cash-generating units (CGUs) for impairment testing purposes as follows:

	2018		2017	
	Goodwill \$m	Brands \$m	Goodwill \$m	Brands \$m
CGU				
Americas Managed	69	203	63	193
Americas Franchised	37	-	37	-
EMEA - Europe Managed	29	13	21	-
EMEA - Europe Franchised	10	-	10	-
EMEA - rest of region	113	23	106	-
Greater China	7	11	-	-
Allocated to CGUs (including Regent)	265	250	237	193
UK portfolio	48	-	-	-
	313	250	237	193

The UK portfolio goodwill remained unallocated at 31 December 2018 pending completion of the portfolio acquisition in early 2019.

The goodwill relating to the Regent and UK portfolio acquisitions are included in the Group statement of financial position at their acquisition date fair value. Otherwise, the recoverable amounts of the CGUs have been determined from value in use calculations. These calculations include a three-year period using pre-tax cash flow forecasts derived from the most recent financial budgets approved by management, incorporating growth rates based on management's past experience and industry growth forecasts. The key assumptions that underpin the financial budgets are RevPAR growth and net System size growth. RevPAR is based on market forecasts provided by Oxford Economics adjusted for historical experience of how the Group has performed compared to these expectations. Cash flows beyond the three-year period are extrapolated using terminal growth rates that do not exceed the average long-term growth rates for the relevant markets. A 10% contingency factor is applied to reduce all cash flow projections before being discounted using pre-tax rates that are 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.

The terminal growth rates and discount rates used, which are considered to be key assumptions, are as follows:

	2018		2017	
	Terminal growth rate %	Discount rate %	Terminal growth rate %	Discount rate %
Americas Managed	2.0	10.5	2.0	10.4
Americas Franchised	2.0	9.6	2.0	9.4
EMEA - Europe Managed	2.0	11.4	2.0	10.8
EMEA - Europe Franchised	2.0	10.5	2.0	9.8
EMEA - rest of region	3.5	13.4	3.5	14.1
Greater China	2.5	12.3	2.5	13.6

Impairment was not required at either 31 December 2018 or 31 December 2017.

Given the contingency factor applied to the cash flow projections and the significant amounts by which the recoverable amounts of the CGUs exceed their carrying amounts, management have determined that impairment charges would not arise from reasonably possible changes in the key assumptions.

Software

Software includes \$273m relating to the development of the next-generation Guest Reservation System with Amadeus. Of this amount \$109m relating to Phase 2 of the project was not amortised during the year as it has not been completed and rolled out to hotels.

Substantially all software additions are internally developed.

Management contracts

Management contracts comprise \$61m (2017: \$64m) in respect of Kimpton and \$6m (2017: \$nil) in respect of Regent.

The weighted average remaining amortisation period for all management contracts is 25 years (2017 restated: 27 years).

Notes to the Group Financial Statements continued

14. Investment in associates and joint ventures

	Associates \$m	Joint ventures \$m	Total \$m
Cost			
At 1 January 2017	113	26	139
Additions	47	-	47
Share of profits/(losses)	2	1	3
Disposals	(9)	-	(9)
Distributions	(4)	-	(4)
Exchange and other adjustments	2	-	2
At 31 December 2017	151	27	178
Additions	3	-	3
Share of (losses)/profits	(6)	5	(1)
Distributions	(5)	(32)	(37)
Exchange	(3)	-	(3)
At 31 December 2018	140	-	140
Impairment			
At 1 January 2017	(28)	-	(28)
Charge for the year	(18)	-	(18)
Disposals	9	-	9
At 31 December 2017	(37)	-	(37)
Exchange	1	-	1
At 31 December 2018	(36)	-	(36)
Net book value			
At 31 December 2018	104	-	104
At 31 December 2017	114	27	141
At 1 January 2017	85	26	111

All associates and joint ventures are accounted for using the equity method.

During the year, the Group received a distribution of \$32m from a joint venture following the sale of the hotel owned by the joint venture.

Impairment charges of \$18m and \$16m in 2017 and 2016 respectively, related to the Barclay associate (see below), resulted from the depressed trading outlook for the New York hotel market and the high costs of renovating the hotel. The recoverable amount of the investment was measured at its fair value less costs of disposal, based on the Group's share of the market value of the hotel less debt in the associate. The hotel was appraised by a professional external valuer using an income capitalisation approach which is a discounted cash flow technique that measures the present value of projected income flows (over a 10-year period) and the reversion of the property sale. Within the fair value hierarchy, this is categorised as a Level 3 fair value measurement. In addition to the projected income flows, the key assumptions used were a discount rate of 7.3% (2016: 7.3%) and a terminal capitalisation rate of 6.3% (2016: 6.0%).

Barclay associate

The Group held one material associate investment at 31 December 2018, a 19.9% interest in 111 East 48th Street Holdings, LLC (the Barclay associate) which owns InterContinental New York Barclay (the hotel), a hotel managed by the Group. The hotel reopened for trading in April 2016 following a major renovation. The investment is classified as an associate and equity accounted. Whilst the Group has the ability to exercise significant influence through certain decision rights, approval rights relating to the hotel's operating and capital budgets rest solely with the 80.1% majority member. The Group's ability to receive cash dividends is dependent on the hotel generating sufficient income to satisfy specified owner returns.

In March 2017, the Group invested \$43m in the Barclay associate in conjunction with a refinancing of the hotel. The cash was used to repay a \$43m supplemental bank loan for which the Group had previously provided an indemnity for 100% of the related obligations. As a consequence, the indemnity has been extinguished.

14. Investment in associates and joint ventures continued

Summarised financial information in respect of the Barclay associate is set out below:

	31 December 2018 \$m	31 December 2017 \$m
Non-current assets	529	540
Current assets	70	41
Current liabilities	(17)	(19)
Non-current liabilities	(319)	(287)
Net assets	263	275
Group share of reported net assets at 19.9%	52	55
Adjustments to reflect capitalised costs, and additional rights and obligations under the shareholder agreement	7	10
Carrying amount	59	65
	12 months to 31 December 2018 \$m	12 months to 31 December 2017 \$m
Revenue	103	90
Loss for the period	(13)	(16)
Group's share of loss for the period, including the cost of funding owner returns	(8)	(4)

Other associates and joint ventures

The summarised aggregated financial information for individually immaterial associates and joint ventures is set out below. These are mainly investments in entities that own hotels which the Group manages.

	Associates			Joint ventures			Total		
	2018 \$m	2017 \$m	2016 \$m	2018 \$m	2017 \$m	2016 \$m	2018 \$m	2017 \$m	2016 \$m
Share of profits/(losses)									
Operating profits before exceptional items	2	6	5	5	1	1	7	7	6

15. Other financial assets

	2018 \$m	2017 \$m
Equity securities measured at fair value		
Quoted equity shares	8	10
Unquoted equity shares	108	117
	116	127
Financial assets measured at amortised cost		
Trade deposits and loans	50	43
Restricted funds	55	32
Bank accounts pledged as security	40	42
	145	117
Total other financial assets	261	244
Analysed as:		
Current	1	16
Non-current	260	228
	261	244

Equity securities are measured at fair value through other comprehensive income and mainly comprise strategic investments in entities that own hotels which the Group manages. The fair value of the most significant investments at 31 December 2018 together with the dividend income received in 2018 is as follows:

	Fair value 2018 \$m	Dividend income ^a 2018 \$m
Investment in entity which owns:		
InterContinental The Willard Washington DC	31	-
InterContinental San Francisco	31	6
InterContinental Grand Stanford Hong Kong	16	2
Other	38	1
	116	9

^a Reported as 'other operating income and expenses' in the Group income statement.

Equity securities were denominated in the following currencies: US dollars \$91m (2017: \$93m), Hong Kong dollars \$16m (2017: \$25m) and other currencies \$9m (2017: \$9m).

On 13 December 2017, the sale of Avendra, LLC (Avendra) to Aramark Services, Inc., resulted in the Group receiving cash proceeds of \$75m from its 6.29% interest in Avendra and the recording of a \$73m exceptional gain in the Group income statement (see note 6). Prior to the sale, the Group's investment in Avendra was included in unquoted equity shares. Avendra is a North American hospitality procurement services provider.

Trade deposits and loans include deposits of \$66m made to a hotel owner in connection with a portfolio of management contracts. The deposits are non-interest-bearing and repayable at the end of the management contract terms, and are therefore held at a discounted value of \$30m (2017: \$28m); the discount unwinds to the income statement within 'financial income' over the period to repayment.

Restricted funds include \$25m placed in a shortfall reserve deposit which is held for the specific purpose of funding shortfalls in owner returns relating to the Barclay associate. No amounts required release from the deposit during the year. Other restricted funds largely comprise cash ring-fenced to satisfy insurance claims.

The bank accounts pledged as security (£31m) are subject to a charge in favour of the members of the UK unfunded pension arrangement (see note 25).

The movement in the provision for impairment of equity securities during the year is as follows:

	2018 \$m	2017 \$m
At 1 January	(18)	(22)
Elimination of provision on adoption of IFRS 9	18	-
Disposals	-	4
At 31 December	-	(18)

16. Trade and other receivables

	2018 \$m	2017 \$m
Current		
Trade receivables	474	452
Other receivables	27	23
Prepayments	111	74
Loans to and receivables from associates	1	2
	613	551

Trade and other receivables 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:

	2018 \$m	2017 \$m
Americas	325	305
EMEA	125	122
Greater China	52	50
	502	477

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

	2018			2017		
	Gross \$m	Credit loss allowance \$m	Net \$m	Gross \$m	Credit loss allowance \$m	Net \$m
Not past due	356	(1)	355	333	(1)	332
Past due 1 to 30 days	71	(1)	70	68	(2)	66
Past due 31 to 180 days	86	(9)	77	82	(7)	75
Past due more than 180 days	-	-	-	71	(67)	4
	513	(11)	502	554	(77)	477

Trade and other receivables over 180 days past due are written off, but continue to be actively pursued. The credit risk relating to balances not past due is not deemed to be significant.

The movement in the allowance for expected lifetime credit losses of trade and other receivables during the year is as follows:

	2018 \$m	2017 \$m	2016 \$m
At 1 January	(77)	(69)	(56)
Adjustment arising on adoption of IFRS 9	67	-	-
Provided	(28)	(15)	(25)
Amounts written back	-	2	5
Amounts written off	26	6	5
Exchange adjustments	1	(1)	2
At 31 December	(11)	(77)	(69)

Notes to the Group Financial Statements continued

17. Cash and cash equivalents

	2018 \$m	2017 \$m
Cash at bank and in hand	202	164
Short-term deposits	234	4
Repurchase agreements	268	-
	704	168

Cash at bank and in hand includes bank balances of \$106m (2017: \$116m) which are matched by bank overdrafts of \$104m (2017: \$110m) under the Group's cash pooling arrangements. Under these arrangements, each pool contains a number of bank accounts with the same financial institution and the Group pays interest on net overdraft balances within each pool. The cash pools are used for day-to-day cash management purposes and are managed as closely as possible to a zero balance on a net basis for each pool. Overseas subsidiaries are typically in a cash-positive position with the matching overdrafts held by the Group's central treasury company in the UK.

For the purposes of the Group statement of cash flows, cash and cash equivalents comprise the following:

	2018 \$m	2017 \$m
Cash at bank and in hand	202	164
Short-term deposits	234	4
Repurchase agreements	268	-
	704	168
Bank overdrafts (note 20)	(104)	(110)
	600	58

Short-term deposits and repurchase agreements are highly liquid investments with an original maturity of three months or less.

18. Trade and other payables

	2018 \$m	2017 Restated \$m
Current		
Trade payables	132	81
Other tax and social security payable	44	48
Other payables	95	108
Contingent purchase consideration	7	-
Accruals	340	360
	618	597
Non-current		
Other payables	34	36
Deferred and contingent purchase consideration	124	-
	158	36

19. Provisions

	Security Incidents \$m	Litigation \$m	Insurance reserves \$m	Total \$m
At 1 January 2017 and 31 December 2017	5	3	-	8
Reclassification from other trade and other payables	-	-	25	25
(Released)/provided	(2)	(1)	7	4
Utilised	(3)	-	(7)	(10)
At 31 December 2018	-	2	25	27
			2018 \$m	2017 \$m
Analysed as:				
Current			10	3
Non-current			17	5
			27	8



See note 30 for a description of and further information on the Security Incidents provision.

19. Provisions continued

Provisions for insurance claims are mainly in respect of the Group's workers compensation, employment practices liability and third-party general liability insurances. The amounts are based on reserves held in the Group's captive insurance company, SCH Insurance Company, and are established using independent actuarial assessments wherever possible, or a reasonable assessment based on past claims experience.

20. Loans and other borrowings

	2018			2017		
	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
Unsecured bank loans	-	-	-	-	262	262
Finance lease obligations	16	219	235	16	215	231
£400m 3.875% bonds 2022	-	509	509	-	538	538
£300m 3.75% bonds 2025	-	385	385	-	406	406
£350m 2.125% bonds 2026	-	447	447	-	472	472
€500m 2.125% bonds 2027	-	569	569	-	-	-
	16	2,129	2,145	16	1,893	1,909
Bank overdrafts	104	-	104	110	-	110
Total loans and other borrowings	120	2,129	2,249	126	1,893	2,019
Denominated in the following currencies:						
Sterling	-	1,341	1,341	-	1,416	1,416
US dollars	110	219	329	124	477	601
Euros	8	569	577	2	-	2
Other	2	-	2	-	-	-
	120	2,129	2,249	126	1,893	2,019

Loans and other borrowings (excluding bank overdrafts) and currency swaps comprise the liabilities included in the financing activities section of the Group statement of cash flows and their movements are analysed as follows:

	At 1 January 2018 \$m	Cash flows \$m	Exchange adjustments \$m	Other \$m	At 31 December 2018 \$m
Unsecured bank loans	262	(268)	3	3	-
Finance lease obligations	231	-	-	4	235
£400m 3.875% bonds 2022	538	-	(30)	1	509
£300m 3.75% bonds 2025	406	-	(23)	2	385
£350m 2.125% bonds 2026	472	-	(26)	1	447
€500m 2.125% bonds 2027	-	559	9	1	569
	1,909	291	(67)	12	2,145
Currency swaps:					
Exchange of principal	-	(5)	-	(2)	(7)
Initial fee received	-	3	-	(3)	-
	-	(2)	-	(5)	(7)
	1,909	289	(67)	7	2,138
	At 1 January 2017 \$m	Cash flows \$m	Exchange adjustments \$m	Other \$m	At 31 December 2017 \$m
Unsecured bank loans	107	153	1	1	262
Finance lease obligations	227	-	-	4	231
£400m 3.875% bonds 2022	489	-	48	1	538
£300m 3.75% bonds 2025	370	-	36	-	406
£350m 2.125% bonds 2026	430	-	42	-	472
	1,623	153	127	6	1,909

Notes to the Group Financial Statements continued

20. Loans and other borrowings continued**Unsecured bank loans**

Unsecured bank loans are borrowings under the Group's Syndicated and Bilateral Facilities. Amounts are classified as non-current when the facilities have more than 12 months to expiry.

The Syndicated Facility comprises a \$1,275m five-year revolving credit facility maturing in March 2022.

The Bilateral Facility comprises a \$75m revolving credit facility maturing in March 2022. The Bilateral Facility contains the same terms and covenants as the Syndicated Facility (see note 22).

A variable rate of interest is payable on amounts drawn under both facilities, which were undrawn at 31 December 2018.

Finance lease obligations

Finance lease obligations, which relate primarily to the 99-year lease (of which 87 years remain) on the InterContinental Boston hotel, are payable as follows:

	2018		2017	
	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	72	53	67	49
More than five years	3,212	166	3,234	166
	3,300	235	3,317	231
Less: amount representing finance charges	(3,065)	-	(3,086)	-
	235	235	231	231

The Group has the option to extend the term of the InterContinental Boston lease for two additional 20-year terms. Payments under the lease step up at regular intervals over the lease term. Interest is payable on the obligation at a fixed rate of 9.7%.

£400m 3.875% bonds 2022

The 3.875% fixed interest sterling bonds were issued on 28 November 2012 and are repayable in full on 28 November 2022. Interest is payable annually on 28 November. The bonds were initially priced at 98.787% of face value and are unsecured.

£300m 3.75% bonds 2025

The 3.75% fixed interest sterling bonds were issued on 14 August 2015 and are repayable in full on 14 August 2025. Interest is payable annually on 14 August. The bonds were initially priced at 99.014% of face value and are unsecured.

£350m 2.125% bonds 2026

The 2.125% fixed interest sterling bonds were issued on 24 August 2016 and are repayable in full on 24 August 2026. Interest is payable annually on 24 August. The bonds were initially priced at 99.45% of face value and are unsecured.

€500m 2.125% bonds 2027

The 2.125% fixed interest euro bonds were issued on 15 November 2018 and are repayable in full on 15 May 2027. Interest is payable annually on 15 May. The bonds were initially priced at 99.53% 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 sterling (see note 22).

Bank overdrafts

Bank overdrafts are matched by equivalent amounts of cash and cash equivalents under the Group's cash pooling arrangements (see note 17).

Facilities provided by banks

	2018			2017		
	Utilised \$m	Unutilised \$m	Total \$m	Utilised \$m	Unutilised \$m	Total \$m
Committed	-	1,350	1,350	264	1,086	1,350
Uncommitted	-	53	53	1	69	70
	-	1,403	1,403	265	1,155	1,420
					2018 \$m	2017 \$m
Unutilised facilities expire:						
Within one year					53	69
After two but before five years					1,350	1,086
					1,403	1,155

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

21. Net debt

	2018 \$m	2017 \$m
Cash and cash equivalents	704	168
Loans and other borrowings – current	(120)	(126)
– non-current	(2,129)	(1,893)
Derivatives hedging debt values (note 22)	15	–
Net debt	(1,530)	(1,851)
Movement in net debt		
Net increase/(decrease) in cash and cash equivalents, net of overdrafts	563	(75)
Add back cash flows in respect of other components of net debt:		
Issue of long-term bonds, including effect of currency swaps	(554)	–
Decrease/(increase) in other borrowings	268	(153)
Decrease/(increase) in net debt arising from cash flows	277	(228)
Non-cash movements:		
Finance lease obligations	(4)	(4)
(Increase)/decrease in accrued interest	(3)	1
Exchange and other adjustments	51	(114)
Decrease/(increase) in net debt	321	(345)
Net debt at beginning of the year	(1,851)	(1,506)
Net debt at end of the year	(1,530)	(1,851)



Information concerning Non-GAAP measures can be found in the Strategic Report on page 36.

Notes to the Group Financial Statements continued

22. Financial risk management and derivatives**Overview**

The Group is exposed to financial risks that arise in relation to underlying business activities. These risks include: foreign exchange risk, interest rate risk, liquidity risk, credit risk and capital risk. There are Board approved policies in place to manage these risks. Treasury activities to manage these risks may include money market investments, repurchase agreements, spot and forward foreign exchange instruments, currency swaps, interest rate swaps and forward rate agreements.

Market risk**Foreign exchange risk**

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 liabilities and its interest cover. The most significant exposures of the Group are in currencies that are freely convertible. The Group's reported debt has an exposure to borrowings held in pounds sterling and euros.

Foreign exchange hedging

The Group uses short-dated foreign exchange swaps to manage sterling surplus cash and reduce US dollar borrowings whilst maintaining operational flexibility. At 31 December 2018, the Group held short-dated foreign exchange swaps with principals of \$100m (2017: \$30m).

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 2018 or 31 December 2017.

At 31 December 2018, the Group held currency swaps with a principal of £436m. These swaps were transacted at the same time as the €500m 2.125% bonds were issued in November 2018 in order to swap the bonds' proceeds and interest flows into sterling. Under the terms of the swaps, £436m was borrowed and €500m deposited for eight and a half years at a fixed exchange rate of £1 = €1.15. The fair value of the currency swap comprises two components: \$15m gain relating to exchange movements on the underlying principal and \$8m loss relating to other fair value movements. The fair value movement has been recorded in the cash flow hedging reserve and there was no material hedge ineffectiveness. The element relating to the underlying principal is disclosed as a component of net debt (see note 21).

These derivative financial instruments are recorded in the Group statement of financial position at their fair values (see note 23) as follows:

	2018 \$m	2017 \$m
Currency swaps ^a	7	-
Forward foreign exchange contracts ^b	1	-
	8	-
Analysed as:		
Non-current assets	7	-
Current assets	1	-
	8	-

^a Designated as a cash flow hedge.

^b Designated as net investment hedges.

Hedge of net investment in foreign operations

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. However US dollars are only borrowed to the extent that hedge accounting can be achieved.

The Group designates certain 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. The interest on these financial instruments is taken through financial income or expense.

The maximum amount of foreign exchange derivatives held during the year as net investment hedges and measured at calendar quarter ends were short-dated foreign exchange swaps with principals of \$100m (2017: \$160m).

Hedge effectiveness is measured at calendar quarter ends. No ineffectiveness arose in respect of the Group's net investment hedges during the current or prior year.

Cash flow hedging

The currency swaps are designated as hedging instruments in cash flow hedges of the exposure to foreign exchange risk on the €500m 2.125% bonds. The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period was \$9m. Amounts recognised in the cash flow hedging reserve are analysed in note 27.

Interest rate risk

The Group is exposed to interest rate risk in relation to its fixed and floating rate borrowings. The Group's policy requires a minimum of 50% fixed rate debt over the next 12 months. With the exception of overdrafts, 100% of borrowings were fixed rate debt at 31 December 2018 (2017: 86%).

Interest rate hedging

If required, the Group uses interest rate swaps to manage the exposure. The Group designates interest rate swaps as cash flow hedges. No interest rate swaps were used to manage interest rate exposure during 2018, 2017 or 2016.

22. Financial risk management and derivatives continued

Interest and foreign exchange risk sensitivities

The following table shows the impact of a general strengthening in the US dollar against sterling and euro on the Group's profit before tax and net liabilities, and the impact of a rise in US dollar, euro and sterling interest rates on the Group's profit before tax.

The impact of the strengthening in the euro against sterling on net liabilities is also shown, as this impacts the fair value of the currency swaps.

		2018 \$m	2017 \$m	2016 \$m
Increase/(decrease) in profit before tax				
Sterling: US dollar exchange rate	5¢ fall	4.1	4.0	5.2
Euro: US dollar exchange rate	5¢ fall	(2.4)	(2.1)	(2.2)
US dollar interest rates	1% increase	(0.9)	(2.9)	(1.8)
Sterling interest rates	1% increase	5.5	0.3	1.3
Decrease/(increase) in net liabilities				
Sterling: US dollar exchange rate	5¢ fall	25.8	44.1	47.2
Euro: US dollar exchange rate	5¢ fall	23.1	(4.1)	(5.5)
Sterling: euro exchange rate	5¢ fall	31.9	-	-

The impact of a weakening in the US dollar or a fall in interest rates would be the reverse of the above values.

Interest rate sensitivities are calculated based on the year-end net debt position.

Liquidity risk

The Group policy ensures sufficient liquidity is maintained to meet all foreseeable medium-term cash requirements and provide headroom against unforeseen obligations.

Cash and cash equivalents is held in short-term deposits, repurchase agreements, and cash funds which allow daily withdrawals of cash. Most of the Group's funds are held in the UK or US, although \$2m (2017: \$3m) is held in countries where repatriation is restricted as a result of foreign exchange regulations.

Medium and long-term borrowing requirements are met through committed bank facilities and bonds as detailed in note 20. Short-term borrowing requirements may be met from drawings under uncommitted overdrafts and facilities.

The Syndicated and Bilateral Facilities contain two financial covenants: interest cover and net debt divided by operating profit before exceptional items, depreciation and amortisation and System Fund revenues and expenses. The Group has been in compliance with all of the financial covenants in its loan documents throughout the year and expects to continue to have significant headroom for the foreseeable future.

The following are the undiscounted contractual cash flows of financial liabilities, including interest payments. The payment profile of contingent consideration has been based on management's forecasts and could in reality be different from expectations.

	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 2018					
Non-derivative financial liabilities:					
Deferred and contingent consideration	7	8	37	262	314
Bank overdrafts	104	-	-	-	104
£400m 3.875% bonds 2022	20	20	550	-	590
£300m 3.75% bonds 2025	14	14	43	412	483
£350m 2.125% bonds 2026	10	10	28	475	523
€500m 2.125% bonds 2027	6	12	37	621	676
Finance lease obligations	16	16	56	3,212	3,300
Trade and other payables	611	5	9	20	645
Derivative financial liabilities:					
Forward foreign exchange contracts	(1)	-	-	-	(1)
Currency swaps hedging €500m 2.125% bonds 2027 outflows	20	20	58	625	723
Currency swaps hedging €500m 2.125% bonds 2027 inflows	(6)	(12)	(37)	(621)	(676)
31 December 2017					
Non-derivative financial liabilities:					
Bank overdrafts	110	-	-	-	110
Unsecured bank loans	264	-	-	-	264
£400m 3.875% bonds 2022	21	21	601	-	643
£300m 3.75% bonds 2025	15	15	46	445	521
£350m 2.125% bonds 2026	10	10	30	510	560
Finance lease obligations	16	16	51	3,234	3,317
Trade and other payables	597	5	11	20	633

Notes to the Group Financial Statements continued

22. Financial risk management continued**Credit risk**

Credit risk on treasury transactions is minimised by operating a policy on the investment of surplus cash that generally restricts counterparties to those with a BBB credit rating or better or those providing adequate security. The Group uses long-term credit ratings from Standard and Poor's, Moody's and Fitch Ratings as a basis for setting its counterparty limits.

Short-term deposits

The table below analyses the Group's short-term deposits at 31 December 2018 by counterparty credit rating:

	AAA	AA-	A	Total
Short-term deposits	76	70	88	234

Repurchase agreements

The Group invests in repurchase agreements, which are fully collateralised investments, with a maturity of three months or less. The Group accepts only government or supranational bonds where the lowest credit rating is AA- or better as collateral. In the event of default, ownership of these securities would revert to the Group. The securities held as collateral are to protect against default by the counterparty. The table below contains information about the collateral held as security at 31 December 2018:

Collateral by type	2018
Government bonds	60
Supranational bonds	208
	268
Collateral by credit rating	2018
AAA	207
AA	34
AA-	27
	268

In order to manage the Group's credit risk exposure, the treasury function sets counterparty exposure limits using metrics including credit ratings, the relative placing of credit default swap pricings, tier 1 capital and share price volatility of the relevant counterparty.

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.

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

	Note	2018 \$m	2017 \$m
Cash and cash equivalents	17	704	168
Derivative financial instruments	22	8	-
Financial assets measured at amortised cost:			
Other financial assets	15	145	117
Trade and other receivables, excluding prepayments	16	502	477
		1,359	762

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 \$445m at 31 December 2018 (2017: \$543m restated). 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.

23. Fair value measurement

Fair values

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

		2018		2017	
	Note	Carrying value \$m	Fair value \$m	Carrying value \$m	Fair value \$m
Financial assets					
Financial assets measured at fair value:					
Equity securities	15	116	116	127	127
Derivatives	22	8	8	-	-
		124	124	127	127
Financial assets measured at amortised cost:					
Cash and cash equivalents	17	704	704	168	168
Loans and other receivables:					
Other financial assets	15	145	145	117	117
Trade and other receivables, excluding prepayments	16	502	502	477	477
		1,351	1,351	762	762
		1,475	1,475	889	889
Financial liabilities					
Financial liabilities measured at fair value:					
Deferred and contingent purchase consideration	18	(131)	(131)	-	-
Financial liabilities measured at amortised cost:					
£400m 3.875% bonds 2022	20	(509)	(543)	(538)	(593)
£300m 3.75% bonds 2025	20	(385)	(399)	(406)	(441)
£350m 2.125% bonds 2026	20	(447)	(417)	(472)	(454)
€500m 2.125% bonds 2027	20	(569)	(566)	-	-
Finance lease obligations	20	(235)	(313)	(231)	(318)
Unsecured bank loans	20	-	-	(262)	(262)
Bank overdrafts	20	(104)	(104)	(110)	(110)
Trade and other payables	18	(645)	(645)	(633)	(633)
Provisions	19	(27)	(27)	(8)	(8)
		(2,921)	(3,014)	(2,660)	(2,819)
		(3,052)	(3,145)	(2,660)	(2,819)

There are no other assets or liabilities measured at fair value on a recurring or non-recurring basis, or for which fair value is disclosed, other than as described in note 14.

The fair value of cash and cash equivalents and bank overdrafts approximates book value due to the short maturity of the investments and deposits, and the fair value of other financial assets approximates book value based on prevailing market rates. The fair value of the unsecured bank loans approximates book value as interest rates reset to market rates on a frequent basis. The fair value of trade and other receivables, trade and other payables and current provisions approximates to their carrying value.

Fair value hierarchy

The following table provides the fair value measurement hierarchy of the above assets and liabilities, other than those with carrying amounts which are reasonable approximations of their fair values:

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 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.

Notes to the Group Financial Statements continued

23. Fair value measurement continued

	2018				2017			
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Assets								
Equity securities measured at fair value:								
Quoted equity shares	8	-	-	8	10	-	-	10
Unquoted equity shares	-	-	108	108	-	-	117	117
Derivatives	-	8	-	8	-	-	-	-
Liabilities								
Deferred and contingent purchase consideration	-	-	(131)	(131)	-	-	-	-
£400m 3.875% bonds 2022	(543)	-	-	(543)	(593)	-	-	(593)
£300m 3.75% bonds 2025	(399)	-	-	(399)	(441)	-	-	(441)
£350m 2.125% bonds 2026	(417)	-	-	(417)	(454)	-	-	(454)
€500m 2.125% bonds 2027	(566)	-	-	(566)	-	-	-	-
Finance lease obligations	-	(313)	-	(313)	-	(318)	-	(318)

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

The fair value of quoted equity shares and the bonds is based on their quoted market price.

Derivatives are fair valued using discounted future cash flows, taking into consideration exchange rates prevailing on the last day of the reporting period and interest rates from observable swap curves. Currency swaps are measured at the present value of future cash flows estimated and discounted back based on quoted forward exchange rates and the applicable yield curves derived from quoted interest rates. Adjustments for credit risk use observable credit default swap spreads.

Finance lease obligations relate primarily to the lease of InterContinental Boston, which is fair valued by discounting the future cash flows payable under the loan, which are fixed, at a risk adjusted long-term interest rate. The interest rate used to discount the cash flows at 31 December 2018 was 7.1% (2017: 6.9%).

Unquoted equity shares are fair valued using the International Private Equity and Venture Capital Valuation Guidelines either 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 if the investment is currently loss-making or a recent property valuation is available. The average P/E ratio for the year was 19.9 (2017: 30.7) and a non-marketability factor of 30% (2017: 30%) is applied. A 10% increase in the average P/E ratio would result in a \$2m increase (2017: \$2m) in the fair value of the investments and a 10% decrease in the average P/E ratio would result in a \$2m decrease (2017: \$2m) in the fair value of the investments. A 10% increase in net assets would result in a \$8m increase (2017: \$7m) in the fair value of the investments and a 10% decrease in net assets would result in a \$8m decrease (2017: \$7m) in the fair value of the investments.

Deferred and contingent purchase consideration are fair valued using the present value of the expected future payments, discounted using a risk adjusted discount rate. A 10% decrease in the discount rate would result in a \$8m increase in the fair value of the consideration payable.

The following table reconciles the movements in the fair values of financial instruments classified as Level 3 during the year:

	Equity securities \$m	Deferred and contingent purchase consideration \$m
At 1 January 2017	142	-
Additions	2	-
Disposals	(3)	-
Valuation gains recognised in other comprehensive income	48	-
Valuation gains reclassified to the income statement on disposal	(73)	-
Exchange and other adjustments	1	-
At 31 December 2017	117	-
Additions	4	-
Acquisition of businesses (note 11)	-	131
Disposals	(1)	-
Valuation losses recognised in other comprehensive income	(10)	-
Contingent consideration paid	-	(4)
Change in fair value recorded in finance costs	-	5
Exchange and other adjustments	(2)	(1)
At 31 December 2018	108	131

Other than in relation to cash pooling arrangements (see note 17), there are no financial instruments subject to enforceable master netting arrangements and other similar agreements that are not offset in the Group statement of financial position.

24. Reconciliation of profit for the year to cash flow from operations before contract acquisition costs

For the year ended 31 December 2018	Note	2018 \$m	2017 Restated \$m	2016 Restated \$m
Profit for the year		352	541	459
Adjustments for:				
Net financial expenses		81	72	80
Income tax charge	8	133	115	173
Depreciation and amortisation		80	78	75
System Fund depreciation and amortisation		45	36	31
Impairment	6	-	18	16
Other exceptional items (including System Fund)	6	151	(13)	13
Equity-settled share-based cost	26	38	27	23
Dividends from associates and joint ventures	14	5	4	5
Increase in trade and other receivables		(44)	(71)	(27)
Increase in contract costs		(3)	(5)	(4)
Increase in deferred revenue		141	43	109
Increase in other trade and other payables		7	35	39
Utilisation of provisions, net of charge (2016: net of insurance recovery)	19	(6)	-	(4)
Retirement benefit contributions, net of costs		(12)	(1)	(32)
Cash flows relating to exceptional items		(137)	(44)	(19)
Contract assets deduction in revenue		19	17	13
Other items		4	(3)	-
Total adjustments		502	308	491
Cash flow from operations before contract acquisition costs		854	849	950

25. Retirement benefits

UK

Since 6 August 2014, UK retirement and death in service benefits are provided for eligible employees by the IHG UK Defined Contribution Pension Plan. Members, including those who have been auto-enrolled since 1 September 2013, are provided with defined contribution arrangements under this plan; benefits are based on each individual member's personal account. The plan is HM Revenue and Customs registered and governed by an independent trustee, assisted by professional advisers as and when required. The overall operation of the plan is subject to the oversight of The Pensions Regulator.

The former defined benefit plan, the InterContinental Hotels UK Pension Plan, was wound up on 21 July 2015 following the completion of the buy-out and transfer of the defined benefit obligations to Rothesay Life on 31 October 2014.

Residual defined benefit obligations remain in respect of additional benefits provided to members of an unfunded pension arrangement who were affected by lifetime or annual allowances under the former defined benefit arrangements. Accrual under this arrangement ceased with effect from 1 July 2013 and a cash-out offer in 2014 resulted in the extinguishment of approximately 70% of the unfunded pension obligations. The Company meets the benefit payment obligations of the remaining members as they fall due. A charge over certain ring-fenced bank accounts totalling £31m at 31 December 2018 (see note 15) is currently held as security on behalf of the remaining members.

US

During the year, the Group completed a termination of the US funded Inter-Continental Hotels Pension Plan (the Plan), which involved certain qualifying members receiving lump-sum cash-out payments of \$20m with the remaining pension obligations subject to a buy-out by Banner Life Insurance Company (Banner), a subsidiary of Legal & General America, through the purchase of a group annuity contract for \$124m. Banner assumed responsibility for the payment of the Plan's pension obligations on 12 June 2018. A further amount of \$6m was transferred to the Pension Benefit Guaranty Corporation in respect of members who it had not been possible to trace. The transactions were funded using the assets of the Plan and a final Company contribution of \$12m, \$1.5m of which was subsequently returned to the Company as a 'mistake-in-fact' contribution refund.

The Group continues to maintain the unfunded Inter-Continental Hotels Non-qualified Pension Plans and unfunded Inter-Continental Hotels Corporation Postretirement Medical, Dental, Vision and Death Benefit Plan, both of which are defined benefit plans. Both plans are closed to new members. A Retirement Committee, comprising senior Company employees and assisted by professional advisers as and when required, has responsibility for oversight of the plans.

Other

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.

Notes to the Group Financial Statements continued

25. Retirement benefits continued

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

	Pension plans									US Post-employment benefits			Total
	UK			US									
	2018 \$m	2017 \$m	2016 \$m	2018 \$m	2017 \$m	2016 \$m	2018 \$m	2017 \$m	2016 \$m	2018 \$m	2017 \$m	2016 \$m	
Net interest expense	1	1	1	2	2	2	1	1	1	4	4	4	
Administration costs	-	-	-	-	1	1	-	-	-	-	1	1	
Operating profit before exceptional items	1	1	1	2	3	3	1	1	1	4	5	5	
Exceptional items:													
Settlement loss including transaction costs	-	-	-	15	-	-	-	-	-	15	-	-	
	1	1	1	17	3	3	1	1	1	19	5	5	

The settlement loss arises from the termination of the Plan and comprises the difference between cash cost of the termination arrangements and the accounting value of the liabilities extinguished, together with related transaction costs.

Re-measurement gains and losses recognised in the Group statement of comprehensive income are:

	2018			2017			2016		
	Plan assets \$m	Plan obligations \$m	Total \$m	Plan assets \$m	Plan obligations \$m	Total \$m	Plan assets \$m	Plan obligations \$m	Total \$m
Return on plan assets (excluding amounts included in interest)	(8)	-	(8)	9	-	9	-	-	-
Actuarial gains and losses arising from changes in:									
Demographic assumptions	-	-	-	-	1	1	-	6	6
Financial assumptions	-	14	14	-	(9)	(9)	-	(11)	(11)
Experience adjustments	-	3	3	-	(2)	(2)	-	1	1
Change in asset restriction (excluding amounts included in interest)	3	-	3	(3)	-	(3)	-	-	-
Other comprehensive income	(5)	17	12	6	(10)	(4)	-	(4)	(4)

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

	Pension plans									US Post-employment benefits		Total	
	UK			US									
	2018 \$m	2017 \$m	2016 \$m	2018 \$m	2017 \$m	2016 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m		2017 \$m
Retirement benefit assets													
Fair value of plan assets	-	-	-	-	152	-	-	-	-	-	-	152	
Present value of benefit obligations	-	-	-	-	(146)	-	-	-	-	-	-	(146)	
Surplus in schemes	-	-	-	-	6	-	-	-	-	-	-	6	
Asset restriction	-	-	-	-	(3)	-	-	-	-	-	-	(3)	
Total retirement benefit assets	-	-	-	-	3	-	-	-	-	-	-	3	
Retirement benefit obligations													
Fair value of plan assets	-	-	-	-	-	-	-	-	-	-	-	-	
Present value of benefit obligations	(24)	(29)	(29)	(45)	(51)	(51)	(22)	(24)	(24)	(24)	(91)	(104)	
Total retirement benefit obligations	(24)	(29)	(29)	(45)	(51)	(51)	(22)	(24)	(24)	(24)	(91)	(104)	
Total fair value of plan assets	-	-	-	-	152	-	-	-	-	-	-	152	
Total present value of benefit obligations	(24)	(29)	(29)	(45)	(197)	(197)	(22)	(24)	(24)	(24)	(91)	(250)	

25. Retirement benefits continued

Assumptions

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

	Pension plans								
	UK			US			US Post-employment benefits		
	2018 %	2017 %	2016 %	2018 %	2017 %	2016 %	2018 %	2017 %	2016 %
Pensions increases	3.2	3.2	3.3	-	-	-	-	-	-
Discount rate	3.0	2.6	2.7	3.9	3.3	3.7	4.0	3.3	3.8
Inflation rate	3.2	3.2	3.3	-	-	-	-	-	-
Healthcare cost trend rate assumed for next year:									
Pre-65 (ultimate rate reached in 2025)							7.1	7.7	7.0
Post-65 (ultimate rate reached in 2024)							7.6	8.7	8.3
Ultimate rate that the cost trend rate trends to							4.5	4.5	4.5

Mortality is the most significant demographic assumption. The current assumptions for the UK are based on the S2PA 'light' year of birth tables with projected mortality improvements using the CMI_2017 model and a 1.25% per annum long-term trend with age rated down by 0.7 and 2.3 years for pensioners and 0.5 and 2.6 years for non-pensioners, male and female respectively. In the US, the current assumptions are based on the RP-2014 Employee/Healthy Annuitant Generationally Projected with Scale MP-2018 mortality tables.

In both the UK and US, the assumptions have been revised during the year to reflect life expectancy at retirement age as follows:

	Pension plans					
	UK			US		
	2018 Years	2017 Years	2016 Years	2018 Years	2017 Years	2016 Years
Current pensioners at 65 ^a – male	24	24	24	21	21	21
– female	26	26	26	23	23	23
Future pensioners at 65 ^b – male	25	25	25	22	22	22
– female	28	28	28	24	24	24

^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 2038.

The assumptions allow for expected increases in longevity.

Sensitivities

Changes in assumptions used for determining retirement benefit costs and obligations may have an impact on the income statement and the statement of financial position. The key assumptions are the pensions increases, discount rate, the rate of inflation and the assumed mortality rate. The sensitivity analysis below is based on extrapolating reasonable changes in these assumptions, using year-end conditions and assuming no interdependency between the assumptions:

		UK		US	
		Higher/ (lower) pension cost \$m	Increase/ (decrease) in liabilities \$m	Higher/ (lower) pension cost \$m	Increase/ (decrease) in liabilities \$m
Pensions increases	- 0.25% decrease	-	(1.0)	-	-
	- 0.25% increase	0.1	1.0	-	-
Discount rate	- 0.25% decrease	-	1.0	(0.1)	1.6
	- 0.25% increase	0.1	(1.0)	0.1	(1.5)
Inflation rate	- 0.25% increase	0.1	1.0	-	-
	- 0.25% decrease	-	(1.0)	-	-
Mortality rate	- One year increase	0.1	0.6	0.1	3.3

A one percentage point increase in assumed healthcare costs trend rate would increase the accumulated post-employment benefit obligations as at 31 December 2018 by \$1.7m (2017: \$1.9m, 2016: \$1.9m) and a one percentage point decrease would decrease the obligations by \$1.6m (2017: \$1.8m, 2016: \$1.7m).

Notes to the Group Financial Statements continued

25. Retirement benefits continued

Movement in benefit obligation

	Pension plans				US Post-employment benefits		Total	
	UK		US		2018 \$m	2017 \$m	2018 \$m	2017 \$m
	2018 \$m	2017 \$m	2018 \$m	2017 \$m				
Benefit obligation at 1 January	29	27	197	195	24	22	250	244
Interest expense	1	1	4	7	1	1	6	9
Benefits paid	(1)	(1)	(9)	(13)	(1)	(1)	(11)	(15)
Settlement payments	-	-	(150)	-	-	-	(150)	-
Settlement loss	-	-	14	-	-	-	14	-
Re-measurement (gains)/losses	(4)	-	(11)	8	(2)	2	(17)	10
Exchange adjustments	(1)	2	-	-	-	-	(1)	2
Benefit obligation at 31 December	24	29	45	197	22	24	91	250
Comprising:								
Funded plans	-	-	-	146	-	-	-	146
Unfunded plans	24	29	45	51	22	24	91	104
	24	29	45	197	22	24	91	250

Movement in plan assets

	Pension plans				US Post-employment benefits		Total	
	UK		US		2018 \$m	2017 \$m	2018 \$m	2017 \$m
	2018 \$m	2017 \$m	2018 \$m	2017 \$m				
Fair value of plan assets at 1 January	-	-	152	148	-	-	152	148
Company contributions	1	1	14	4	1	1	16	6
Benefits paid	(1)	(1)	(9)	(13)	(1)	(1)	(11)	(15)
Settlement payments	-	-	(150)	-	-	-	(150)	-
Interest income	-	-	2	5	-	-	2	5
Re-measurement (losses)/gains	-	-	(8)	9	-	-	(8)	9
Settlement transaction costs	-	-	(1)	(1)	-	-	(1)	(1)
Fair value of plan assets at 31 December	-	-	-	152	-	-	-	152

Company payments are expected to be \$6m in 2019.

The plan assets are measured at fair value and comprise the following:

	US	
	2018 \$m	2017 \$m
Investments quoted in active markets		
Investment funds: fixed income securities	-	150
Unquoted investments		
Cash	-	2
	-	152

	Pension plans				US Post-employment benefits		Total	
	UK		US		2018 \$m	2017 \$m	2018 \$m	2017 \$m
	2018 \$m	2017 \$m	2018 \$m	2017 \$m				
Movement in asset restriction								
Balance at 1 January	-	-	3	-	-	-	3	-
Re-measurement (losses)/gains	-	-	(3)	3	-	-	(3)	3
Balance at 31 December	-	-	-	3	-	-	-	3

25. Retirement benefits *continued*

Estimated future benefit payments

	Pension plans				US Post-employment benefits		Total	
	UK		US		2018 \$m	2017 \$m	2018 \$m	2017 \$m
	2018 \$m	2017 \$m	2018 \$m	2017 \$m				
Within one year	-	-	4	14	1	1	5	15
Between one and five years	3	3	14	53	6	6	23	62
More than five years	16	17	15	62	7	7	38	86
	19	20	33	129	14	14	66	163
Average duration of obligation (years)	19.5	20.5	9.2	10.3	9.6	10.4		

The reduction in future benefit payments arises from the termination of the Plan.

26. Share-based payments

Annual Performance Plan

Under the IHG Annual Performance Plan (APP), eligible employees (including Executive Directors) can receive all or part of their bonus in the form of deferred shares and/or receive one-off awards of shares. Deferred shares are released on the third anniversary of the award date. Under the terms of awards that are referred to in this note, a fixed percentage of the award is made in the form of shares. Awards under the APP are conditional on the participants remaining in the employment of a participating company or leaving for a qualifying reason as per the plan rules. The award of deferred shares under the APP 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 award 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 APP during the year and conditional rights over 175,944 (2017: 234,918, 2016: 335,775) shares were awarded to participants. In 2018 this number included 48,771 (2017: 79,471, 2016: 103,071) shares awarded as part of recruitment terms or for one-off individual awards.

New plan rules for the APP were approved by shareholders at the AGM on 2 May 2014, and apply to awards made in respect of the 2015 and subsequent financial years. The new plan rules contain substantially the same terms as the superseded plan rules.

Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) allows Executive Directors and eligible employees to receive conditional share awards, which normally have a vesting period of three years.

Performance-related awards: Awards to the Executive Directors, and some awards to other eligible employees, are granted subject to the achievement of performance conditions set by the Remuneration Committee, which are normally measured over the vesting period.

Restricted stock units: Awards to eligible employees are granted subject to continued employment.

Awards are normally made annually and, except in exceptional circumstances, will not exceed three times salary for eligible employees. The plan provides for the grant of 'nil cost options' to participants as an alternative to conditional share awards. During the year, conditional rights over 784,119 (2017: 805,045, 2016: 1,355,721) shares were awarded to employees under the plan, comprising 257,240 (2017: 280,458, 2016: 888,518) performance-related awards and 526,879 (2017: 524,587, 2016: 467,203) restricted stock units.

New plan rules for the LTIP were approved by shareholders at the AGM on 2 May 2014, and apply to awards made in respect of the 2015-17 and subsequent LTIP cycles. The new plan rules contain substantially the same terms as the superseded plan rules.



More detailed information on the performance measures for awards to Executive Directors is shown in the Directors' Remuneration Report on pages 72 to 85.

Notes to the Group Financial Statements continued

26. Share-based payments continued

The Group recognised a cost of \$27m (2017: \$21m, 2016: \$17m) in operating profit and \$1m (2017: \$2m, 2016: \$nil) within exceptional administrative expenses related to equity-settled share-based payment transactions during the year, net of amounts borne by the System Fund. An additional \$11m (2017: \$6m, 2016: \$6m) has been charged to the System Fund.

No aggregate consideration was received in respect of ordinary shares issued under option schemes during 2018, 2017 or 2016.

The Group uses separate option pricing models and assumptions depending on the plan. The following table sets out information about awards granted in 2018, 2017 and 2016:

	APP			LTIP		
	Binomial valuation model			Monte Carlo Simulation and Binomial valuation model		
	2018	2017	2016	2018	2017	2016
Weighted average share price	4,645.0p	3,781.0p	2,725.0p	4,774.0p	4,300.0p	2,846.0p
Expected dividend yield	n/a	n/a	n/a	2.27%	2.05%	2.55%
Risk-free interest rate				0.84%	0.10%	0.36%
Volatility ^a				25%	24%	24%
Term (years)	3.0	3.0	3.0	3.0	3.0	3.0

^a 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.

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

	APP	LTIP	
	Number of shares thousands	Performance-related awards Number of shares thousands	Restricted stock units Number of shares thousands
Outstanding at 1 January 2016	689	5,275	-
Granted	336	889	467
Vested	(229)	(915)	-
Share capital consolidation	(104)	-	-
Lapsed or cancelled	(7)	(1,048)	(18)
Outstanding at 31 December 2016	685	4,201	449
Granted	235	280	525
Vested	(263)	(928)	-
Share capital consolidation	(21)	-	-
Lapsed or cancelled	(20)	(1,160)	(58)
Outstanding at 31 December 2017	616	2,393	916
Granted	176	257	527
Vested	(199)	(702)	-
Lapsed or cancelled	(2)	(860)	(142)
Outstanding at 31 December 2018	591	1,088	1,301

Fair value of awards granted during the year (cents)

2018	6,066.2	4,748.7	5,966.0
2017	4,959.3	4,133.2	5,251.0
2016	3,671.9	1,768.0	3,624.5

Weighted average remaining contract life (years)

At 31 December 2018	1.0	0.8	1.2
At 31 December 2017	1.2	0.6	1.7
At 31 December 2016	1.2	0.9	2.2

The above awards do not vest until the performance and service conditions have been met.

The weighted average share price at the date of exercise for share awards vested during the year was 4,583.8p (2017: 3,804.7p). The closing share price on 31 December 2018 was 4,237.0p and the range during the year was 3,948.0p to 4,966.0p per share.

27. Equity

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 2016 (ordinary shares of 15 ²⁶⁵ / ₃₂₉ p each)	248	58	111	169
Share capital consolidation	(42)	-	-	-
Exchange adjustments	-	(10)	(18)	(28)
At 31 December 2016 (ordinary shares of 18 ³¹⁸ / ₃₂₉ p each)	206	48	93	141
Share capital consolidation	(9)	-	-	-
Exchange adjustments	-	5	8	13
At 31 December 2017 (ordinary shares of 19 ¹⁷ / ₂₁ p each)	197	53	101	154
Exchange adjustments	-	(3)	(5)	(8)
At 31 December 2018 (ordinary shares of 19¹⁷/₂₁p each)	197	50	96	146

The authority given to the Company at the AGM held on 4 May 2018 to purchase its own shares was still valid at 31 December 2018. A resolution to renew the authority will be put to shareholders at the AGM on 3 May 2019.

The Company no longer has an authorised share capital.

On 23 February 2016, the Group announced a \$1.5bn return of funds to shareholders by way of a special dividend and share consolidation. On 6 May 2016, shareholders approved the share consolidation on the basis of 5 new ordinary shares of 18³¹⁸/₃₂₉p per share for every 6 existing ordinary shares of 15²⁶⁵/₃₂₉p, which became effective on 9 May 2016. The special dividend was paid to shareholders on 23 May 2016. The dividend and share consolidation had the same economic effect as a share repurchase at fair value, therefore previously reported earnings per share has not been restated.

On 21 February 2017, the Group announced a \$400m return of funds to shareholders by way of a special dividend and share consolidation. On 5 May 2017, shareholders approved the share consolidation on the basis of 45 new ordinary shares of 19¹⁷/₂₁p per share for every 47 existing ordinary shares of 18³¹⁸/₃₂₉p, which became effective on 8 May 2017. The special dividend was paid to shareholders on 22 May 2017. The dividend and share consolidation had the same economic effect as a share repurchase at fair value, therefore previously reported earnings per share has not been restated.

In October 2018, the Board proposed a \$500m return of funds to shareholders by way of a special dividend of \$2.621 per ordinary share, together with a share consolidation. On 11 January 2019, shareholders approved the share consolidation and payment of the special dividend. The dividend of \$510m was paid on 29 January 2019. The dividend and share consolidation had the same economic effect as a share repurchase at fair value, therefore reported earnings per share has not been restated.

At 31 December 2018, 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 19¹⁷/₂₁p shares. The share premium reserve represents the amount of proceeds received for shares in excess of their nominal value.

The nature and purpose of the other reserves shown in the Group statement of changes in equity on pages 98 to 100 of the Group Financial Statements is as follows:

Capital redemption reserve

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

Shares held by employee share trusts

Comprises \$3.6m (2017: \$5.4m, 2016: \$10.5m) in respect of 0.2m (2017: 0.2m, 2016: 0.3m) InterContinental Hotels Group PLC ordinary shares held by employee share trusts, with a market value at 31 December 2018 of \$8.3m (2017: \$12.1m, 2016: \$15.0m).

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, this reserve also includes exchange differences arising on retranslation to period-end exchange rates of equity share capital, the capital redemption reserve and shares held by employee share trusts.

Fair value reserve

This reserve records movements in the value of financial assets measured at fair value. This reserve was previously called the unrealised gains and losses reserve. The change in name reflects that gains and losses will no longer be reflected in the income statement following adoption of IFRS 9.

Notes to the Group Financial Statements continued

27. Equity continued**Cash flow hedging reserve**

The cash flow hedging reserve is analysed as follows:

	Cash flow hedging reserve		
	Value of currency swaps \$m	Costs of hedging \$m	Total \$m
At 1 January 2018	-	-	-
Costs of hedging deferred and recognised in other comprehensive income	-	(1)	(1)
Change in fair value of currency swaps recognised in other comprehensive income	4	-	4
Reclassified from other comprehensive income to profit or loss – included in financial expenses	(8)	-	(8)
Deferred tax	1	-	1
At 31 December 2018	(3)	(1)	(4)

The value of currency swaps comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss.

The costs of hedging reflects the gain or loss on the portion excluded from the designated hedging instrument that relates to the value of the foreign currency basis spread of currency swaps. It is initially recognised in other comprehensive income and accounted for similarly to changes in value of currency swaps.

Amounts reclassified from other comprehensive income to financial expenses comprise \$1m net interest payable on the currency swaps and an exchange gain of \$9m which has been offset with a corresponding loss on the €500m 2.125% bonds.

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 2018 was \$1m net asset (2017: \$nil, 2016: \$3m net liability).

Treasury shares

During 2018, 0.8m (2017: 0.9m, 2016: 0.9m) treasury shares were transferred to the employee share trusts. As a result of the 2017 share consolidation, the number of shares held in treasury reduced by 0.4m during 2017 (2016: reduced by 1.7m during 2016 as a result of the 2016 share consolidation). At 31 December 2018, 6.8m shares (2017: 7.6m, 2016: 8.9m) with a nominal value of \$1.7m (2017: \$2.0m, 2016: \$2.1m) were held as treasury shares at cost and deducted from retained earnings.

Non-controlling interest

A non-controlling interest is equity in a subsidiary of the Group not attributable, directly or indirectly, to the Group. Non-controlling interests are not material to the Group.

28. Operating leases

During the year ended 31 December 2018, \$101m (2017: \$86m, 2016: \$84m) was recognised as an expense in the Group income statement in respect of operating leases, net of amounts borne directly by the System Fund. An additional \$5m (2017: \$6m, 2016: \$7m) has been charged to the System Fund. The expense, recorded in the Group income statement, includes contingent rents of \$51m (2017: \$32m, 2016: \$32m). \$2m (2017: \$2m, 2016: \$2m) was recognised as income from sub-leases.

Future minimum lease payments under non-cancellable operating leases are as follows:

	2018 \$m	2017 \$m
Due within one year	56	56
One to two years	54	46
Two to three years	67	45
Three to four years	35	60
Four to five years	31	30
More than five years	266	297
	509	534

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 15 years (2017: 15 years). No material restrictions or guarantees exist in the Group's lease obligations.

The leases acquired with the UK portfolio acquisition (see note 11) include variable payments where rentals are linked to the performance of the hotels by way of reductions in rentals in the event that lower than target cash flows are generated by the hotels. In the event that rent reductions are not applicable, the Group's exposure to this type of rental payment is £48m per annum over the remaining lease term of 25 years. Additional rentals, which are uncapped, are also payable calculated as a percentage of the profit earned by the hotels.

Total future minimum rentals expected to be received under non-cancellable sub-leases are \$3m (2017: \$4m).

29. Capital and other commitments

	2018 \$m	2017 \$m
Contracts placed for expenditure not provided for in the Financial Statements:		
Property, plant and equipment ^a	46	18
Intangible assets	7	27
Key money	83	59
	136	104

^a Includes a commitment to spend \$33m on the acquired UK portfolio (see note 11) within two and a half years of the acquisition date.

A loan facility of \$5m (2017: \$5m) has also been made available to a hotel owner; this was undrawn at 31 December 2018.

There were no commitments to invest in associates at 31 December 2018 (2017: \$33m).

30. Contingencies and guarantees

Security incidents

In 2016, the Group was notified of (a) a security incident at a number of Kimpton hotels that resulted in unauthorised access to guest payment card data, and (b) security incidents at a number of IHG branded hotels including the installation of malware on servers that processed payment cards used at restaurants and bars of 12 IHG managed properties, together the Security Incidents. A provision of \$5m was made at 31 December 2016 (see note 19), to cover the estimated cost of reimbursing the impacted card networks for counterfeit fraud losses and related expenses. During the year, the Group has reached agreement with the card networks on the assessments payable, \$3m in total, the vast majority of which have been settled under the Group's insurance programmes, with the balance expected to be similarly recovered. As a consequence, a provision is no longer required at 31 December 2018.

The Group may also be exposed to investigations regarding compliance with applicable State and Federal data security standards, and legal action from individuals and organisations impacted by the Security Incidents. Due to the general nature of the regulatory enquiries received and class action filings to date, other than mentioned below, it is not practicable to make a reliable estimate of the possible financial effects of any such claims on the Group at this time. These contingent liabilities are potentially recoverable under the Group's insurance programmes, although specific agreement will need to be reached with the relevant insurance providers at the time any claim is made.

To date, four lawsuits have been filed against IHG entities relating to the Security Incidents. One of these has been withdrawn and a preliminary settlement, expected to be not more than \$2m, has been agreed in respect of another lawsuit, although this is expected to be recovered from insurance.

Tax

Tax related developments during 2018 have confirmed that the Group no longer considers itself at risk of exposure to the outcome of the EU's State Aid investigation into the UK's Controlled Foreign Company rules.

Other

In limited cases, the Group may provide performance guarantees to third-party hotel owners to secure management contracts. At 31 December 2018, the amount included within trade and other payables in the Financial Statements was \$3m (2017: \$6m) and the maximum unprovided exposure under such guarantees was \$42m (2017: \$31m).

At 31 December 2018, the Group had outstanding letters of credit of \$29m (2017: \$35m) mainly relating to self insurance programmes.

The Group may guarantee bank loans made to facilitate third-party ownership of hotels under IHG management or franchise contracts. At 31 December 2018, there were guarantees of \$43m in place (2017: \$54m).

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 the claims listed under 'Legal proceedings' on page 192. 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.

At 31 December 2018, the Group had no other contingent liabilities (2017: \$nil).

31. Related party disclosures

	2018 \$m	2017 \$m	2016 \$m
Total compensation of key management personnel			
Short-term employment benefits	18.2	21.3	19.2
Contributions to defined contribution pension plans	0.5	0.6	0.8
Equity compensation benefits	13.0	10.2	7.4
Termination benefits	-	1.9	-
	31.7	34.0	27.4

There were no other transactions with key management personnel during the years ended 31 December 2018, 2017 or 2016.

Key management personnel comprises the Board and Executive Committee.

Notes to the Group Financial Statements continued

31. Related party disclosures continued

Related party disclosures for associates and joint ventures are as follows:

	Associates			Joint ventures			Total		
	2018 \$m	2017 \$m	2016 \$m	2018 \$m	2017 \$m	2016 \$m	2018 \$m	2017 \$m	2016 \$m
Revenue from associates and joint ventures	9	8	5	1	1	1	10	9	6
Loans to associates	-	-	9	-	-	-	-	-	9
Other amounts owed by associates and joint ventures	1	2	1	-	-	-	1	2	1
Amounts owed to associates and joint ventures	2	-	-	-	-	-	2	-	-

In addition, loans both to and from the Barclay associate of \$237m (2017: \$237m) are offset in accordance with the provisions of IAS 32 and presented net in the Group statement of financial position. Interest payable and receivable under the loans is equivalent (average interest rate of 2.7% in 2018 (2017: 2.0%)) and presented net in the Group income statement.

32. System Fund

System Fund revenues comprise:

	2018 \$m	2017 Restated ^a \$m	2016 Restated ^a \$m
Assessment fees and contributions received from hotels	979	934	887
Loyalty programme revenues ^b	254	308	312
	1,233	1,242	1,199

System Fund expenses include:

	2018 \$m	2017 \$m	2016 \$m
Marketing ^c	427	405	415
Payroll costs (note 4)	347	339	311
Depreciation and amortisation	45	36	31

^a Restated for IFRS 15 (see pages 109 to 113).

^b Loyalty programme revenue is shown net of the cost of point redemptions.

^c Restated to reflect a wider definition of marketing costs.

33. Events after the reporting period

On 12 February 2019, the Group completed the acquisition of Six Senses Hotels Resorts Spas (Six Senses), for \$300m paid in cash. Six Senses is a leading operator of top tier luxury hotels, resorts and spas with a world-renowned reputation for wellness and sustainability. Six Senses will sit at the top of IHG's luxury portfolio.

The assets and liabilities acquired largely comprise intangible assets, being the Six Senses' brands, management contracts and goodwill. Due to the close proximity of the acquisition date to the date of these financial statements, the initial accounting for the business combination is incomplete and the Group is unable to provide a quantification of the fair values of the assets and liabilities acquired. The Group will include a provisional acquisition balance sheet with its interim results for 2019.

34. Group companies

In accordance with Section 409 of the Companies Act 2006, a full list of entities in which the Group has an interest of greater than or equal to 20%, the registered office and effective percentage of equity owned as at 31 December 2018 are disclosed below. Unless otherwise stated the share capital disclosed comprises ordinary shares which are indirectly held by InterContinental Hotels Group PLC.

Fully owned subsidiaries

"IHG Management" d.o.o. Beograd (j)	Holiday Inns Inc. (k)	InterContinental Berlin Service Company GmbH (au)
24th Street Operator Sub, LLC (g) (k)	Holiday Inns Investment (Nepal) Ltd. (ac)	InterContinental (Branston) 1 Limited (c) (n)
36th Street IHG Sub, LLC (g) (k)	Holiday Inns of America (UK) Limited (n)	InterContinental (PB) 1 (n)
426 Main Ave LLC (g) (k)	Holiday Inns of Belgium N.V. (ad)	InterContinental (PB) 2 (ay)
46 Nevins Street Associates, LLC (g) (k)	Holiday Pacific Equity Corporation (k)	InterContinental (PB) 3 Limited (n)
2250 Blake Street Hotel, LLC (g) (k)	Holiday Pacific LLC (g) (k)	InterContinental Brasil Administracao de Hoteis Ltda (q)
Allegro Management LLC (g) (k)	Holiday Pacific Partners, LP (k)	Inter-Continental D.C. Operating Corp. (k)
Alpha Kimball Hotel LLC (g) (k)	Hotel InterContinental London (Holdings) Limited (n)	Inter-Continental Florida Investment Corp. (k)
American Commonwealth Assurance Co. Ltd. (m)	Hotel Inter-Continental London Limited (n)	Inter-Continental Florida Partner Corp. (k)
Asia Pacific Holdings Limited (n)	Hoteles Y Turismo HIH SRL (n)	InterContinental Gestion Hotelera S.L. (by)
Barclay Operating Corp. (cj)	IC Hotelbetriebsfuhrungs GmbH (ae)	Inter-Continental Hospitality Corporation (k)
BHMC Canada Inc. (o)	IC Hotels Management (Portugal) Unipessoal, Lda (af)	InterContinental Hotel Berlin GmbH (au)
BHR Holdings B.V. (p)	IC International Hotels Limited Liability Company (ag)	InterContinental Hotel Düsseldorf GmbH (av)
BHR Pacific Holdings, Inc. (k)	IHC Buckhead, LLC (g) (ci)	Inter-Continental Hoteleira Limitada (aw)
BHTC Canada Inc. (o)	IHC Edinburgh (Holdings) (n)	Inter-Continental Hotels (Montreal) Operating Corp. (ax)
Blythswood Square Glasgow Hotel OpCo Ltd (n)	IHC Hopkins (Holdings) Corp. (k)	Inter-Continental Hotels (Montreal) Owning Corp. (ax)
BOC Barclay Sub LLC (g) (cj)	IHC Hotel Limited (n)	InterContinental Hotels (Puerto Rico) Inc. (az)
Bristol Oakbrook Tenant Company (k)	IHC Inter-Continental (Holdings) Corp. (k)	Inter-Continental Hotels (Singapore) Pte. Ltd. (ai)
Café Biarritz (n)	IHC London (Holdings) (n)	Inter-Continental Hotels Corporation (k)
Cambridge Lodging LLC (g) (k)	IHC May Fair (Holdings) Limited (n)	Inter-Continental Hotels Corporation de Venezuela C.A. (ba)
Capital Lodging LLC (g) (k)	IHC May Fair Hotel Limited (n)	Intercontinental Hotels Corporation Limited (d) (m)
CF Irving Owner, LLC (g) (k)	IHC M-H (Holdings) Corp. (k)	InterContinental Hotels Group (Asia Pacific) Pte Ltd (ai)
CF McKinney Owner, LLC (g) (k)	IHC Overseas (U.K.) Limited (n)	InterContinental Hotels Group (Australia) Pty Limited (aa)
CF Waco Owner, LLC (g) (k)	IHC UK (Holdings) Limited (n)	InterContinental Hotels Group (Canada) Inc. (o)
Compañía Inter-Continental De Hoteles El Salvador SA (n)	IHC United States (Holdings) Corp. (b) (k)	InterContinental Hotels Group (España) SA (by)
Crowne Plaza LLC (g) (k)	IHC Willard (Holdings) Corp. (k)	InterContinental Hotels Group (Greater China) Limited (ac)
Cumberland Akers Hotel LLC (g) (k)	IHG (Australasia) Limited (d) (ai)	InterContinental Hotels Group (India) Pvt. Ltd (aq)
Dunwoody Operations, Inc. (k)	IHG (Marseille) SAS (x)	InterContinental Hotels Group (Japan) Inc. (l)
Edinburgh George Street Hotel OpCo Ltd (n)	IHG (Myanmar) Ltd (ah)	InterContinental Hotels Group (New Zealand) Limited (an)
Edinburgh IC Limited (s)	IHG (Thailand) Limited (aj)	InterContinental Hotels Group (Shanghai) Ltd. (bb)
EVEN Real Estate Holding LLC (g) (k)	IHG Bangkok Ltd (v)	InterContinental Hotels Group Customer Services Limited (n)
General Innkeeping Acceptance Corporation (b) (l)	IHG Brasil Administracao de Hoteis e Servicos Ltda (ak)	InterContinental Hotels Group do Brasil Limitada (bc)
Grand Central Glasgow Hotel OpCo Limited (n)	IHG Commission Services SRL (co)	InterContinental Hotels Group Healthcare Trustee Limited (n)
Guangzhou SC Hotels Services Ltd. (t)	IHG Community Development, LLC (g) (ci)	InterContinental Hotels Group Operating Corp. (e) (k)
H.I. (Ireland) Limited (u)	IHG de Argentina SA (al)	InterContinental Hotels Group Resources Inc. (b) (k)
HI Sugarloaf, LLC (g) (ci)	IHG ECS (Barbados) SRL (co)	InterContinental Hotels Group Services Company (n)
Hale International Ltd. (v)	IHG Franchising Brasil Ltda (bd)	InterContinental Hotels Italia, S.r.l. (be)
HC International Holdings, Inc. (w)	IHG Franchising DR Corporation (k)	InterContinental Hotels Limited (a) (n)
HH France Holdings SAS (x)	IHG Franchising, LLC (g) (k)	InterContinental Hotels Management GmbH (bf)
HH Hotels (EMEA) B.V. (p)	IHG Hotels (New Zealand) Limited (an)	InterContinental Hotels Nevada Corporation (ck)
HH Hotels (Romania) SRL (y)	IHG Hotels Limited (n)	Inter-Continental Hotels of San Francisco Inc. (k)
HIM (Aruba) NV (z)	IHG Hotels Management (Australia) Pty Limited (d) (aa)	Inter-Continental IOHC (Mauritius) Limited (bg)
Hoft Properties LLC (g) (k)	IHG Hotels Nigeria Limited (ao)	InterContinental Management AM LLC (cm)
Holiday Hospitality Franchising, LLC (g) (k)	IHG Hotels South Africa (Pty) Limited (ap)	InterContinental Management Bulgaria EOOD (bp)
Holiday Inn Mexicana S.A. de C.V. (ab)	IHG International Partnership (n)	InterContinental Management France SAS (x)
Holiday Inns (China) Ltd (ac)	IHG Istanbul Otel Yönetim Limited Sirketi (bx)	InterContinental Management Poland sp. z.o.o (cn)
Holiday Inns (Chongqing), Inc. (l)	IHG Japan (Management) LLC (ar)	
Holiday Inns (Courtalin) Holdings SAS (x)	IHG Japan (Osaka) LLC (ar)	
Holiday Inns (Courtalin) SAS (b) (x)	IHG Management (Maryland) LLC (g) (as)	
Holiday Inns (England) Limited (n)	IHG Management (Netherlands) B.V. (p)	
Holiday Inns (Germany), LLC (g) (l)	IHG Management MD Barclay Sub LLC (g) (cj)	
Holiday Inns (Guangzhou), Inc. (l)	IHG Management SL d.o.o (bo)	
Holiday Inns (Jamaica) Inc. (l)	IHG Orchard Street Member, LLC (g) (k)	
Holiday Inns (Middle East) Limited (ac)	IHG PS Nominees Limited (n)	
Holiday Inns (Philippines), Inc. (l)	IHG Systems Pty Ltd (d) (aa)	
Holiday Inns (Saudi Arabia), Inc. (l)	IHG Szalloda Budapest Szolgaltato Kft. (at)	
Holiday Inns (Thailand) Ltd. (ac)	IND East Village SD Holdings, LLC (g) (k)	
Holiday Inns (UK), Inc. (l)		
Holiday Inns Crowne Plaza (Hong Kong), Inc. (l)		
Holiday Inns Holdings (Australia) Pty Ltd (aa)		

Notes to the Group Financial Statements continued

34. Group companies continued

Fully owned subsidiaries continued

InterContinental Overseas Holding Corporation (k)
 KG Benefits LLC (g) (k)
 KG Gift Card Inc. (bz)
 KG Liability LLC (g) (k)
 KG Technology, LLC (g) (k)
 KHP Washington Operator LLC (g) (k)
 KHRG 11th Avenue Hotel LLC (g) (k)
 KHRG 851 LLC (g) (k)
 KHRG Aertson LLC (g) (k)
 KHRG Alexis, LLC (g) (k)
 KHRG Allegro, LLC (g) (k)
 KHRG Argyle, LLC (g) (k)
 KHRG Austin Beverage Company, LLC (g) (k)
 KHRG Baltimore, LLC (g) (k)
 KHRG Born LLC (g) (k)
 KHRG Boston Hotel, LLC (g) (k)
 KHRG Canary LLC (g) (k)
 KHRG Cayman LLC (g) (k)
 KHRG Cayman Employer Ltd. (k)
 KHRG DC 1731 LLC (g) (k)
 KHRG DC 2505 LLC (g) (k)
 KHRG Donovan LLC (g) (k)
 KHRG Employer, LLC (g) (k)
 KHRG Goleta LLC (g) (k)
 KHRG Gray LLC (g) (k)
 KHRG Gray U2 LLC (g) (k)
 KHRG Huntington Beach LLC (g) (k)
 KHRG Key West LLC (g) (k)
 KHRG King Street, LLC (g) (k)
 KHRG La Peer LLC (g) (k)
 KHRG Miami Beach LLC (g) (k)
 KHRG Muse LLC (g) (k)
 KHRG NPC LLC (g) (k)
 KHRG Onyx LLC (g) (k)
 KHRG Palladian LLC (g) (k)
 KHRG Palomar Phoenix LLC (g) (k)
 KHRG Philly Monaco LLC (g) (k)
 KHRG Pittsburgh LLC (g) (k)
 KHRG Reynolds LLC (g) (k)
 KHRG Riverplace LLC (g) (k)
 KHRG Sacramento LLC (g) (k)
 KHRG Savannah LLC (g) (k)
 KHRG Schofield LLC (g) (k)
 KHRG Sedona LLC (g) (k)
 KHRG SFD LLC (g) (k)
 KHRG South Beach LLC (g) (k)
 KHRG State Street LLC (g) (k)
 KHRG Sutter LLC (g) (k)
 KHRG Sutter Union LLC (g) (k)
 KHRG Taconic LLC (g) (k)
 KHRG Tariff LLC (g) (k)
 KHRG Texas Hospitality, LLC (g) (k)
 KHRG Texas Operations, LLC (g) (k)
 KHRG Tryon LLC (g) (k)
 KHRG Vero Beach, LLC (g) (k)
 KHRG Vintage Park LLC (g) (k)
 KHRG VZ Austin LLC (g) (k)
 KHRG Wabash LLC (g) (k)
 KHRG Westwood, LLC (g) (k)
 KHRG Wilshire LLC (g) (k)
 KHRG Zamora LLC (g) (k)

Kimpton Hollywood Licenses LLC (g) (k)
 Kimpton Hotel & Restaurant Group, LLC (g) (k)
 Kimpton Phoenix Licenses Holdings LLC (g) (k)
 Kimpton Sedona Licenses LLC (g) (k)
 Louisiana Acquisitions Corp. (k)
 Manchester Oxford Street Hotel OpCo Limited (n)
 Mercer Fairview Holdings LLC (g) (k)
 Met Leeds Hotel OpCo Limited (n)
 MH Lodging LLC (g) (k)
 PML Services LLC (g) (as)
 Pollstrong Limited (n)
 Powell Pine, Inc. (k)
 Priscilla Holiday of Texas, Inc. (cl)
 PT Regent Indonesia (r)
 PT SC Hotels & Resorts Indonesia (bh)
 Regent Asia Pacific Hotel Management Ltd (bw)
 Regent Asia Pacific Management Ltd (cp)
 Regent Berlin GmbH (cq)
 Regent International Hotels Ltd (bw)
 Resort Services International (Cayo Largo) L.P. (ci)
 Roxburghe Hotel Edinburgh OpCo Limited (n)
 Russell London Hotel OpCo Limited (n)
 SBS Maryland Beverage Company LLC (g) (as)
 SC Hotels International Services, Inc. (k)
 SC Leisure Group Limited (n)
 SC NAS 2 Limited (n)
 SC Quest Limited (n)
 SC Reservations (Philippines) Inc. (l)
 SCH Insurance Company (bi)
 SCIH Branston 3 (n)
 Semiramis for training of Hotel Personnel and Hotel Management SAE (ch)
 SF MH Acquisition LLC (g) (k)
 Six Continents Corporate Services (ay)
 Six Continents Holdings Limited (n)
 Six Continents Hotels de Colombia SA (bj)
 Six Continents Hotels International Limited (n)
 Six Continents Hotels, Inc. (k)
 Six Continents International Holdings B.V. (p)
 Six Continents Investments Limited (f) (n)
 Six Continents Limited (n)
 Six Continents Overseas Holdings Limited (n)
 Six Continents Restaurants Limited (n)
 SixCo North America, Inc. (w)
 Solamar Lodging LLC (g) (k)
 Southern Pacific Hotel Corporation (BVI) Ltd. (v)
 Southern Pacific Hotels Properties Limited (v)
 SPHC Group Pty Ltd. (aa)
 SPHC Management Ltd. (bq)
 St David's Cardiff Hotel OpCo Limited (n)
 The Grand Central Hotel Glasgow Limited (n)
 The Met Hotel Leeds Limited (n)
 The Principal Edinburgh George Street Limited (n)
 The Principal London Limited (n)
 The Principal Manchester Limited (n)
 The Principal York Limited (n)
 The Roxburghe Hotel Edinburgh Limited (s)
 Universal de Hoteles SA (bj)
 White Shield Insurance Company Limited (bk)
 Wotton House Hotel OpCo Limited (n)
 York Station Road Hotel OpCo Limited (n)

Subsidiaries where the effective interest is less than 100%

H.I. Soaltee Management Company Ltd (76.5%) (ac)
 IHG ANA Hotels Group Japan LLC (74.66%) (ar)
 IHG ANA Hotels Holdings Co., Ltd. (66%) (ar)
 Regent Hospitality Worldwide, Inc. (51%) (bt)
 World Trade Centre Montreal Hotel Corporation (74.11%) (bl)

Associates and joint ventures

111 East 48th Street Holdings LLC (19.9%) (g) (h) (k)
 Alkoer, S. de R.L. de C.V. (50%) (h) (cg)
 BCRC IHG 180 Orchard Holdings LLC (49%) (g) (cf)
 Beijing Orient Express Hotel Co., Ltd. (16.24%) (bm)
 Blue Blood (Tianjin) Equity Investment Management Co., Limited (30.05%) (bn)
 Carr Clark SWW Subventure, LLC (26.67%) (g) (ca)
 Carr Waterfront Hotel, LLC (11.46%) (g) (h) (ca)
 China Hotel Investment Limited (30.05%) (i) (am)
 Desarrollo Alkoer Irapuato S. de R.L. de C.V. (50%) (cg)
 Desarrollo Alkoer Saltillo S. de R.L. de C.V. (50%) (cg)
 Desarrollo Alkoer Silao S. de R.L. de C.V. (50%) (cg)
 Gestion Hotelera Gestel, C.A. (50%) (c) (h) (ba)
 H.I. Soaltee Hotel Company Private Ltd (33.4%) (br)
 Hotel JV Services LLC (17.8%) (c) (g) (cb)
 Inter-Continental Hotels Saudi Arabia Limited (40%) (bs)
 NF III Seattle, LLC (25%) (g) (cc)
 Nuevas Fronteras S.A. (23.66%) (cd)
 Panacon (33.33%) (ce)
 President Hotel & Tower Co Ltd. (30%) (bu)
 Tianjin ICBCI IHG Equity Investment Fund Management Co., Limited (21.04%) (bv)

34. Group companies continued

Key

- (a) Directly owned by InterContinental Hotels Group PLC
- (b) Ordinary shares and preference shares
- (c) Ordinary A and ordinary B shares
- (d) Ordinary shares and redeemable preference shares
- (e) 1/4 vote ordinary shares and ordinary shares
- (f) Ordinary shares, 5% cumulative preference shares and 7% cumulative preference shares
- (g) The entities do not have share capital and are governed by an operating agreement
- (h) Accounted for as associates and joint ventures due to IHG's decision-making rights contained in the partnership agreement
- (i) Accounted for as an other financial asset due to IHG being unable to exercise significant influence over the financial and operating policy decisions of the entity

Registered addresses

- (j) Krunska 73, Beograd, 11000, Serbia
- (k) 251 Little Falls Drive, Wilmington, DE 19808, USA
- (l) 2908 Poston Avenue, Nashville, TN 37203, USA
- (m) Clarendon House, 2 Church Street, Hamilton HM11, Bermuda
- (n) Broadwater Park, Denham, Buckinghamshire, UB9 5HR, UK
- (o) 199 Bay Street, Suite 2800, Commerce Court West, Toronto, ON M5L 1A9, Canada
- (p) Kingsfordweg 151, 1043 GR Amsterdam, The Netherlands
- (q) Alameda Jau 536, Suite 3s-A, 01420-000 Sao Paulo, Brazil
- (r) Gedung Mega Plaza Lantai 12, Jl. H. R. Rasuna Said Kav. C-3, Kelurahan Karet, Kecamatan Setiabudi, Jakarta Selatan, Indonesia
- (s) Caledonian Exchange, 19a Canning Street, Edinburgh, EH3 8HE, UK
- (t) Building 4, No. 13 Xiao Gang Zhong Ma Road, Zhuhai District, Guangzhou, Guangdong, P.R. China
- (u) 29 Earlsfort Terrace, Dublin 2, D02 AY28, Ireland
- (v) Craigmuir Chambers, Road Town, Tortola VG1110, British Virgin Islands
- (w) Wilmington Trust SP Services, Inc. 1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA
- (x) 31-33 rue Mogador - 75009 Paris, France
- (y) Bucharest, 1st District, 50-52 Buzesti St, 83 module, 11 floor, Romania
- (z) 230 J E Irausquin Boulevard, Palm Beach, Aruba
- (aa) Level 11, 20 Bond Street, Sydney NSW 2000, Australia
- (ab) Ontario # 1050, Col. Providencia. Guadalajara, Jalisco CP 44630, Mexico
- (ac) Level 54, Hopewell Center, 183 Queen's Road East, Hong Kong
- (ad) Rond Punt Schumanplein 11, 1040 Brussels, Belgium
- (ae) Johannesgasse 28, 1030 Wien, Am Heumarkt 4, 1030 Wien, Austria
- (af) Avenida da Republica, no 52 - 9, 1069 - 211, Lisbon, Portugal
- (ag) 24, Rusakovskaya Str., Moscow 107014, Russian Federation
- (ah) 10 Bo Yar Zar Street, Kyaukkone Yankin Township, Yangon, Myanmar
- (ai) 230 Victoria Street, #13-00 Bugis Junction Towers, 188024, Singapore
- (aj) 973 President Tower, 7th Floor, Units 7A, 7B, 7C, 7D, 7I, 7F, 7G and 7H, Ploenchit Road, Khwaeng Lumpini, Khet Pathumwan, Bangkok Metropolis, 10330, Thailand
- (ak) Alameda Jau 536, Suite 3S-B, 01420-000 Sao Paulo, Brazil
- (al) Avenida Cordoba 1547, piso 8, oficina A, Buenos Aires, Argentina
- (am) The Phoenix Centre, George Street, Belleville St. Michael, Barbados
- (an) Floor 9, 36 Kitchener Street, Auckland Central, Auckland 1010, New Zealand
- (ao) 1, Murtala Muhammed Drive, Ikoyi, Lagos, Nigeria
- (ap) Central Office Park Unit 4, 257 Jean Avenue, Centurion 0157, South Africa
- (aq) 11th Floor, Building No. 10, Tower C, DLF Phase-II, DLF Cyber City, Gurgaon, Haryana-122002, India
- (ar) 20th Floor, Toranomom Kotohira Tower, 2-8, Toranomom 1-chome, Minato-ku, Tokyo, Japan
- (as) HIQ Corporate Services Inc., 715 St. Paul Street, Baltimore, MD 21202, USA
- (at) 1052 Budapest, Apáczai Csere János u. 12-14, Hungary
- (au) Budapest Str. 2, 10787 Berlin, Germany
- (av) Koenigsallee 59, D-40215, Dusseldorf, Germany
- (aw) Alameda Jau 536, Suite 3S-E, 01420-000 Sao Paulo, Brazil
- (ax) InterContinental Montreal, 360 St. Antoine Street West, Montreal, Quebec H2Y 3X4, Canada
- (ay) BDO LLP, Two Snowhill, Birmingham, B4 6GA, UK
- (az) 361 San Francisco Street Penthouse, San Juan, PR 00901, Puerto Rico
- (ba) Hotel Tamanaco Inter-Continental, Final Av. Ppal, Mercedes, Caracas, Venezuela
- (bb) 22nd Floor, Citigroup Tower, No. 33 Huayuanshiqiao Road, Pudong, Shanghai, P.R. China
- (bc) Alameda Jau 536, Suite 3S-C, 01420-000 Sao Paulo, Brazil
- (bd) Alameda Jau 536, Suite 3S-D, 01420-000 Sao Paulo, Brazil
- (be) Bastioni di Porta Nuova 21, 20121 Milano, Italy
- (bf) Thurn-und-Taxis-Platz 6 - 60313 Frankfurt am Main, Germany
- (bg) JurisTax Services Ltd, Level 12, NeXTeracom Tower II, Ebene, Mauritius
- (bh) Menara Impreium 22nd Floor, Suite D, Jl. HR. Rasuna Said Kav.1, Guntur Sub-district, Setiabudi District, South Jakarta 12980, Indonesia
- (bi) 150 South Champlain Street, Burlington, VT 05401, USA
- (bj) Calle 49, Sur 45 A 300 Of 1102 Envigado Antioquia, Colombia
- (bk) Suite B, Ground Floor, Regal House, Queensway, Gibraltar
- (bl) Suite 2500, 1000 De La Gauchetiere St. West, Montreal QC H3B OA2, Canada
- (bm) Room 311, Building 1, No 6 East Wen Hua Yuan Road, Beijing Economy and Technology Development Zone, Beijing, P.R.China
- (bn) Room N306, 3rd Floor, Building 6, Binhai Financial Street, No. 52 West Xincheng Road, Tianjin Economy and Technology Development Zone, Tianjin, P.R. China
- (bo) Cesta v Mestni log 1, 1000 Ljubljana, Slovenia
- (bp) 51B Bulgaria Blvd, 4th Floor, District Triaditsa, Sofia, 1404, Bulgaria
- (bq) C/o Holiday Inn & Suites, Cnr Waigani Drive & Wards Road, Port Moresby, National Capital District, Papua New Guinea
- (br) Tahachal, Kathmandu, Nepal
- (bs) Madinah Road, Jeddah, P.O Box 9456, Post Code 21413, Jeddah, Saudi Arabia
- (bt) Maples Corporate Services Ltd. - PO Box 309, Ugland House, Grand Cayman - KY-1104, Cayman Islands
- (bu) 971, 973 Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330, Thailand
- (bv) Room R316, 3rd Floor, Building 6, Binhai Financial Street, No. 52 West Xincheng Road, Tianjin Economy and Technology Development Zone, Tianjin, P.R. China
- (bw) 14th Floor, South China Building, 1-3 Wyndham Street, Hong Kong
- (bx) Eski Büyükdere Cd. Park Plaza No:14 K:4 Maslak - Sariyer, Istanbul, Turkey
- (by) Paseo de la Castellana 49, 28046 Madrid, Spain
- (bz) 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833-3505, USA
- (ca) Carr Hospitality, LLC, 1455 Pennsylvania Avenue, NW, Suite 100, Washington, DC 20004, USA
- (cb) 2711 Centerville Road, Suite 400, Wilmington, DE 19805, USA
- (cc) 2000 Monarch Tower, 3424 Peachtree Road, N.E., Atlanta, GA 30326, USA
- (cd) Moreno 809 2 Piso, Buenos Aires, Argentina
- (ce) Pan-American Life Insurance Company, 601 Poydras Street, New Orleans, LA 70130, USA
- (cf) Brack Capital Real Estate Ltd., 885 Third Avenue, 24th Floor, New York, NY 10022, USA
- (cg) Avenida Ejercito Nacional Mexicano No. 769, Torre B Piso 8, Granada, Miguel Hidalgo, Ciudad de México, CP 11520, Mexico
- (ch) Ground Floor, Al Kamel Law Building, Plot 52-b, Banks Area, Six of October City, Egypt
- (ci) 40 Technology Pkwy South, #300 Norcross GA 30092, USA
- (cj) 80 State Street, Albany NY 12207-2543, USA
- (ck) 2215-B Renaissance Drive, Las Vegas, NV 89119, USA
- (cl) 11003 Onion Creek Court, Austin, TX 78747, USA
- (cm) 10 Vazgen Sargsyan, Office 114, Yerevan, RA 0010, Armenia
- (cn) Al. Jerzolimskie 56C, 00-803 Warsaw, Poland
- (co) Suite 1, Ground Floor, The Financial Services Centre, Bishops Court Hill, St. Michael, Barbados, BB14004
- (cp) Brumby Centre, Lot 42, Jalan Muhibbah, 87000 Labuan F.T., Malaysia
- (cq) Charlottenstrasse 49, Berlin, 10117, Germany





Parent Company Financial Statements

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Kimpton Fitzroy London, United Kingdom

Parent Company Financial Statements

Parent Company statement of financial position

31 December 2018	Note	2018 £m	2017 £m
Fixed assets			
Investments	3	3,072	3,042
Current assets			
Debtors: due after more than one year	4	7	–
Debtors: due within one year	4	369	13
Creditors: amounts falling due within one year	6	(1)	(898)
Net current assets/(liabilities)		375	(885)
Total assets less current liabilities		3,447	2,157
Creditors: amounts falling due after one year	7	(1,496)	(1,049)
Net assets		1,951	1,108
Capital and reserves			
Called up share capital	9	39	39
Share premium account		75	75
Capital redemption reserve		7	7
Share-based payment reserve		305	275
Cash flow hedging reserve		(2)	–
Profit and loss account		1,527	712
Total equity		1,951	1,108

Signed on behalf of the Board,

Paul Edgecliffe-Johnson

18 February 2019

The profit on ordinary activities after taxation amounts to £964m (2017: £460m).

Parent Company statement of changes in equity

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Share- based payment reserve £m	Cash flow hedging reserve £m	Profit and loss account £m	Total equity £m
At 1 January 2017	39	75	7	252	–	706	1,079
Profit for the year	–	–	–	–	–	460	460
Total comprehensive income for the year	–	–	–	–	–	460	460
Share-based payments capital contribution	–	–	–	23	–	–	23
Equity dividends paid	–	–	–	–	–	(454)	(454)
At 31 December 2017	39	75	7	275	–	712	1,108
Profit for the year	–	–	–	–	–	964	964
Other comprehensive income items that may be subsequently reclassified to profit or loss:							
Gains on cash flow hedges	–	–	–	–	5	–	5
Costs of hedging	–	–	–	–	(1)	–	(1)
Hedging gains reclassified to financial expenses	–	–	–	–	(6)	–	(6)
Total other comprehensive loss for the year	–	–	–	–	(2)	–	(2)
Total comprehensive income for the year	–	–	–	–	(2)	964	962
Share-based payments capital contribution	–	–	–	30	–	–	30
Equity dividends paid	–	–	–	–	–	(149)	(149)
At 31 December 2018	39	75	7	305	(2)	1,527	1,951



Notes on pages 165 to 169 form an integral part of these Financial Statements.

Notes to the Parent Company Financial Statements

1. Accounting policies

Authorisation of Financial Statements and statement of compliance with FRS 101

The Parent Company Financial Statements of InterContinental Hotels Group PLC (the Company) for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 18 February 2019 and the statement of financial position was signed on the Board's behalf by Paul Edgecliffe-Johnson. The Company is a public limited company incorporated and domiciled in the UK. The Company's ordinary shares are publicly traded on the London Stock Exchange and it is not under the control of any single shareholder.

The Directors have assessed, in the light of current and anticipated economic conditions, the Company's ability to continue as a going concern. The Directors confirm they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and accordingly, they continue to adopt the going concern basis in preparing the Parent Company Financial Statements.



For further consideration of the going concern position of the Group see page 181 of the Directors' Report.

The Parent Company Financial Statements are presented in sterling and all values are rounded to the nearest million pounds (£m) except when otherwise indicated.

These Financial Statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

No income statement is presented for the Company as permitted by Section 408 of the Companies Act 2006.

The audit fee of £0.02m (2017: £0.02m) was borne by a subsidiary undertaking in both years.

Basis of preparation

The Parent Company Financial Statements have been prepared in accordance with FRS 101, as applied in accordance with the provisions of the Companies Act 2006. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of IFRS as adopted by the EU.

FRS 101 sets out amendments to IFRS as adopted by the EU that are necessary to achieve compliance with the Companies Act and related Regulations.

The following disclosures have not been provided as permitted by FRS 101:

- A cash flow statement and related notes as required by IAS 7 'Statement of Cash Flows';
- A comparative period reconciliation for share capital as required by IAS 1 'Presentation of Financial Statements';
- Disclosures in respect of transactions with wholly owned subsidiaries as required by IAS 24 'Related Party Disclosures';
- Disclosures in respect of capital management as required by paragraphs 134 to 136 of IAS 1 'Presentation of Financial Statements';
- The effects of new but not yet effective IFRSs as required by paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'; and
- Disclosures in respect of the compensation of key management personnel as required by paragraph 17 of IAS 24 'Related Party Disclosures'.

Where the Consolidated Financial Statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment' in respect of group settled share-based payments; and
- The requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instruments: Disclosures'.

The accounting policies set out herein have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements.

Foreign currency

Transactions in foreign currencies are translated to the Company's 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. Where dividends have been proposed in US dollars, the supplementary information included in note 10 to the Financial Statements details the exchange rates which will be used to calculate the sterling dividend payable.

Notes to the Parent Company Financial Statements continued

1. Accounting policies continued

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, amounts due from and amounts due to Group undertakings and loans and other borrowings.

Investments in equity securities

Investments in subsidiaries are carried at cost plus deemed capital contributions arising from share-based payment transactions less any provision for impairment. The carrying amount is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

Amounts due from and amounts due to Group undertakings

Amounts due from and amounts due to Group undertakings are initially recognised at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The carrying value is assessed at each reporting date to determine whether there is objective evidence that it is impaired. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Loans and other borrowings

Loans 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 due after more than one year 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 re-measured at fair value. The method of recognising the re-measurement 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 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 arrangement 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 expense over the term of the agreement, unless the accounting treatment for the hedging relationship requires the interest to be taken to reserves.

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.

Where the Company grants options over its own shares to the employees of its subsidiaries, it recognises, in the Parent Company Financial Statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its Consolidated Financial Statements with the corresponding credit being recognised directly in equity.

2. Directors' remuneration

The average number of Directors employed by the Company during the year, analysed by category, was as follows:

	2018	2017
Non-Executive Directors	8	8
Executive Directors	3	2
	11	10

	2018 £m	2017 £m
Directors' emoluments		
Base salaries, fees, performance payments and benefits	5.3	3.8



More detailed information on the emoluments, pensions, share awards and shareholdings for each Director is shown in the Directors' Remuneration Report on pages 72 to 85.

	Number of Directors	
	2018	2017
The number of Directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	3	3

3. Investments

	£m
Cost and net book value	
At 1 January 2018	3,042
Share-based payments capital contribution	30
At 31 December 2018	3,072

The Company is the beneficial owner of all the equity share capital of InterContinental Hotels Limited, a company registered in England and Wales.



A full list of subsidiary and other related undertakings is given in note 34 of the Group Financial Statements on pages 159 to 161.

4. Debtors

	2018 £m	2017 £m
Due after more than one year		
Derivative financial assets (note 5)	7	-
Due within one year		
Amounts owed by Group undertakings	358	1
Corporate taxation	11	12
	369	13

Notes to the Parent Company Financial Statements continued

5. Derivative financial assets and hedging

At 31 December 2018, the Company held a currency swap with a principal of £436m. This swap was transacted at the same time as the €500m 2.125% bonds were issued in November 2018 in order to swap the bonds' proceeds and interest flows into sterling. Under the terms of the swap, £436m was borrowed and €500m deposited for eight and a half years at a fixed exchange rate of £1 = €1.15. The fair value of this derivative was £7m asset at 31 December 2018. The currency swaps are designated as hedging instruments in cash flow hedges of the exposure to foreign exchange risk on the €500m 2.125% bonds. The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period was £7m.

The cash flow hedging reserve is analysed as follows:

	Cash flow hedging reserve		
	Value of currency swap £m	Cost of hedging £m	Total £m
At 1 January 2018	-	-	-
Costs of hedging deferred and recognised in other comprehensive income	-	(1)	(1)
Change in fair value of currency swap recognised in other comprehensive income	5	-	5
Reclassified from other comprehensive income to profit or loss – included in financial expenses	(6)	-	(6)
At 31 December 2018	(1)	(1)	(2)

6. Creditors: amounts falling due within one year

	2018 £m	2017 £m
Amounts due to Group undertakings	1	898

7. Creditors: amounts falling due after more than one year

	2018 £m	2017 £m
Loans and other borrowings		
£400m 3.875% bonds 2022	399	398
£300m 3.75% bonds 2025	301	301
£350m 2.125% bonds 2026	350	350
€500m 2.125% bonds 2027	446	-
	1,496	1,049

The 3.875% fixed interest sterling bonds were issued on 28 November 2012 and are repayable in full on 28 November 2022. Interest is payable annually on 28 November. The bonds were initially priced at 98.787% of face value and are unsecured.

The 3.75% fixed interest sterling bonds were issued on 14 August 2015 and are repayable in full on 14 August 2025. Interest is payable annually on 14 August. The bonds were initially priced at 99.014% of face value and are unsecured.

The 2.125% fixed interest sterling bonds were issued on 24 August 2016 and are repayable in full on 24 August 2026. Interest is payable annually on 24 August. The bonds were initially priced at 99.45% of face value and are unsecured.

The 2.125% fixed interest euro bonds were issued on 15 November 2018 and are repayable in full on 15 May 2027. Interest is payable annually on 15 May. The bonds were initially priced at 99.53% of face value and are unsecured. A currency swap was transacted at the same time the bonds were issued in order to swap the proceeds and interest flows into sterling.

8. Employee benefits

Share-based payments

The Company operates the Annual Performance Plan and Long Term Incentive Plan (performance-related awards and restricted stock units).



More detailed information on the plans is shown in note 26 of the Group Financial Statements on pages 153 to 154.

The weighted average share price at the date of exercise for share awards vested during the year was 4,583.8p (2017: 3,804.7p).

The share awards outstanding at the year end have a weighted average contractual life of 1.0 years (2017: 1.2 years) for the Annual Performance Plan, 0.8 years (2017: 0.6 years) for performance-related awards and 1.2 years (2017: 1.7 years) for restricted stock units.

9. Capital and reserves

	Number of shares millions	Equity share capital £m
Allotted, called up and fully paid		
At 1 January 2017 (ordinary shares of 18 ³¹⁸ / ₃₂₉ p each)	206	39
Share capital consolidation	(9)	-
At 31 December 2018 and 31 December 2017 (ordinary shares of 19¹⁷/₂₁p each)	197	39

The authority given to the Company at the Annual General Meeting (AGM) held on 4 May 2018 to purchase its own shares was still valid at 31 December 2018. A resolution to renew the authority will be put to shareholders at the AGM on 3 May 2019.

The Company no longer has an authorised share capital.

At 31 December 2018, 6,827,020 (2017: 7,607,430) shares with a nominal value of £1,352,400 (2017: £1,506,996) were held as treasury shares at cost.

The share premium reserve represents the amount of proceeds received for shares in excess of their nominal value.

10. Dividends and shareholder returns

	2018 pence per share	2017 pence per share	2018 £m	2017 £m
Paid during the year:				
Final (declared for previous year)	50.2	49.4	96	98
Interim	27.7	24.4	53	46
Special	-	156.4	-	310
	77.9	230.2	149	454

On 21 February 2017, the Group announced a \$400m return of funds to shareholders by way of a special dividend and share consolidation. On 5 May 2017, shareholders approved the share consolidation on the basis of 45 new ordinary shares of 19¹⁷/₂₁p per share for every 47 existing ordinary shares of 18³¹⁸/₃₂₉p, which became effective on 8 May 2017. The special dividend was paid to shareholders on 22 May 2017.

The final dividend of 78.1¢ per ordinary share (amounting to \$141m) is proposed for approval at the AGM on 3 May 2019 and is payable on shares in issue at 29 March 2019. The final dividend will be paid at a rate per share calculated using the average of the daily exchange rates from 23 April 2019 to 25 April 2019 inclusive, and will be announced on 26 April 2019.

11. Contingencies

Contingent liabilities of £nil (2017: £196m) in respect of the guarantees of the liabilities of subsidiaries have not been provided for in these Financial Statements.

12. Post balance sheet events

On 19 October 2018, the Company announced a \$500m return of funds to shareholders by way of a special dividend of \$2.621 per ordinary share, together with a share consolidation.

On 11 January 2019, shareholders approved the share consolidation on the basis of 19 new ordinary shares of 20³⁴⁰/₃₉₉p per share for every 20 existing ordinary shares of 19¹⁷/₂₁p, which became effective on 14 January 2019 and resulted in the consolidation of 10m shares.

The special dividend, was paid on 29 January 2019 amounting to 203.8p (\$2.621) per existing ordinary share at a total cost of £388m.

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Good
all
round



Other financial information

Use of Non-GAAP measures

In addition to performance measures directly observable in the Group Financial Statements (IFRS measures), additional measures (described as Non-GAAP) are presented that are used internally by management as key measures to assess performance. Non-GAAP measures are either not defined under IFRS or are adjusted IFRS figures.

Further explanation in relation to these measures can be found on page 36.

Underlying revenue and underlying operating profit Non-GAAP reconciliations

The following tables:

- Reconcile the GAAP measures included in the Group Financial Statements to Group underlying revenue and underlying operating profit;
- Show underlying revenue and underlying operating profit on both an actual and constant currency basis^a;
- Reconcile segmental underlying revenue and underlying operating profit to Group underlying revenue and operating profit; and
- Show underlying Group fee revenue and Group fee margin on both an actual and constant currency basis^a.

^a IHG's method for calculating the constant currency amounts of entities reporting in currencies other than US dollars is to translate the current period results into US dollars using the prior period's exchange rate. For example, if a UK entity generated revenue of £100m in 2018 and 2017, the Group Financial Statements would report revenue of \$133m in 2018 and \$128m in 2017, using the respective average exchange rates for the year of \$1=£0.75 and \$1=£0.78. For constant currency reporting, 2018 revenue would be translated at \$1=£0.78 giving a US dollar value of \$128m, thereby showing that underlying revenue was flat year-on-year. An exception to this approach is made for currencies experiencing high volatility in order to remove the distorting effect on underlying results where the average daily rate broadly keeps pace with inflation. In 2018 this exception has been applied to fees earned from hotels in Venezuela.

Highlights for the year ended 31 December 2018

	Revenue				Operating profit			
	2018 \$m	2017 Restated \$m	Change \$m	Change %	2018 \$m	2017 Restated \$m	Change \$m	Change %
At actual exchange rates								
Per Group income statement	4,337	4,075	262	6.4	566	728	(162)	(22.3)
Significant liquidated damages	(13)	-	(13)	-	(13)	-	(13)	-
Exceptional items	-	-	-	-	104	(4)	108	2,700.0
Acquisition of businesses	(85)	-	(85)	-	1	-	1	-
System Fund	(1,233)	(1,242)	9	0.7	146	34	112	329.4
Reimbursement of costs	(1,171)	(1,103)	(68)	(6.2)	-	-	-	-
Underlying at actual exchange rates	1,835	1,730	105	6.1	804	758	46	6.1
	At actual exchange rates				At constant currency			
	2018 \$m	2017 Restated \$m	Change \$m	Change %	2018 \$m	2017 Restated \$m	Change \$m	Change %
Underlying revenue								
Americas	1,051	999	52	5.2	1,053	999	54	5.4
EMEA	478	457	21	4.6	471	457	14	3.1
Greater China	136	117	19	16.2	135	117	18	15.4
Central	170	157	13	8.3	169	157	12	7.6
Underlying Group revenue	1,835	1,730	105	6.1	1,828	1,730	98	5.7
Owned, leased and managed lease revenue included above	(363)	(351)	(12)	(3.4)	(359)	(351)	(8)	(2.3)
Underlying Group fee revenue	1,472	1,379	93	6.7	1,469	1,379	90	6.5
Underlying operating profit								
Americas	662	637	25	3.9	663	637	26	4.1
EMEA	197	171	26	15.2	196	171	25	14.6
Greater China	62	52	10	19.2	62	52	10	19.2
Central	(117)	(102)	(15)	(14.7)	(116)	(102)	(14)	(13.7)
Underlying Group operating profit	804	758	46	6.1	805	758	47	6.2
Owned, leased and managed lease operating profit included above	(33)	(35)	2	5.7	(34)	(35)	1	2.9
Underlying Group fee operating profit	771	723	48	6.6	771	723	48	6.6
Group fee margin	52.4%	52.4%	-	0.0ppts	52.5%	52.4%	-	0.1ppts

Highlights for the year ended 31 December 2017

	Revenue				Operating profit			
	2017 Restated \$m	2016 Restated \$m	Change \$m	Change %	2017 Restated \$m	2016 Restated \$m	Change \$m	Change %
At actual exchange rates								
Per Group income statement	4,075	3,912	163	4.2	728	712	16	2.2
Exceptional items	-	-	-	-	(4)	29	(33)	(113.8)
System Fund	(1,242)	(1,199)	(43)	(3.6)	34	(35)	69	197.1
Reimbursement of costs	(1,103)	(1,046)	(57)	(5.4)	-	-	-	-
Underlying at actual exchange rates	1,730	1,667	63	3.8	758	706	52	7.4
	At actual exchange rates				At constant currency			
	2017 Restated \$m	2016 Restated \$m	Change \$m	Change %	2017 Restated \$m	2016 Restated \$m	Change \$m	Change %
Underlying revenue								
Americas	999	969	30	3.1	1,004	969	35	3.6
EMEA	457	439	18	4.1	460	439	21	4.8
Greater China	117	112	5	4.5	119	112	7	6.3
Central	157	147	10	6.8	158	147	11	7.5
Underlying Group revenue	1,730	1,667	63	3.8	1,741	1,667	74	4.4
Owned, leased and managed lease revenue included above	(351)	(338)	(13)	(3.8)	(350)	(338)	(12)	(3.6)
Underlying Group fee revenue	1,379	1,329	50	3.8	1,391	1,329	62	4.7
Underlying operating profit								
Americas	637	626	11	1.8	642	626	16	2.6
EMEA	171	157	14	8.9	173	157	16	10.2
Greater China	52	46	6	13.0	52	46	6	13.0
Central	(102)	(123)	21	17.1	(105)	(123)	18	14.6
Underlying Group operating profit	758	706	52	7.4	762	706	56	7.9
Owned, leased and managed lease revenue included above	(35)	(33)	(2)	(6.1)	(35)	(33)	(2)	(6.1)
Underlying Group fee operating profit	723	673	50	7.4	727	673	54	8.0
Group fee margin	52.4%	50.6%	-	1.8ppts	52.3%	50.6%	-	1.7ppts

Other financial information continued

Underlying earnings per ordinary share reconciliation

The following table reconciles basic earnings per ordinary share to underlying earnings per ordinary share.

	12 months ended 31 December	
	2018 \$m	2017 Restated \$m
Basic earnings per ordinary share		
Profit available for equity holders	351	540
Basic weighted average number of ordinary shares (millions)	190	193
Basic earnings per ordinary share (cents)	184.7	279.8
Underlying earnings per ordinary share		
Profit available for equity holders	351	540
Adjusted for:		
Significant liquidated damages	(13)	-
Tax on significant liquidated damages	3	-
Acquisition of businesses	1	-
Interest relating to deferred and contingent purchase consideration on current year acquisitions	5	-
System Fund revenues and expenses	146	34
Interest attributable to the System Fund	(19)	(13)
Tax attributable to the System Fund	-	3
Exceptional items before tax	104	(4)
Tax on exceptional items	(22)	2
Exceptional tax	(5)	(90)
Currency effect	1	-
Underlying profit available for equity holders	552	472
Underlying earnings per ordinary share (cents)	290.5	244.6

Net capital expenditure reconciliation

The following table reconciles net cash from investing activities to net capital expenditure.

	12 months ended 31 December	
	2018 \$m	2017 Restated \$m
Net cash from investing activities	(189)	(206)
Adjusted for:		
Contract acquisition costs, net of repayments	(54)	(57)
Tax paid on disposals	2	25
System Fund depreciation and amortisation	45	36
Acquisition of businesses, net of cash acquired	38	-
Net capital expenditure	(158)	(202)
Add back:		
Disposal receipts	(10)	(104)
Distributions from associates and joint ventures	(32)	-
System Fund depreciation and amortisation	(45)	(36)
Gross capital expenditure	(245)	(342)
Analysed as:		
Capital expenditure: maintenance and key money	(108)	(115)
Capital expenditure: recyclable investments	(38)	(85)
Capital expenditure: System Fund investments	(99)	(142)
Gross capital expenditure	(245)	(342)

Free cash flow reconciliation

The following table reconciles net cash from operating activities to free cash flow.

	12 months ended 31 December		
	2018 \$m	2017 Restated \$m	2016 Restated \$m
Net cash from operating activities	666	577	710
Adjusted for:			
Contract acquisition costs, net repayments	54	57	42
Less:			
Purchase of shares by employee share trusts	(3)	(3)	(10)
Capital expenditure: maintenance and key money	(108)	(115)	(96)
Cash receipt from renegotiation of long-term partnership agreement	-	-	(95)
Free cash flow	609	516	551

Underlying interest reconciliation

The following table reconciles net financial expenses to underlying interest.

	12 months ended 31 December	
	2018 \$m	2017 Restated \$m
Net financial expenses		
Financial income	5	4
Financial expenses	(86)	(76)
	(81)	(72)
Adjusted for:		
Interest payable on balances with the System Fund	(14)	(7)
Capitalised interest relating to System Fund assets	(5)	(6)
Underlying interest	(100)	(85)

Other financial information continued

Revenue per Available room (RevPAR), average daily rate and occupancy

RevPAR is the primary metric used by management to track hotel performance across regions and brands. RevPAR is also a commonly used performance measure in the hotel industry. RevPAR comprises IHG System rooms revenue divided by the number of room nights available and can be mathematically derived from occupancy rate multiplied by average daily rate (ADR). Occupancy rate is rooms occupied by hotel guests expressed as a percentage of rooms that are available. ADR is rooms revenue divided by the number of room nights sold.

References to RevPAR, occupancy and average daily rate are presented on a comparable basis comprising groupings of hotels that have traded in all months in both the current and prior year. The principal exclusions in deriving this measure are new hotels, hotels closed for major refurbishment and hotels sold in either of the two years. RevPAR and ADR are quoted at a constant US\$ conversion rate, in order to allow a better understanding of the comparable year-on-year trading performance excluding distortions created by fluctuations in exchange rates.

The following tables present RevPAR statistics for the year ended 31 December 2018 and a comparison to 2017. Fee business and owned, leased and managed lease statistics are for comparable hotels, and include only those hotels in the Group's System at 31 December 2018 and franchised, managed, owned, leased or managed leased by the Group since 1 January 2017. The comparison with 2017 is at constant US\$ exchange rates.

	Fee business		Owned, leased and managed lease	
	2018	Change vs 2017	2018	Change vs 2017
Americas				
InterContinental				
Occupancy	73.8%	-	80.1%	(3.9)ppt
Average daily rate	\$208.07	4.6%	\$282.86	6.0%
RevPAR	\$153.66	4.6%	\$226.48	1.1%
Kimpton				
Occupancy	79.9%	(0.2)ppt	-	-
Average daily rate	\$240.59	1.5%	-	-
RevPAR	\$192.16	1.2%	-	-
Crowne Plaza				
Occupancy	68.2%	(1.0)ppt	-	-
Average daily rate	\$127.32	1.7%	-	-
RevPAR	\$86.86	0.3%	-	-
Hotel Indigo				
Occupancy	74.3%	2.2ppt	-	-
Average daily rate	\$158.71	1.5%	-	-
RevPAR	\$117.91	4.7%	-	-
EVEN Hotels				
Occupancy	83.8%	8.6ppt	72.1%	1.2ppt
Average daily rate	\$203.70	(1.7)%	\$156.04	3.9%
RevPAR	\$170.66	9.5%	\$112.58	5.6%
Holiday Inn				
Occupancy	66.5%	(0.1)ppt	82.4%	2.3ppt
Average daily rate	\$113.99	2.0%	\$173.78	8.4%
RevPAR	\$75.79	1.8%	\$143.19	11.5%
Holiday Inn Express				
Occupancy	69.0%	0.4ppt	-	-
Average daily rate	\$114.33	1.0%	-	-
RevPAR	\$78.83	1.6%	-	-
Staybridge Suites				
Occupancy	77.4%	1.1ppt	-	-
Average daily rate	\$120.31	1.9%	-	-
RevPAR	\$93.16	3.3%	-	-
Candlewood Suites				
Occupancy	73.9%	0.2ppt	-	-
Average daily rate	\$85.54	1.5%	-	-
RevPAR	\$63.24	1.7%	-	-

RevPAR, average daily rate and occupancy continued

	Fee business		Owned, leased and managed lease	
	2018	Change vs 2017	2018	Change vs 2017
EMEA				
InterContinental				
Occupancy	73.3%	0.7ppt	67.2%	1.4ppt
Average daily rate	\$214.04	1.6%	\$212.94	(3.6)%
RevPAR	\$156.98	2.6%	\$143.15	(1.6)%
Crowne Plaza				
Occupancy	73.0%	0.3ppt	-	-
Average daily rate	\$127.83	3.0%	-	-
RevPAR	\$93.35	3.4%	-	-
Hotel Indigo				
Occupancy	80.7%	2.1ppt	-	-
Average daily rate	\$152.38	2.0%	-	-
RevPAR	\$122.93	4.7%	-	-
Holiday Inn				
Occupancy	73.9%	0.8ppt	95.4%	(1.7)ppt
Average daily rate	\$105.03	1.9%	\$141.57	8.8%
RevPAR	\$77.63	3.0%	\$135.02	6.9%
Holiday Inn Express				
Occupancy	77.6%	0.7ppt	-	-
Average daily rate	\$92.42	1.0%	-	-
RevPAR	\$71.75	2.0%	-	-
Staybridge Suites				
Occupancy	77.4%	(0.6)ppt	-	-
Average daily rate	\$127.62	2.0%	-	-
RevPAR	\$98.75	1.1%	-	-
Greater China				
InterContinental				
Occupancy	66.1%	2.9ppt	-	-
Average daily rate	\$135.75	1.6%	-	-
RevPAR	\$89.79	6.2%	-	-
HUALUXE				
Occupancy	60.3%	9.3ppt	-	-
Average daily rate	\$77.16	2.7%	-	-
RevPAR	\$46.50	21.5%	-	-
Crowne Plaza				
Occupancy	64.1%	2.8ppt	-	-
Average daily rate	\$85.13	3.4%	-	-
RevPAR	\$54.60	8.2%	-	-
Hotel Indigo				
Occupancy	73.9%	4.8ppt	-	-
Average daily rate	\$176.26	2.2%	-	-
RevPAR	\$130.17	9.3%	-	-
Holiday Inn				
Occupancy	69.5%	1.4ppt	-	-
Average daily rate	\$75.01	2.8%	-	-
RevPAR	\$52.17	4.8%	-	-
Holiday Inn Express				
Occupancy	68.2%	0.6ppt	-	-
Average daily rate	\$53.42	5.9%	-	-
RevPAR	\$36.43	6.9%	-	-

Directors' Report

This Directors' Report includes the information required to be given in line with the Companies Act or, where provided elsewhere, an appropriate cross reference is given. The Corporate Governance Statement approved by the Board is provided on pages 55 to 71 and incorporated by reference herein.

Subsidiaries, joint ventures and associated undertakings

The Group has over 360 subsidiaries, joint ventures and associated undertakings. A complete list of these entities is provided at note 34 of the Group Financial Statements on pages 159 to 161.

Directors

For biographies of the current Directors see pages 56 and 57.

Directors' and officers' (D&O) liability insurance and existence of qualifying indemnity provisions

The Company maintains the Group's D&O liability insurance policy, which covers Directors and officers of the Company defending civil proceedings brought against them in their capacity as Directors or officers of the Company (including those who served as Directors or officers during the year). There were no indemnity provisions relating to the UK pension plan for the benefit of the Directors during 2018.

Articles of Association

The Company's Articles of Association may only be amended by special resolution and are available on the Company's website at www.ihgplc.com/investors under Corporate governance. A summary is provided on pages 189 and 190.

Shares

Share capital

The Company's issued share capital at 31 December 2018 consisted of 197,597,600 ordinary shares of 19^{17/21} pence each, including 6,827,020 shares held in treasury, which constituted 3.5% of the total issued share capital (including treasury shares). There are no special control rights or restrictions on share transfers or limitations on the holding of any class of shares.

During 2018, 780,410 shares were transferred from treasury to the employee share ownership trust.

In January 2019, the Company's issued shares capital was subject to a 19 for 20 share consolidation effective as of 14 January 2019 (see page 169) as part of which 6,827,020 treasury shares were consolidated.

As far as is known to management, IHG is not directly or indirectly owned or controlled by another company or by any government. The Board focuses on shareholder value-creation. When it decides to return capital to shareholders, it considers all of its options, including share buybacks and special dividends.

Share issues and buybacks

At the AGM held on 4 May 2018, shareholders authorised the Directors to issue new shares and the Company to buy back existing shares. During 2018 these routine authorities were not exercised, save for the repurchase of 10 ordinary shares of 19^{17/21} pence in the capital of the Company for cancellation in December 2018 in connection with the \$500 million special dividend.

Dividends

In 2018, the Company announced a \$500 million return of funds to shareholders via special dividend and share consolidation on the basis of 19 ordinary shares of 20^{340/399} pence for share for every 20 ordinary shares of 19^{17/21} pence each (effective as of 14 January 2019).

Dividend	Ordinary shares	ADRs
Interim dividend An interim dividend was paid on 5 October 2018 to shareholders on the register at the close of business on 31 August 2018	27.7p	36.3¢
Final dividend Subject to shareholder approval, payable on 14 May 2019 to shareholders on the register at the close of business on 29 March 2019	N/A ^a	78.1¢
Special dividend A special dividend was paid on 29 January 2019 to shareholders on the register at the close of business on 11 January 2019	203.8p	262.1¢

^a The sterling amount of the final dividend will be announced on 26 April 2019 using the average of the daily exchange rates from 23 April 2019 to 25 April 2019 inclusive.

Major institutional shareholders

As at 18 February 2019, the Company had been notified of the following significant holdings in its ordinary shares under the UK Disclosure Guidance and Transparency Rules (DTRs):

Shareholder	As at 18 February 2019		As at 19 February 2018		As at 20 February 2017	
	Ordinary shares/ADSs ^a	% ^a	Ordinary shares/ADSs ^a	% ^a	Ordinary shares/ADSs ^a	% ^a
BlackRock, Inc.	10,165,234 ^b	5.60	11,280,241	5.92	10,930,440	5.53
Boron Investments B.V.	11,450,000	6.01	11,850,000	5.02	11,850,000	5.02
Cedar Rock Capital Limited	14,923,417	5.07	14,923,417	5.07	14,923,417	5.07
Fiera Capital Corporation	9,662,767	5.07	7,707,008	4.06	n/a	n/a
Fundsmith LLP	10,222,246	5.18	10,222,246	5.18	10,222,246	5.18
The Capital Group Companies, Inc.	9,670,450	5.09	9,670,450	5.09	9,864,894	4.99
FMR LLC	10,593,666 ^c	5.84	n/a	n/a	n/a	n/a

^a The number of shares and percentage of voting rights was determined at the time of the relevant disclosures made in accordance with Rule 5 of the DTRs and doesn't necessarily reflect the impact of any share consolidation or any changes in shareholding subsequent to the date of notification that are not required to be notified to us under the DTRs.

^b Total shown includes 1,079,442 qualifying financial instruments to which voting rights are attached.

^c Total shown includes 311,085 qualifying financial instruments to which voting rights are attached.

The Company's major shareholders have the same voting rights as other shareholders. The Company does not know of any arrangements the operation of which may result in a change in its control.

For further details on shareholder profiles, see page 200.

2018 share awards and grants to employees

Our current policy is to settle the majority of awards or grants under the Company's share plans with shares purchased in the market or from shares held in treasury; however, the Board continues to review this policy. The Company's share plans incorporate the current Investment Associations' guidelines on dilution which provide that commitments to new shares or re-issue treasury shares under executive plans should not exceed 5% of the issued ordinary share capital of the Company (adjusted for share issuance and cancellation) in any 10-year period. During the financial year ended 31 December 2018, the Company transferred 780,410 treasury shares (0.39% of issued share capital) to satisfy obligations under its share plans.

The estimated maximum dilution from awards made under the Company's share plans over the last 10 years is 2.6%.

As at 31 December 2018, no options were outstanding. 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.

Employee share ownership trust (ESOT)

IHG operates an ESOT for the benefit of employees and former employees. The ESOT receives treasury shares from the Company and purchases ordinary shares in the market and releases them to current and former employees in satisfaction of share awards. During 2018, the ESOT released 1,150,901 shares and at 31 December 2018 it held 568,786 ordinary 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.

Where shares held in the ESOT have been allocated to share plan participants on terms that entitle those participants to request or require the trustee of the ESOT to exercise the voting rights relating to those shares, the trustee shall exercise those votes in accordance with the directions of the participants. In respect of shares in the ESOT that have not been allocated to share plan participants, or have not been allocated on such terms, the trustee may vote or abstain from exercising their voting rights in relation to those shares, or accept or reject any offer relating to the shares, in any way it sees fit.

Unless otherwise requested by the Company, the trustee of the ESOT waives all ordinary dividends on the shares held in the ESOT, other than shares which have been allocated to participants on terms which entitle them to the benefit of dividends, except for such amount per share as shall, when multiplied by the number of shares held by it on the relevant date, equal one pence.

Colleague Share Plan

The Company proposes to implement a Colleague Share Plan, subject to shareholder approval at the Company's 2019 AGM. A summary of the proposed plan will be set out in the notice convening the Company's 2019 AGM, which will be available at www.ihgplc.com/investors under Shareholders centre in the AGMs and meetings section.

Future business developments of the Group

Further details on these are set out in the Strategic Report on pages 2 to 51.

Employees and Code of Conduct

Having a predominantly franchised and managed business model means that not all of those people who work at hotels operated under our brands are our employees. When the Group's entire estate is taken into account (including those working in our franchised and managed hotels), over 400,000 people worked globally across IHG's brands as at 31 December 2018.

IHG employed the following as at 31 December 2018:

- 7,598 people worldwide (including those in our corporate offices, central reservations offices and owned hotels (excluding those in a category below), whose costs were borne by the Group;
- 5,214 people who worked directly on behalf of the System Fund and whose costs were borne by the System Fund; and
- 22,518 General Managers and (in the US predominantly) other hotel workers, who work in managed hotels, who have contracts or letters of service with IHG and whose costs are borne by those hotels.

See note 4 of the Group Financial Statements on page 123 for more information.

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 – see pages 22 to 25.

We also look to appoint the most appropriate person for the job and are committed to providing equality of opportunity to all employees without discrimination. Every effort is made to ensure that applications for employment from disabled employees are fully and fairly considered and that disabled employees have equal opportunities to training, career development and promotion.

The Code of Conduct applies to all Directors, officers and employees and complies with the NYSE rules as set out in Section 406 of the US Sarbanes-Oxley Act 2002. Further details can be found on page 196.

For more information on the Group's employment policies, including equal opportunities, employee communications and development, see pages 22 to 25, and our website

www.ihgplc.com/responsible-business

Directors' Report continued

Greenhouse gas (GHG) emissions

By delivering more environmentally sustainable hotels, we can drive cost efficiencies for owners and meet the expectations of all our stakeholders. We recognise the importance of reducing our global GHG emissions for corporate offices and hotels – our target is to reduce our carbon footprint per occupied room by 6-7% across our entire estate by 31 December 2020 (against a 2020 baseline). See page 35 for progress.

Reporting boundary	Measure	2018 ^a	2017 ^b
Global – corporate offices and franchised, managed, owned, leased and managed lease hotels ^b (a KPI and part of our five-year targets)	Scope 1 Direct emissions (tCO ₂ e)	448,690.74	443,548.52
	Scope 2 Indirect emissions (tCO ₂ e)	1,979,416.52	1,896,581.18
	Scope 3 Indirect (tCO ₂ e)	2,635,736.66	2,535,330.40
	Total GHG emissions (tCO ₂ e)	5,063,843.91	4,875,460.09
	IHG's chosen intensity measurement GHG emissions per occupied room (kgCO ₂ e per occupied room)	26.02	26.61
Global – corporate offices and managed, owned, leased and managed lease hotels ^b (as required under the Companies Act 2006)	Scope 1 Direct emissions (tCO ₂ e)	448,690.74	443,548.52
	Scope 2 Indirect emissions (tCO ₂ e)	1,979,416.52	1,896,581.18
	Total GHG emissions (tCO ₂ e)	2,428,107.25	2,340,129.69
	IHG's chosen intensity measurement GHG emissions per occupied room (kgCO ₂ e per occupied room)	41.59	43.60

^a Reporting period commencing on 1 October and ending on 30 September – due to the delay in hotels receiving their energy bills it is not possible to report accurately GHG emissions from 1 January to 31 December.

^b Includes all of our branded hotels but does not include emissions from 339 hotels. We do not have sufficient data to estimate their emissions and believe them to be immaterial.

Scope

We report Scope 1, Scope 2 and Scope 3 emissions as defined by the GHG protocol as follows:

- Scope 1 emissions are direct emissions produced by the burning of fuels of the emitter.
- Scope 2 emissions are indirect emissions (generated by the electricity consumed and purchased by the emitter).
- Scope 3 emissions are indirect emissions produced by the emitter activity, but owned and controlled by a different emitter from the one who reports on the emissions (e.g. our franchise estate).

Methodology

We have worked with external consultants to give us an up-to-date picture of IHG's carbon footprint and to assess our performance over the past few years. The external consultants use a sampling and extrapolation methodology to estimate our GHG emissions. For 2018, in line with the methodology set out in the GHG Protocol Corporate Standard, the sample covered 4,673 (86%) of our 5,463 hotels. As IHG's System size is continually changing and the number of hotels reporting data to the IHG Green Engage™ system increases annually, we have restated 2017 data.

Finance

Political donations

The Group made no political donations under the Companies Act during the year and proposes to maintain this policy.

Financial risk management

The Group's financial risk management objectives and policies, including its use of financial instruments, are set out in note 22 to the Group Financial Statements on pages 144 to 146.

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 10-year £400 million 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;
- The \$1.275 billion syndicated loan facility agreement dated 30 March 2015 and maturing in March 2021, 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 10-year £300 million bond issued by the Company on 14 August 2015, 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;
- The 10-year £350 million bond issued by the Company on 24 August 2016, 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 8.5-year €500 million bond issued by the Company on 15 November 2018, under which, if the bond's credit rating was downgraded in connection with a change of control, the bond holders would have option to require the Company to redeem or, at the Company's option, repurchase the outstanding notes together with interest accrued.

Further details on material contracts are set out on page 191.

Business relationships

The Group is party to a technology agreement with Amadeus Hospitality Americas, Inc. (Amadeus), for the development and hosting of the Group's next generation Guest Reservation System. The initial term of 10 years will expire in 2028, and the Group has the right to extend this agreement for two additional periods of up to 10 years each on the same terms, conditions and pricing. The financial and performance obligations in this agreement are guaranteed by Amadeus IT Group S.A., the parent company of Amadeus Hospitality Americas, Inc.

Otherwise, there are no specific individual contracts or arrangements considered to be essential to the business of the Group as a whole.

Disclosure of information to Auditor

For details, see page 88.

Listing Rules – compliance with LR 9.8.4C

Section	Applicable sub-paragraph within LR 9.8.4C	Location
1	Interest capitalised	Group Financial Statements, note 7, page 125
4	Details of long-term incentive schemes	Directors' Remuneration Report, pages 72 to 85

The above table sets out only those sections of LR 9.8.4C which are relevant. The remaining sections of LR 9.8.4 are not applicable.

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 Strategic Report on pages 2 to 51 and in the Group information on pages 182 to 186. Information on the Group's treasury management policies can be found in note 22 to the Group Financial Statements on pages 144 to 146. In November 2018, the Group issued a €500m bond which matures in May 2027.

At the end of 2018, the Group was trading significantly within its banking covenants and debt facilities.

The Group's fee-based model and wide geographic spread mean 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 Consolidated Financial Statements.

Please see page 30 for the Directors' assessment of the viability of the Group.

By order of the Board,

George Turner

Company Secretary
InterContinental Hotels Group PLC

Registered in England and Wales, Company number 5134420
18 February 2019

Group information

History and developments

The Company was incorporated and registered in England and Wales with registered number 5134420 on 21 May 2004 as a limited company under the Companies Act 1985 with the name Hackremco (No. 2154) Limited. In 2004/05, as part of a scheme of arrangement to facilitate the return of capital to shareholders, the following structural changes were made to the Group: (i) on 24 March 2005, Hackremco (No. 2154) Limited changed its name to New InterContinental Hotels Group Limited; (ii) on 27 April 2005, New InterContinental Hotels Group Limited re-registered as a public limited company and changed its name to New InterContinental Hotels Group PLC; and (iii) on 27 June 2005, New InterContinental Hotels Group PLC changed its name to InterContinental Hotels Group PLC and became the holding company of the Group.

The Group formerly known as Bass, and then Six Continents, was historically a conglomerate operating as, among other things, a brewer, soft drinks manufacturer, hotelier, leisure operator, and restaurant, pub and bar owner. In 1988 Bass acquired Holiday Inn International and the remainder of the Holiday Inn brand in 1990. The InterContinental brand was acquired by Bass in 1998 and the Candlewood Suites brand was acquired by Six Continents in 2003.

On 15 April 2003, following shareholder and regulatory approval, Six Continents PLC separated into two new listed groups, InterContinental Hotels Group PLC, comprising the hotels and soft drinks businesses, and Mitchells & Butler plc, comprising the retail and standard commercial property developments business.

The Group disposed of its interests in the soft drinks business by way of an initial public offering of Britvic (Britannia Soft Drinks Limited for the period up to 18 November 2005, and thereafter, Britannia SD Holdings Limited (renamed Britvic plc on 21 November 2005), which became the holding company of the Britvic Group on 18 November 2005), a manufacturer and distributor of soft drinks in the UK, in December 2005. The Group now continues as a stand-alone hotels business.

Risk factors

The Group is subject to a variety of inherent risks that may have an adverse impact on its business operations, financial condition, turnover, profits, brands and reputation. This 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 the Group and some risks that the Group does not currently believe to be material could later turn out to be material.



The principal risks are on pages 26 to 30, the cautionary statements regarding forward-looking statements are on page 208 and financial and forward-looking information including note 8 on pages 125 to 129, and note 22 on pages 144 to 146.

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 and availability of credit and currency fluctuations that could lower revenues and reduce income. The outlook for 2019 may worsen due to continued uncertainty in relation to Brexit, (see page 26 for a statement on the materiality of this risk to the Company), Greater China, the Eurozone, potential disruptions in the US economy, the impact of fluctuating commodity prices (including oil) on economies dependent on such exports, continued unrest in parts of the Middle East, Africa and Asia, and barriers to global trade, including unforeseeable changes in regulations, imposition of tariffs or embargoes, and other trade restrictions or controls. The interconnected nature of economies suggests any of these, or other events, could trigger a recession that

Recent acquisitions and divestitures

- The Group agreed in May 2018 to rebrand and operate under long-term 'managed leases' a portfolio of hotels in the UK.
- The Group acquired a 51% interest in Regent Hotels and Resorts in July 2018 for \$39 million, of which \$13 million has been paid to date. The remaining \$26 million is to be paid in future years, this deferred consideration has a fair value of \$22 million at 31 December 2018. Options exist over the remaining 49% interest which are exercisable in a phased manner from 2026.
- The Group acquired Six Senses Hotels Resorts Spas and its management business in February 2019 for \$300 million in cash.
- The Group divested a number of investments for total proceeds of \$95 million in 2017 and \$8 million in 2018.

Capital expenditure

- Capital expenditure in 2018 totalled \$245 million compared with \$342 million in 2017 and \$241 million in 2016 (see page 174). The lower level of expenditure in 2018 was partly attributable to costs borne in 2017 relating to the roll out of IHG Concerto. Recyclable investments in 2017 included \$43 million in connection with a refinancing of the InterContinental New York Barclay hotel.
- At 31 December 2018, capital committed (being contracts placed for expenditure on property, plant and equipment, intangible assets and key money not provided for in the Group Financial Statements) totalled \$136 million.

reduces leisure and business travel to and from affected countries and adversely affects room rates and/or occupancy levels and other income-generating activities. The owners or potential owners of hotels franchised or managed by the Group face similar risks that could adversely impact their solvency and the Group's ability to secure and retain franchise or management agreements. Specifically, the Group is most exposed to the US market and, increasingly, to Greater China.

Accordingly, the Group is particularly susceptible to adverse changes in these economies as well as changes in their currencies. 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 the health of the pipeline.

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 or threats thereof, travel-related accidents or industrial action, natural disasters, or other local factors impacting specific countries, cities or individual hotels, as well as increased transportation and fuel costs. Additionally, the Group may be adversely impacted by increasing stakeholder expectations of corporate performance in relation to waste, water, climate change, or support to local communities. A decrease in the demand for business and/or leisure hotel rooms as a result of such events may have an

adverse impact on the Group's operations and financial results. In addition, inadequate planning, preparation, response or recovery in relation to a major incident or crisis may cause loss of life, prevent operational continuity, or result in financial loss, 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. These conditions could result in reductions in room rates and occupancy levels, which would adversely impact the financial performance of the Group.

The Group is subject to a competitive and changing industry

The Group operates in a competitive industry and must compete effectively against traditional competitors such as other global hotel chains, local hotel companies and independent hotels to win the loyalty of guests, employees and owners. The competitive landscape also includes other types of businesses, both global and specific to certain markets, such as web-based booking channels (which include online travel agents and intermediaries), and alternative sources of accommodation such as short-term lets of private property. Failure to compete effectively in traditional and emerging areas of the business could impact the Group's market share, System size, profitability and relationships with owners and guests. The hospitality industry has experienced recent consolidation and is likely to see this trend continue as companies seek to maintain or increase competitive advantage. Further consolidation by competitors may result in such competitors having access to increased resources, capabilities or capacity and provide advantages from scale of revenues and/or cost structures.

The Group is exposed to risks related to executing and realising benefits from strategic transactions, including acquisitions and restructuring

The Group may seek to make strategic transactions, including acquisitions, in the future. The Group may not be able to identify opportunities or complete transactions on commercially reasonable terms, or at all, and may not realise the anticipated benefits from such transactions. Strategic transactions come with inherent valuation, financial and commercial risks, and regulatory and insider information risks during the execution of the transactions. The Group may also continue to make organisational adjustments to support delivery of our growth ambitions, including the integration of acquisitions into the Group's operating processes and systems. This creates inherent risks of complexity and that any changes made could be unsustainable or that we are unable to achieve the return envisaged through reinvestment. In addition, the Group may face unforeseen costs and liabilities, diversion of management attention, as well as longer-term integration and operational risks, which could result in a failure to realise benefits, financial losses, lower employee morale and loss of talent.

The Group is dependent upon a wide range of external stakeholders and business partners

The Group relies on 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, online travel agents, third-party intermediaries and other business partners which may have different ethical values, interests and priorities. Further, the number and complexity of interdependencies with stakeholders is evolving. Breakdowns in relationships, contractual disputes, poor vendor performance, insolvency, stakeholder behaviours or adverse reputations, which may be outside of the Group's control, could adversely impact on the Group's performance and competitiveness,

delivery of projects, guest experiences or the reputation of the Group or its brands.

The Group is exposed to increasing competition from online travel agents and intermediaries

A proportion of the Group's bookings originate from large multinational, regional and local online travel agents and intermediaries with which the Group has contractual arrangements and to which it pays commissions. These platforms offer a wide range of products, often across multiple brands, have growing booking and review capabilities, and may create the perception that they offer the lowest prices. Some of these online travel agents and intermediaries have strong marketing budgets and aim to create brand awareness and brand loyalty among consumers and may seek to commoditise hotel brands through price and attribute comparison. Further, if these companies continue to gain market share, they may impact the Group's profitability, undermine the Group's own booking channels and value to its hotel owners, and may be able to increase commission rates and negotiate other favourable contract terms.

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 the 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, to secure management contracts or open hotels in our development pipeline. For example, the availability of suitable sites, market saturation, planning and other local regulations or the availability and affordability of finance may restrict the supply of suitable hotel development opportunities under franchise or management agreements and mean that not every hotel in our development pipeline may develop into a new hotel that enters our system. 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 the overall IHG System size and the Group's financial performance.

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

As the use of the internet, artificial intelligence, mobile and data technology grows, and new and disruptive technology solutions are developed, customer needs evolve at pace. The Group may find that its evolving technology capability is not sufficient and may have to make substantial additional investments in new technologies or systems to remain competitive. Failure to keep pace with developments in technologies or systems, and also with regulatory, risk and ethical considerations of how these developments are used, may put the Group at a competitive disadvantage. In addition, the technologies or systems that the Group chooses to deploy may not be commercially successful or the technology or system strategy may not be sufficiently aligned with the needs of the business. Any

Group information continued

Risk factors continued

such failure could adversely affect guest experiences, and the Group may lose customers, fail to attract new customers, incur substantial costs or face other losses. This could further impact the Group's reputation in regards to innovation. (See also information security and data privacy risk factor.)

The Group is reliant on the reputation of its existing brands and is exposed to inherent reputation risks

Any event that materially damages the reputation of one or more of the Group's brands and/or fails to sustain the appeal of the Group's brands to its customers and owners may have an adverse impact on the value of that brand and subsequent revenues from that brand or business. In particular, if the Group is unable to create consistent, valued, and quality products and guest experiences across the owned, leased and managed lease, managed and franchised estates, or if the Group, its franchisees or business partners fail to act responsibly, this could result in an adverse impact on its brand reputation. In addition, the value of the Group's brands could be influenced by a number of external factors outside the Group's control, such as, but not limited to, changes in sentiments against global brands, changes in applicable regulations related to the hotel industry or to franchising, successful commoditisation of hotel brands by online travel agents and intermediaries, or changes in owners' perceptions of the value of the Group.

The Group is exposed to risks associated with its intellectual property

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 changes in 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 the resilience of its reservation system and other key technology platforms and is exposed to risks that could disrupt their operation and/or integrity

The value of the Group is partly derived from the ability to drive reservations through its reservation system and technology platforms which are highly integrated with other processes and systems and linked to multiple sales channels, including the Group's own websites, in-house and third-party managed call centres, hotels, third-party intermediaries and travel agents.

The scope and complexity of our technology infrastructure, including increasing reliance on third-party suppliers to support and protect our systems and information, as well as the rapidly evolving cyber threats, means that we are inherently vulnerable to physical damage, failures, disruptions, denial of service, phishing or other malware attacks, cyber terrorism and fraud, as well as human error, negligence and wilful misuse. Our franchisees and suppliers are also inherently vulnerable to the same risks.

Lack of resilience and operational availability of these systems provided by the Group or third-party technology providers could lead to prolonged service disruption and might result in significant business interruption, impact the guest booking experience, loss of or theft of data, and subsequently adversely impact Group revenues, incur financial costs to remediate or investigate, lead to regulatory and/or contractual enforcement actions or lawsuits, and damage the Group's reputation and relationships with hotel owners.

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, pandemics, 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 reputational damage.

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 and sustain a 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 failure to invest in the development of key skills.

Some of the markets in which the Group operates are experiencing economic growth and/or low levels of unemployment, 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 and increasing labour costs may threaten the ability to operate hotels and our corporate support functions, achieve business growth targets or impact the profitability of our operations. 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.

Collective bargaining activity could disrupt operations, increase our labour costs or interfere with the ability of our management to focus on executing our business strategies.

A significant number of colleagues at our managed, owned, leased and managed lease hotels (approximately 23% in the US) are covered by collective bargaining agreements and similar agreements. If relationships with those colleagues or the unions that represent them become adverse, the properties we own, lease or manage could experience labour disruptions such as strikes, lockouts, boycotts and public demonstrations. Collective bargaining agreements representing approximately half of our organised colleagues in the US expired and were renegotiated in 2018 and we may be required to negotiate additional collective bargaining agreements in the future if more employees become unionised. Labour disputes, which are generally more likely when collective bargaining agreements are being renegotiated, could harm our relationship with our colleagues, result in increased regulatory inquiries and enforcement by governmental authorities and deter guests. Further, adverse publicity related to a labour dispute could harm our reputation and reduce customer demand for our services.

Labour regulation and the negotiation of new or existing collective bargaining agreements could lead to higher wage and benefit costs, changes in work rules that raise operating expenses, legal costs and limitations on our ability or the ability of our third-party property owners to take cost saving measures during economic downturns. We do not have the ability to control the negotiations of collective bargaining agreements covering unionised labour employed by our third-party property owners and franchisees. Increased unionisation of our workforce, new labour legislation or changes in regulations could disrupt our operations, reduce our profitability or interfere with the ability of our management to focus on executing our business strategies.

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 claims made by many parties, including but not limited to: guests, customers, joint-venture partners, suppliers, employees, regulatory authorities, franchisees and/or the owners of the hotels it manages. Claims filed may include requests for punitive damages as well as compensatory damages. Unfavourable outcomes of claims or proceedings could have a material adverse 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. (See also legal proceedings on page 192.)

The Group is exposed to the risks related to cybersecurity and data privacy

The Group is increasingly dependent upon the collection, usage, retention, availability, integrity and confidentiality of information, including, but not limited to: guest and employee credit card, financial and personal data, and business performance, financial reporting and commercial development. The information is sometimes held in different formats such as digital, paper, voice recordings and video and could be stored in many places, including facilities managed by third-party service providers, in our company managed hotels, and by our franchisees, who are subject to the same or similar risks.

Cyber breaches increasingly appear to be an unfortunate reality for most firms and we therefore invest in trying to avoid them where reasonable and practical to do so – in recognition of the possible impact of cybersecurity breaches beyond data loss on operational performance, ransomware and regulatory actions/fines, as well as the potential impact on our reputation. The threats towards the hospitality industry and the Group's information are dynamic, and include cyber-attacks, fraudulent use, loss or misuse by employees and breaches of our vendors' security arrangements, amongst others.

The Group experienced cybersecurity incidents including; (a) at a number of Kimpton hotels that resulted in unauthorised access to guest payment card data (the Kimpton Security Incident); and (b) an incident that involved malware being installed on servers that processed payment cards used at restaurants and bars of 12 IHG managed properties (the Americas Security Incident), that the Group became aware of in 2016. These incidents resulted in the Group reimbursing the impacted card networks for counterfeit fraud losses and related expenses and becoming subject to investigations regarding compliance with applicable State and Federal data security standards, and legal action from individuals and organisations impacted by the Security Incidents. To date, four lawsuits have been filed against IHG entities relating to the Security Incidents.

The legal and regulatory environment around data privacy and requirements set out by the payment card industry surrounding information security across the many jurisdictions in which the Group operates are constantly evolving, (such as the EU GDPR, China cybersecurity law, and California privacy law). If the Group fails to appropriately protect information and ensure relevant controls are in place to enable the appropriate use and release of information through the appropriate channels in a timely and accurate manner, IHG System performance, guest experience and the reputation of the Group may be adversely affected. This could lead to revenue losses, fines, penalties, litigation and other additional costs.

We are also required to comply with marketing and advertising laws relating to our direct marketing practices, including email marketing, online advertising, and postal mailings. Further restrictions to the content or interpretations of these laws could adversely impact our current and planned activities and the effectiveness or viability of our marketing strategies to maintain, extend and acquire relationships with customers, and impact the amount and timing of our sales of certain products.



For information of incidents relating to cybersecurity and data privacy during 2018, see pages 157 and 192.

The Group is required to comply with existing and changing regulations and act in accordance with societal expectations across numerous countries, territories and jurisdictions

Government regulations affect countless aspects of the Group's business ranging from corporate governance, health and safety, the environment, bribery and corruption, employment law and diversity, disability access, 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 Group's strategy, including the markets the Group operates in, brand protection, and use or transmittal of personal 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 reputational damage.

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 guests, owners, suppliers and communities in which the Group operates. The social and environmental impacts of its business are under increasing scrutiny, and the Group is exposed to the risk of damage to its reputation if it fails to (or fails to influence its business partners to) undertake responsible practices and engage in ethical behaviour, or fails to comply with relevant regulatory requirements.

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 profile of the business. 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.

The Group is exposed to inherent uncertainties associated with brand development and expansion

The Group has recently launched or acquired a number of new brands, such as EVEN Hotels, HUALUXE, avid Hotels, voco, Kimpton Hotels & Restaurants, Regent Hotels, and entered into co-branded credit card relationships to support the IHG Rewards Club programme. As the roll out, integration and growth of these brands (including associated loyalty programmes) is dependent on market conditions, guest preference and owner investment, and also continued cooperation with third parties, there are inherent risks that we will be unable to recover costs incurred in developing or acquiring the brands or any new programmes or products, or those brands, programmes, or products will not succeed as we intend. The Group's ongoing agenda to accelerate growth and strategic initiatives creates risks relating to the transition of systems, operating models and processes, and may result in failures to improve commercial performance, leading to financial loss and undermining stakeholder confidence.

Group information continued

Risk factors continued

The Group is exposed to an impairment of the carrying value of our brands, goodwill or other tangible and intangible assets negatively affecting our consolidated operating results

We hold significant amounts of goodwill, intangible assets, property and equipment, and investments. We review the value of our goodwill and indefinite-lived intangible assets for impairment annually (or whenever events or circumstances indicate impairment may have occurred). Changes to estimated fair values could result from shifts in the business climate, the competitive environment, the perceived reputation of our brands (by guests or owners), or changes in interest rates, operating cash flows, market capitalisation, or developments in the legal or regulatory environment. Because of the significance of our goodwill and other intangible assets, we have previously incurred and may incur future impairment charges for these assets, which may require material non-cash charges to our results of operations, which could have an adverse effect on our financial results.

The Group is exposed to fluctuations in exchange rates, currency devaluations or restructurings and to interest rate risk in relation to its borrowings

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 liabilities and interest cover. The most significant exposures of the Group are in currencies that are freely convertible. The Group's reported debt has an exposure to borrowings held in pounds sterling. Conducting business in currencies other than US dollars exposes us to fluctuations in exchange rates, currency devaluations, or restructurings. This could potentially lower our reported revenues, increase our costs, reduce our profits or disrupt our operations. Our exposure to these factors is linked to the pace of our growth in territories outside the US and, if the proportion of our revenues grows, this may increase the potential sensitivity to currency movements having an adverse impact on our results.

From time to time, the Group hedges a portion of forecast foreign currency income by taking out forward exchange contracts and also uses short-dated foreign exchange swaps to manage sterling surplus cash and reduce US dollar borrowings whilst maintaining operational flexibility. However, these arrangements may not eliminate foreign exchange risk exposures entirely, and involve inherent risks of their own, including management time, expertise and external costs.

The Group is also exposed to interest rate risk in relation to its fixed and floating rate borrowings and may use interest rate swaps to manage the exposure.

The Group's operations are dependent on maintaining sufficient liquidity to meet all foreseeable medium-term requirements and provide headroom against unforeseen obligations

Cash and cash equivalents is held in short-term deposits and cash funds which allow daily withdrawals of cash. Most of the Group's funds are held in the UK or US, although \$2m (2017: \$3m) is held in countries where repatriation is restricted as a result of foreign exchange regulations. Medium and long-term borrowing requirements are met through committed bank facilities and bonds. Short-term borrowing requirements may be met from drawings under uncommitted overdrafts and facilities.

The Group could be affected by credit risk on treasury transactions

The Group uses long-term credit ratings from Standard and Poor's, Moody's and Fitch Ratings as a basis for setting its counterparty limits. In order to manage the Group's credit risk exposure, the treasury function sets counterparty exposure limits using metrics including credit ratings, the relative placing of credit default swap pricings, tier 1 capital and share price volatility of the relevant counterparty. 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. The carrying amount of financial assets represents the maximum exposure to credit risk.

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 grow through activities that do not involve significant amounts of its own capital, the Group does require capital to fund some development opportunities, technological innovations and strategic acquisitions; 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 Group's 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's financial performance may be affected by changes in tax rates

The Group's financial performance may be affected by changes in taxes, including as a result of US federal income tax reform and taxation and/or repatriation of income earned abroad, and governmental regulations that influence or set wages, prices, interest rates or construction and maintenance procedures and costs. Many factors will affect the Group's future tax rate, the key ones being future legislative developments, future profitability of underlying subsidiaries and tax uncertainties.

There are many potential future changes to worldwide taxation systems as a result of the potential adoption by individual territories of recommendations of the OECD's Base Erosion and Profit Shifting project, and other similar initiatives being driven by governments and tax authorities. The Group continues to monitor activity in this area.

Tax liabilities or refunds may also 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.

Directors' and Executive Committee members' shareholdings

As at 18 February 2019: (i) Executive Directors had the number of beneficial interests in shares (including Directors' share awards under IHG's share plans) set out in the table on page 81; (ii) Non-Executive Directors had the number of beneficial interests in shares set out in the table on page 84; and (iii) Executive Committee members had the number of beneficial interests in shares (including members' share awards under IHG's share plans) set out in the table below. These shareholdings indicate all Directors' or Executive Committee members' beneficial interests and those held by their spouses and other connected persons. As at 18 February 2019, no Director or Executive Committee member held more than 1.0% of the total issued share capital. None of the Directors have a beneficial interest in the shares of any subsidiary.

Executive Committee member	Number of shares held outright			APP deferred share awards			LTIP share awards (unvested)			Total number of shares held		
	18 Feb 2019	31 Dec 2018	31 Dec 2017	18 Feb 2019	31 Dec 2018	31 Dec 2017	18 Feb 2019	31 Dec 2018	31 Dec 2017	18 Feb 2019	31 Dec 2018	31 Dec 2017
Keith Barr	40,642	42,782	31,116	26,847	28,262	24,586	97,211	97,211	90,987	164,700	168,255	146,689
Paul Edgecliffe-Johnson	24,385	25,669	27,443	25,404	26,742	28,384	87,482	87,482	97,970	137,271	139,893	153,797
Elie Maalouf	23,534	24,773	-	41,753	42,058	-	82,694	82,694	-	147,981	149,525	-
Claire Bennett	-	-	-	14,340	14,406	13,105	28,788	28,788	13,019	43,128	43,194	26,124
Jolyon Bulley	52,164	54,910	50,275	6,022	6,341	8,180	38,087	38,087	38,413	96,273	99,338	96,868
Yasmin Diamond	1,351	1,423	-	6,876	7,239	6,561	33,521	33,521	35,209	41,748	42,183	41,770
Nicolette Henfrey	-	-	-	5,678	-	-	18,675	-	-	24,353	-	-
Kenneth Macpherson	7,296	7,681	-	30,535	31,468	29,057	53,121	53,121	59,675	90,952	92,270	88,732
Eric Pearson	10,295	10,837	-	20,531	21,613	22,979	63,635	63,635	72,633	94,461	96,085	95,612
Ranjay Radhakrishnan	7,902	8,318	-	24,983	25,258	31,836	49,101	49,101	41,851	81,986	82,677	73,687
George Turner	18,815	19,806	11,507	16,878	17,768	18,683	54,341	54,341	61,511	90,034	91,915	91,701

Executive Directors' benefits upon termination of office

All current Executive Directors have a rolling service contract with a notice period from the Group of 12 months. As an alternative, the Group may, at its discretion, pay in lieu of that notice. Neither notice nor a payment in lieu of notice will be given in the event of gross misconduct.

Payment in lieu of notice could potentially include up to 12 months' salary and the cash equivalent of 12 months' pension contributions, and other contractual benefits. Where possible, the Group will seek to ensure that, where a leaver mitigates their losses by, for example, finding new employment, there will accordingly be a corresponding reduction in compensation payable for loss of office.



Further details on the policy for determination of termination payments are included in the Directors' Remuneration Policy, which is available on IHG's website at www.ihgplc.com/investors under Corporate governance in the Directors' Remuneration Policy section.

Group information continued

Description of securities other than equity securities

Fees and charges payable to a depositary

Category (as defined by SEC)	Depositary actions	Associated fee
Depositing or substituting the underlying shares	Each person to whom ADRs are issued against deposits of shares, including deposits and issuances in respect of: <ul style="list-style-type: none"> • Share distributions, stock splits, rights, mergers • Exchange of securities or any other transactions or event or other distribution affecting the ADSs or the deposited securities 	\$5 for each 100 ADSs (or portion thereof)
Receiving or distributing dividends	Distribution of stock dividends	\$5 for each 100 ADSs (or portion thereof)
	Distribution of cash	\$0.02 or less per ADS (or portion thereof)
Selling or exercising rights	Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities	\$5 for each 100 ADSs (or portion thereof)
Withdrawing an underlying security	Acceptance of ADRs surrendered for withdrawal of deposited securities	\$5 for each 100 ADSs (or portion thereof)
Transferring, splitting or grouping receipts	Transfers, combining or grouping of depositary receipts	\$1.50 per ADS
General depositary services, particularly those charged on an annual basis	Other services performed by the depositary in administering the ADRs	\$0.02 per ADS (or portion thereof) not more than once each calendar year and payable at the sole discretion of the ADR Depositary by billing ADR holders or by deducting such charge from one or more cash dividends or other cash distributions ^a
Expenses of the depositary	Expenses incurred on behalf of ADR holders in connection with: <ul style="list-style-type: none"> • Compliance with foreign exchange control regulations or any law or regulation relating to foreign investment. • The ADR Depositary's or its custodian's compliance with applicable laws, rules or regulations • Stock transfer or other taxes and other governmental charges • Cable, telex, facsimile transmission/delivery • Transfer or registration fees in connection with the deposit and withdrawal of deposited securities • Expenses of the ADR Depositary in connection with the conversion of foreign currency into US dollars (which are paid out of such foreign currency) • Any other charge payable by the ADR Depositary or its agents 	Expenses payable at the sole discretion of the ADR Depositary by billing ADR holders or by deducting charges from one or more cash dividends or other cash distributions are \$20 per transaction

^a These fees are not currently being charged by the ADR Depositary.

Fees and charges payable by a depositary

JPMorgan Chase Bank N.A. (JPMorgan or the ADR Depositary) is the depositary for IHG's ADR programme. The ADR Depositary's principal executive office is at: J.P. Morgan Depositary Receipts, 4 New York Plaza, 12th Floor, New York, NY 10004, US. The ADR Depositary has agreed to reimburse certain reasonable Company expenses related to the Company's ADR programme and incurred by the Company in connection with the ADR programme. During the

year ended 31 December 2018, the Company received \$376,007.95 from the ADR Depositary in respect of legal, accounting and other fees incurred in connection with the preparation of the Annual Report and Form 20-F, ongoing SEC compliance and listing requirements, investor relations programmes, and advertising and public relations expenditure.

Articles of Association

The Company's Articles of Association (the Articles) were first adopted with effect from 27 June 2005 and were most recently amended at the AGM held on 4 May 2018 and are available on the Company's website at www.ihgplc.com/investors under Corporate governance. The following summarises material rights of holders of the Company's ordinary shares under the material provisions of the Articles and English law. This summary is qualified in its entirety by reference to the Companies Act and the Articles.

The Company's shares may be held in certificated or uncertificated form. No holder of the Company's shares will be required to make additional contributions of capital in respect of the Company's shares in the future.

In the following description, a 'shareholder' is the person registered in the Company's register of members as the holder of the relevant share.

Principal objects

The Company is incorporated under the name InterContinental Hotels Group PLC and is registered in England and Wales with registered number 5134420. The Articles do not restrict its objects or purposes.

Directors

Under the Articles, a Director may have an interest in certain matters (Permitted Interest) without the prior approval of the Board, provided they have declared the nature and extent of such Permitted Interest at a meeting of the Directors or in the manner set out in Section 184 or Section 185 of the Companies Act.

Any matter in which a Director has a material interest, and which does not comprise a Permitted Interest, must be authorised by the Board in accordance with the procedure and requirements contained in the Articles. In particular, this includes the requirement that a Director may not vote on a resolution to authorise a matter in which they are interested, nor may they count in the quorum of the meeting at which such business is transacted.

Further, a Director may not vote in respect of any proposal in which they, or any person connected with them, has any material interest other than by virtue of their interests in securities of, or otherwise in or through, the Company, nor may they count in the quorum of the meeting at which such business is transacted. This is subject to certain exceptions, including in relation to proposals:

(a) indemnifying them in respect of obligations incurred on behalf of the Company; (b) indemnifying a third party in respect of obligations of the Company for which the Director has assumed responsibility under an indemnity or guarantee; (c) relating to an offer of securities in which they will be interested as an underwriter; (d) concerning another body corporate in which the Director is beneficially interested in less than one per cent of the issued shares of any class of shares of such a body corporate; (e) relating to an employee benefit in which the Director will share equally with other employees; and (f) relating to liability insurance that the Company is empowered to purchase for the benefit of Directors of the Company in respect of actions undertaken as Directors (or officers) of the Company.

The Directors have authority under the Articles to set their own remuneration (provided certain criteria are met). While an agreement to award remuneration to a Director is an arrangement with the Company that comprises a Permitted Interest (and therefore does not require authorisation by the Board in that respect), it is nevertheless a matter that would be expected to give rise to a conflict of interest between the Director concerned and the

Company, and such conflict must be authorised by a resolution of the Board. The Director that is interested in such a matter may neither vote on the resolution to authorise such conflict, nor count in the quorum of the meeting at which it was passed. Furthermore, as noted above, the interested Director is not permitted to vote in respect of any proposal in which they have any material interest (except in respect of the limited exceptions outlined above) nor may they count in the quorum of the meeting at which such business is transacted.

As such, a Director has no power, in the absence of an independent quorum, to vote on compensation to themselves, but may vote on a resolution (and may count in the quorum of the meeting at which it was passed) to award compensation to Directors provided those arrangements do not confer a benefit solely on them.

The Directors are empowered to exercise all the powers of the Company to borrow money, subject to the limitation that the aggregate amount of all monies borrowed by the Company and its subsidiaries shall not exceed an amount equal to three times the Company's share capital and consolidated reserves, unless sanctioned by an ordinary resolution of the Company.

Under the Articles, there are no age-limit requirements relating to a person's qualification to hold office as a Director of the Company.

Directors are not required to hold any shares of the Company by way of qualification.

The Articles require annual retirement and re-election of all Directors at the AGM.

Rights attaching to shares

Dividend rights and rights to share in the Company's profits

Under English law, dividends are payable on the Company's ordinary shares only out of profits available for distribution, as determined in accordance with accounting principles generally accepted in the UK and by the Companies Act. No dividend will bear interest as against the Company.

Holders of the Company's ordinary shares are entitled to receive such dividends as may be declared by the shareholders in general meeting, rateably according to the amounts paid up on such shares, provided that the dividend cannot exceed the amount recommended by the Directors.

The Company's Board of Directors may declare and pay to shareholders such interim dividends as appear to them to be justified by the Company's financial position. If authorised by an ordinary resolution of the shareholders, the Board of Directors may also direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid-up shares or debentures of any other company).

Any dividend unclaimed by a member (or by a person entitled by virtue of transmission on death or bankruptcy or otherwise by operation of law) after six years from the date the dividend was declared, or became due for payment, will be forfeited and will revert to the Company.

Voting rights

The holders of ordinary shares are entitled, in respect of their holdings of such shares, to receive notice of general meetings and to attend, speak and vote at such meetings in accordance with the Articles.

Voting at any general meeting of shareholders is by a show of hands unless a poll, which is a written vote, is duly demanded. On a show of hands, every shareholder who is present in person or by proxy at a general meeting has one vote regardless of the number of shares held.

Group information continued

Articles of Association continued

On a poll, every shareholder who is present in person or by proxy has one vote for every share held by that shareholder. A poll may be demanded by any of the following:

- The Chair of the meeting;
- At least five shareholders present in person or by proxy and entitled to vote at the meeting;
- Any shareholder or shareholders present in person or by proxy representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to vote at the meeting; or
- Any shareholder or shareholders present in person or by proxy holding shares conferring a right to vote at the meeting and on which there have been paid up sums in the aggregate at least equal to one-tenth of the total sum paid up on all the shares conferring that right.

A proxy form will be treated as giving the proxy the authority to demand a poll, or to join others in demanding one.

The necessary quorum for a general meeting is three persons carrying a right to vote upon the business to be transacted, whether present in person or by proxy.

Matters are transacted at general meetings of the Company by the proposing and passing of resolutions, of which there are two kinds:

- An ordinary resolution, which includes resolutions for the election of Directors, the approval of financial statements, the cumulative annual payment of dividends, the appointment of the Auditor, the increase of share capital or the grant of authority to allot shares.
- A special resolution, which includes resolutions amending the Articles, disapplying statutory pre-emption rights, modifying the rights of any class of the Company's shares at a meeting of the holders of such class or relating to certain matters concerning the Company's winding up or changing the Company's name.

An ordinary resolution requires the affirmative vote of a majority of the votes of those persons present and entitled to vote at a meeting at which there is a quorum.

Special resolutions require the affirmative vote of not less than three quarters of the persons present and entitled to vote at a meeting at which there is a quorum.

AGMs must be convened upon advance written notice of 21 days. Other meetings must be convened upon advance written notice of 14 days. The days of delivery or receipt of the notice are not included. The notice must specify the nature of the business to be transacted. The Board of Directors may, if they choose, make arrangements for shareholders, who are unable to attend the place of the meeting, to participate at other places.

Variation of rights

If, at any time, the Company's share capital is divided into different classes of shares, the rights attached to any class may be varied, subject to the provisions of the Companies Act, with the consent in writing of holders of three-quarters in nominal value of the issued shares of that class or upon the adoption of a special resolution passed at a separate meeting of the holders of the shares of that class. At every such separate meeting, all of the provisions of the Articles relating to proceedings at a general meeting apply, except that the quorum is to be the number of persons (which must be two or more) who hold or represent by proxy not less than one-third in nominal value of the issued shares of that class.

Rights in a winding-up

Except as the Company's shareholders have agreed or may otherwise agree, upon the Company's winding up, the balance of assets available for distribution is to be distributed among the holders of ordinary shares according to the amounts paid up on the shares held by them:

- After the payment of all creditors including certain preferential creditors, whether statutorily preferred creditors or normal creditors; and
- Subject to any special rights attaching to any class of shares.

This distribution is generally to be made in cash. A liquidator may, however, upon the adoption of a special resolution of the shareholders, divide among the shareholders the whole or any part of the Company's assets in kind.

Limitations on voting and shareholding

There are no limitations imposed by English law or the Articles on the right of non-residents or foreign persons to hold or vote the Company's ordinary shares or ADSs, other than the limitations that would generally apply to all of the Company's shareholders.

Working Time Regulations 1998

Under EU law, many employees of Group companies are now covered by the Working Time Regulations which came into force in the UK on 1 October 1998. These regulations implemented the European Working Time Directive and parts of the Young Workers Directive, and lay down rights and protections for employees in areas such as maximum working hours, minimum rest time, minimum days off and paid leave.

In the UK, there is in place a national minimum wage under the National Minimum Wage Act 1998, as amended. At 31 December 2018, the minimum wage for individuals aged 18 to 20 was £5.90 per hour, aged 21 to 24 was £7.38 per hour and for those aged 25 or over was £7.83 per hour in each case, excluding apprentices aged under

19 years or, otherwise, in the first year of their apprenticeships. This particularly impacts businesses in the hospitality and retailing sectors. Compliance with the National Minimum Wage Act is being monitored by the Low Pay Commission, an independent statutory body established by the UK Government.

None of the Group's UK employees are covered by collective bargaining agreements with trade unions.

Continual attention is paid to the external market in order to ensure that terms of employment are appropriate. The Group believes the Group companies will be able to conduct their relationships with trade unions and employees in a satisfactory manner.

Material contracts

The following contracts have been entered into otherwise than in the course of ordinary business by members of the Group: (i) in the two years immediately preceding the date of this document in the case of contracts which are or may be material; or (ii) that contain provisions under which any Group member has any obligation or entitlement that is material to the Group as at the date of this document. To the extent that these agreements include representations, warranties and indemnities, such provisions are considered standard in an agreement of that nature, save to the extent identified below.

Syndicated Facility

On 30 March 2015, the Company signed a five-year \$1.275 billion bank facility agreement (Syndicated Facility) with Bank of America Merrill Lynch International Limited, Barclays Bank plc, HSBC Bank PLC, SunTrust Robinson Humphrey, The Bank of Tokyo-Mitsubishi UFJ, Ltd and The Royal Bank of Scotland plc, all acting as joint bookrunners and The Bank of Tokyo-Mitsubishi UFJ, Ltd as facility agent. The Company has exercised its ability to extend the term of the Syndicated Facility by two additional periods of 12 months, taking the term of the Syndicated Facility to 2022. The interest margin payable on borrowings under the Syndicated Facility is linked to IHG's consolidated net debt to consolidated EBITDA ratio. The margin can vary between LIBOR + 0.40% and LIBOR + 1.00% depending on the level of the ratio. The Syndicated Facility was undrawn as at 31 December 2018.

£2 billion Euro Medium Term Note programme

In 2018, the Group updated its Euro Medium Term Note programme (Programme) and issued a tranche of €500 million 2.125% notes due 15 May 2027 (2018 Issuance).

On 11 August 2016, an amended and restated trust deed (Trust Deed) was executed by InterContinental Hotels Group PLC as issuer (Issuer), Six Continents Limited and InterContinental Hotels Limited as guarantors (Guarantors) and HSBC Corporate Trustee Company (UK) Limited as trustee (Trustee), pursuant to which the trust deed dated 27 November 2009, as supplemented by three supplemental trust deeds dated 7 July 2011, 9 November 2012 and 16 June 2015 between the same parties relating to the Programme, were amended and restated. Under the Trust Deed, the Issuer may issue notes (Notes) unconditionally and irrevocably guaranteed by the Guarantors, up to a maximum nominal amount from time to time outstanding of £2 billion (or its equivalent in other currencies). Notes are to be issued in series (each a Series) in bearer form. Each Series may comprise one or more tranches (each a Tranche) issued on different issue dates. A Tranche of Notes may be issued on the terms and conditions set out in a base prospectus as amended and/or supplemented by a document setting out the final terms (Final Terms) of such Tranche or in a separate prospectus specific to such Tranche.

Under the Trust Deed, each of the Issuer and the Guarantors has given certain customary covenants in favour of the Trustee.

Final Terms were issued (pursuant to a base prospectus dated 9 November 2012) on 26 November 2012, in respect of the issue of a Tranche of £400 million 3.875% Notes due 28 November 2022 (2012 Issuance). Final Terms were issued (pursuant to a base prospectus dated 16 June 2015) on 12 August 2015 in respect of the issue of a Tranche of £300 million 3.75% Notes due 14 August 2025 (2015 Issuance). Final Terms were issued (pursuant to the base prospectus dated 11 August 2016) on 22 August 2016 in respect of the issue of a Tranche of £350 million 2.125% Notes due 24 August 2026 (2016 Issuance). Final Terms were issued (pursuant to the base prospectus dated 13 August 2018) on 13 November 2018 in respect of the 2018 Issuance.

The Final Terms issued under each of the 2012 Issuance, the 2015 Issuance, the 2016 Issuance and 2018 Issuance provide that the holders of the Notes have the right to repayment if the Notes (a) become non-investment grade within the period commencing on the date of announcement of a change of control and ending 90 days after the change of control (Change of Control Period) and are not subsequently, within the Change of Control Period, reinstated to investment grade; (b) are downgraded from a non-investment grade and are not reinstated to its earlier credit rating or better within the Change of Control Period; or (c) are not credit rated and do not become investment grade credit rated by the end of the Change of Control Period.

Further details of the Programme and the Notes are set out in the base prospectus, dated 13 August 2018, a copy of which is available (as is a copy of each of the Final Terms dated 26 November 2012 relating to the 2012 Issuance, the Final Terms dated 12 August 2015 relating to the 2015 Issuance, the Final Terms dated 22 August 2016 relating to the 2016 Issuance and the Final Terms dated 13 November 2018 relating to the 2018 Issuance) on the Company's website at www.ihgplc.com. The Notes issued pursuant to the 2012 Issuance, the Notes issued pursuant to the 2015 Issuance, the Notes issued pursuant to the 2016 Issuance and the Notes issued pursuant to the 2018 Issuance are referred to as '£400 million 3.875% bonds 2022', '£300 million 3.750% bonds 2025', '£350 million 2.125% bonds 2026', and '£500 million 2.125% bonds 2027' respectively in the Group Financial Statements.

On 11 August 2016, the Issuer and the Guarantors entered into an amended and restated agency agreement (Agency Agreement) with HSBC Bank plc as principal paying agent and the Trustee, pursuant to which the Issuer and the Guarantors appointed paying agents and calculation agents in connection with the Programme and the Notes.

Under the Agency Agreement, each of the Issuer and the Guarantors has given a customary indemnity in favour of the paying agents and the calculation agents.

On 13 August 2018, the Issuer and the Guarantors entered into an amended and restated dealer agreement (Dealer Agreement) with HSBC Bank plc as arranger and Barclays Bank PLC, Commerzbank Aktieengesellschaft, HSBC Bank plc, Merrill Lynch International, MUFG Securities EMEA plc, SunTrust Robinson Humphrey, Inc. and Wells Fargo Securities international Limited as dealers (Dealers), pursuant to which the Dealers were appointed in connection with the Programme and the Notes.

Under the Dealer Agreement, each of the Issuer and the Guarantors has given customary warranties and indemnities in favour of the Dealers.

Acquisition of Six Senses Hotels Resorts Spas

On 12 February 2019, a share purchase agreement (SPA) was entered into between Sustainable Luxury (BVI) Limited Partnership (acting through Sustainable Luxury (BVI) Limited as its general partner), Sustainable Luxury Holdings (BVI) Limited, and Inter-Continental Hotels Corporation. Under the SPA, Inter-Continental Hotels Corporation agreed to buy the entire issued share capital of Sustainable Luxury Holdings (BVI) Limited, the principal trading company of the Six Senses group, from Sustainable Luxury (BVI) Limited Partnership. The purchase completed on 12 February 2019.

Under the SPA, Inter-Continental Hotels Corporation gave certain customary warranties and indemnities to the seller.

The consideration paid in respect of the acquisition was \$300 million in cash, before adjustments.

Group information continued

Legal proceedings

Group companies have extensive operations in the UK, as well as internationally, and are involved in a number of legal claims and proceedings incidental to those operations. It is the Company's view that such proceedings, either individually or in the aggregate, have not in the recent past and are not likely to have a significant effect on the Group's financial position or profitability. Notwithstanding the above, the Company notes the matters set out below. Litigation is inherently unpredictable and, as of 18 February 2019, the outcome of these matters cannot be reasonably determined.

A claim was filed on 9 July 2013 by Pan-American Life Insurance Company against Louisiana Acquisitions Corp. and Inter-Continental Hotels Corporation. The claimant originally identified eight causes of action with respect to the management and sale of the InterContinental New Orleans. On 21 August 2017, the court granted summary judgment to the defendants on all of the claimant's remaining claims. The claimant appealed the ruling. On 12 December 2018, the appellate court affirmed the lower court ruling that granted summary judgment to both IHG defendants. The claimant did not pursue a further appeal, concluding the claims against IHG in this matter.

A claim was filed on 5 July 2016 by CPTS Hotel Lessee, LLC against Holiday Hospitality Franchising, LLC (HHF). The claimant alleges breach of the licence agreement and seeks a declaratory judgment from the court that it has the right to terminate its licence with HHF. HHF and InterContinental Hotels Group Resources, Inc. filed a claim against CPTS Hotel Lessee, LLC also seeking a declaratory judgment and alleging breach of contract and fraud. On 1 May 2018, the court granted IHG's motion for preliminary injunction and ruled that the license agreement at issue is not terminable at will by CPTS. As of 18 February 2019, the likelihood of a favourable or unfavourable result cannot be reasonably determined and it is not possible to determine whether any loss is likely or to estimate the amount of any loss.

A claim was filed on 20 September 2016 against Kimpton Hotel and Restaurant Group, LLC, seeking class action status and alleging breach of implied contract, negligence, and deceptive business practices related to an alleged data breach. The claimant alleged that Kimpton failed to secure and safeguard its customers' payment card data and personally identifiable information. The parties reached agreement on a resolution of this matter and on 9 January 2019, the court granted the parties' motion for preliminary approval of the class action settlement.

A claim was filed on 5 May 2017 against InterContinental Hotels Group PLC, Inter-Continental Hotels Corporation, and InterContinental Hotels Group Resources, Inc. seeking class action status and alleging breach of implied contract, negligence, and unjust enrichment regarding an alleged data breach. The claimant alleges that IHG failed to secure and safeguard customers' personal financial data. As of 18 February 2019, the likelihood of a favourable or unfavourable result cannot be reasonably determined and it is not possible to determine whether any loss is likely or to estimate the amount of any loss.

A claim was filed on 26 June 2017 against Inter-Continental Hotels Corporation, InterContinental Hotels Group Resources, Inc., and InterContinental Hotels Group (Canada), Inc. seeking class action status and alleging breach of fiduciary duty, negligence, breach of confidence, intrusion upon seclusion, breach of contract, breach of privacy legislation, and unjust enrichment regarding an alleged data breach. The claim was amended in March 2018 to name Six Continents Hotels, Inc. as the sole defendant. The claimant alleges that security failures allowed customers' financial information to be compromised. As of 18 February 2019, the likelihood of a favourable or unfavourable result cannot be reasonably determined and it is not possible to determine whether any loss is likely or to estimate the amount of any loss.

A claim was filed on 26 January 2018 against InterContinental Hotels Group PLC, Inter-Continental Hotels Corporation and InterContinental Hotels Group Resources, Inc., alleging negligence and seeking class action status, declaratory judgment, injunctive relief and unspecified damages regarding an alleged data breach. On 29 May 2018, the claimants dismissed the complaint without prejudice.

Two class action claims were filed on 19 March 2018 and 6 December 2018 against Six Continents Hotels, Inc. and other hotel companies, alleging violations of anti-trust regulations. Both suits allege that the defendant hotel companies conspired to eliminate competitive branded keyword search advertising in the hotel industry, which raised prices for hotel rooms in violation of applicable law. As of 18 February 2019, the likelihood of a favourable or unfavourable result cannot be reasonably determined and it is not possible to determine whether any loss is likely or to estimate the amount of any loss.

Exchange controls and restrictions on payment of dividends

There are no restrictions on dividend payments to US citizens.

Although there are currently no UK foreign exchange control restrictions on the export or import of capital or the payment of dividends on the ordinary shares or the ADSs, economic sanctions which may be in force in the UK from time to time impose restrictions on the payment of dividends to persons resident (or treated as so resident) in or governments of (or persons exercising public functions in) certain countries.

Other than economic sanctions which may be in force in the UK from time to time, there are no restrictions under the Articles or under English law that limit the right of non-resident or foreign owners to hold or vote the ordinary shares or the ADSs. In addition, the Articles contain certain limitations on the voting and other rights of any holder of ordinary shares whose holding may, in the opinion of the Directors, result in the loss or failure to secure the reinstatement of any licence or franchise from any US governmental agency held by Six Continents Hotels, Inc. or any subsidiary thereof.

Shareholder information

Taxation

This section provides a summary of material US federal income tax and UK tax consequences to the US holders, described below, of owning and disposing of ordinary shares or ADSs of the Company. This section addresses only the tax position of a US holder who holds ordinary shares or ADSs as capital assets. This section does not, however, discuss all of the tax considerations that may be relevant to any particular US holder, such as the provisions of the Internal Revenue Code of 1986, as amended (IR Code) known as the Medicare Contribution tax or tax consequences to US holders subject to special rules, such as:

- Certain financial institutions.
- Insurance companies.
- Dealers and traders in securities who use a mark-to-market method of tax accounting.
- Persons holding ordinary shares or ADSs as part of a straddle, conversion transaction, integrated transaction or wash sale, or persons entering into a constructive sale with respect to the ordinary shares or ADSs.
- Persons whose functional currency for US federal income tax purposes is not the US dollar.
- Partnerships or other entities classified as partnerships for US federal income tax purposes.
- Persons liable for the alternative minimum tax.
- Tax-exempt organisations.
- Persons who acquired the Company's ADSs or ordinary shares pursuant to the exercise of any employee stock option or otherwise in connection with employment.
- Persons who, directly or indirectly, own ordinary shares or ADSs representing 10% or more of the Company's voting power or value.

This section does not generally deal with the position of a US holder who is resident in the UK for UK tax purposes or who is subject to UK taxation on capital gains or income by virtue of carrying on a trade, profession or vocation in the UK through a branch, agency or permanent establishment to which such ADSs or ordinary shares are attributable ('trading in the UK').

As used herein, a 'US holder' is a person who, for US federal income tax purposes, is a beneficial owner of ordinary shares or ADSs and is: (i) a citizen or individual resident of the US; (ii) a corporation, or other entity taxable as a corporation, created or organised in or under the laws of the US, any state therein or the District of Columbia; (iii) an estate whose income is subject to US federal income tax regardless of its source; or (iv) a trust, if a US court can exercise primary supervision over the trust's administration and one or more US persons are authorised to control all substantial decisions of the trust.

This section is based on the IR Code, its legislative history, existing and proposed regulations, published rulings and court decisions, and on UK tax laws and the published practice of HM Revenue and Customs (HMRC), all as of the date hereof. These laws, and that practice, are subject to change, possibly on a retroactive basis.

This section is further based in part upon the representations of the ADR Depositary and assumes that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. For US federal income tax purposes, an owner of ADRs evidencing ADSs will generally be treated as the owner of the underlying shares represented by those ADSs. For UK tax purposes, in practice, HMRC will also regard holders of ADSs as the beneficial owners of the ordinary shares represented by those ADSs (although case law has cast some doubt on this). The discussion below assumes that HMRC's position is followed.

Generally, exchanges of ordinary shares for ADSs, and ADSs for ordinary shares, will not be subject to US federal income tax or UK taxation on capital gains, although UK stamp duty reserve tax (SDRT) may arise as described below.

The US Treasury has expressed concerns that parties to whom ADSs are pre-released before shares are delivered to the depositary, or intermediaries in the chain of ownership between holders and the issuer of the securities underlying the ADSs, may be taking actions that are inconsistent with the claiming of foreign tax credits by US holders of ADSs. Such actions would also be inconsistent with the claiming of the preferential rates of tax, described below, for qualified dividend income. Accordingly, the availability of the preferential rates of tax for qualified dividend income described below could be affected by actions taken by parties to whom the ADSs are pre-released.

Investors should consult their own tax advisers regarding the US federal, state and local, the UK and other tax consequences of owning and disposing of ordinary shares or ADSs in their particular circumstances.

The following disclosures assumes that the Company is not, and will not become, a positive foreign investment company (PFIC), as described below.

Taxation of dividends

UK taxation

Under current UK tax law, the Company will not be required to withhold tax at source from dividend payments it makes.

A US holder who is not resident for UK tax purposes in the UK and who is not trading in the UK will generally not be liable for UK taxation on dividends received in respect of the ADSs or ordinary shares.

US federal income taxation

A US holder is generally subject to US federal income taxation on the gross amount of any dividend paid by the Company out of its current or accumulated earnings and profits (as determined for US federal income tax purposes). Distributions in excess of the Company's current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a return of capital to the extent of the US holder's basis in the shares or ADSs and thereafter as capital gain. Because the Company has not historically maintained, and does not currently maintain, books in accordance with US tax principles, the Company does not expect to be in a position to determine whether any distribution will be in excess of the Company's current and accumulated earnings and profits as computed for US federal income tax purposes. As a result, it is expected that amounts distributed will be reported to the Internal Revenue Service (IRS) as dividends.

Subject to applicable limitations and the discussion above regarding concerns expressed by the US Treasury, dividends paid to certain non-corporate US holders will be taxable at the preferential rates applicable to long-term capital gain if the dividends constitute 'qualified dividend income'. The Company expects that dividends paid by the Company with respect to the ADSs will constitute qualified dividend income. US holders should consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to be taxed at these preferential rates.

Shareholder information continued

Taxation continued

Dividends must be included in income when the US holder, in the case of shares, or the ADR Depository, in the case of ADSs, actually or constructively receives the dividend, and will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. For foreign tax credit limitation purposes, dividends will generally be income from sources outside the US.

The amount of any dividend paid in pounds sterling will be the US dollar value of the sterling payments made, determined at the spot sterling/US dollar rate on the date the dividend distribution is includible in income, regardless of whether the payment is in fact converted into US dollars. If the dividend is converted into US dollars on that date, a US holder should not be required to recognise foreign currency gain or loss in respect of the dividend income. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in income to the date the payment is converted into US dollars will be treated as ordinary income or loss from sources within the US.

Taxation of capital gains

UK taxation

A US holder who is not resident for UK tax purposes in the UK and who is not trading in the UK will not generally be liable for UK taxation on capital gains, or eligible for relief for allowable losses, realised or accrued on the sale or other disposal of ADSs or ordinary shares. A US holder of ADSs or ordinary shares who is an individual and who, broadly, has temporarily ceased to be resident in the UK or has become temporarily treated as non-resident for UK tax purposes for a period of not more than five years and who disposes of ordinary shares or ADSs during that period may, for the year of assessment when that individual becomes resident again in the UK, be liable to UK tax on capital gains (subject to any available exemption or relief), notwithstanding the fact that such US holder was not treated as resident in the UK at the time of the sale or other disposal.

US federal income taxation

A US holder who sells or otherwise disposes of ordinary shares or ADSs will recognise a capital gain or loss for US federal income tax purposes equal to the difference between the amount realised and its tax basis in the ordinary shares or ADSs, each determined in US dollars. Such capital gain or loss will be long-term capital gain or loss where the US holder has a holding period greater than one year. Losses may also be treated as long-term capital losses to the extent of certain 'extraordinary dividends' that qualified for the preferential tax rates on qualified dividend income described above. The capital gain or loss will generally be income or loss from sources within the US for foreign tax credit limitation purposes. The deductibility of capital losses is subject to limitations.

PFIC rules

Based on the manner in which the Group operates its business and estimates of the value of its assets (which estimates are based, in part, on the market value of the Company's ADSs) the Company believes that it was not a PFIC for US federal income tax purposes for its 2018 taxable year. However, this conclusion is an annual factual determination and thus may be subject to change. If the Company were a PFIC for any taxable year during which a US holder owned ordinary shares or ADSs, gain realised on the sale or other disposition of ordinary shares or ADSs would, in general, not be treated as capital gain. Instead, gain would be treated as if the US holder had realised such gain ratably over the holding period for the ordinary shares or ADSs and, to the extent allocated to the taxable year of the sale or other disposition and to any year before the Company became a PFIC, would be taxed as ordinary income. The amount allocated to each other taxable year would be taxed at the highest tax rate in effect (for individuals or corporations, as applicable) for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. In addition, similar rules would apply to any 'excess distribution' received on the ordinary shares or ADSs (generally, the excess of any distribution received on the ordinary shares or ADSs during the taxable year over 125% of the average amount of distributions received during a specified prior period). The preferential rates for qualified dividend income described above would not apply if the Company were a PFIC in the taxable year of the distribution or the preceding taxable year.

Certain elections may be available (including a market-to-market election) to US holders that would result in alternative treatments of the ordinary shares or ADSs. If the Company were a PFIC for any taxable year in which a US holder held ordinary shares or ADSs, a US holder would generally be required to file IRS Form 8621 with their annual US federal income tax returns, subject to certain exceptions.

Additional tax considerations

UK inheritance tax

An individual who is neither domiciled nor deemed domiciled in the UK is only chargeable to UK inheritance tax to the extent the individual owns assets situated in the UK. As a matter of UK law, it is not clear whether the situs of an ADS for UK inheritance tax purposes is determined by the place where the depository is established and records the entitlements of the deposit holders, or by the situs of the underlying share which the ADS represents, but the UK tax authorities may take the view that the ADSs, as well as the ordinary shares, are or represent UK-situs assets.

However, an individual who is domiciled in the US (for the purposes of the Estate and Gift Tax Convention (the Convention), and is not a UK national as defined in the Convention, will not be subject to UK inheritance tax (to the extent UK inheritance tax applies) in respect of the ordinary shares or ADSs on the individual's death or on a transfer of the ordinary shares or ADSs during their lifetime, provided that any applicable US federal gift or estate tax is paid, unless the ordinary shares or ADSs are part of the business property of a UK permanent establishment or pertain to a UK fixed base of an individual used for the performance of independent personal services. Where the ordinary shares or ADSs have been placed in trust by a settlor, they may be subject to UK inheritance tax unless, when the trust was created, the settlor was domiciled in the US and was not a UK national. If no relief is given under the Convention, inheritance tax may be charged on death and also on the amount by which the value of an individual's estate is reduced as a result of any transfer made by way of gift or other undervalue transfer, broadly within seven years of death, and in certain other circumstances. Where the ordinary shares or ADSs are subject to both UK inheritance tax and to US federal gift or estate tax, the Convention generally provides for either a credit against US federal tax liabilities for UK inheritance tax paid or for a credit against UK inheritance tax liabilities for US federal tax paid, as the case may be.

UK stamp duty and SDRT

Neither stamp duty nor SDRT will generally be payable in the UK on the purchase or transfer of an ADS, provided that the ADS and any separate instrument or written agreement of transfer are executed and remain at all times outside the UK. UK legislation does however provide for stamp duty (in the case of transfers) or SDRT to be payable at the rate of 1.5% on the amount or value of the consideration (or, in some cases, the value of the ordinary shares) where ordinary shares are issued or transferred to a person (or a nominee or agent of a person) whose business is or includes issuing depositary receipts or the provision of clearance services. In accordance with the terms of the deposit agreement, any tax or duty payable on deposits of ordinary shares by the depositary or by the custodian of the depositary will typically be charged to the party to whom ADSs are delivered against such deposits.

Following litigation on the subject, HMRC has accepted that it will no longer seek to apply the 1.5% SDRT charge when new shares are issued to a clearance service or depositary receipt system on the basis that the charge is not compatible with EU law. The Government has confirmed that it will not reintroduce the 1.5% charge on the issue of shares (and transfers integral to the raising of capital) into clearance service or depositary receipt systems following the UK's exit from the EU. In HMRC's view, the 1.5% SDRT or stamp duty charge will continue to apply to transfers of shares into a clearance service or depositary receipt system unless they are an integral part of an issue of share capital. Specific professional advice should be sought before paying the 1.5% SDRT or stamp duty charge in any circumstances.

A transfer of the underlying ordinary shares will generally be subject to stamp duty or SDRT, normally at the rate of 0.5% of the amount or value of the consideration (rounded up to the next multiple of £5 in the case of stamp duty). A transfer of ordinary shares from a nominee to its beneficial owner, including the transfer of underlying ordinary shares from the depositary to an ADS holder, under which no beneficial interest passes, will not be subject to stamp duty or SDRT.

US backup withholding and information reporting

Payments of dividends and sales proceeds with respect to ADSs and ordinary shares may be reported to the IRS and to the US holder. Backup withholding may apply to these reportable payments if the US holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its US federal income tax returns. Certain US holders (including, among others, corporations) are not subject to information reporting and backup withholding. The amount of any backup withholding from a payment to a US holder will be allowed as a credit against the holder's US federal income tax liability and may entitle the holder to a refund, provided that the required information is timely furnished to the IRS. US holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Certain US holders who are individuals (and certain specified entities), may be required to report information relating to their ownership of non-US securities unless the securities are held in accounts at financial institutions (in which case the accounts may be reportable if maintained by non-US financial institutions). US holders should consult their tax advisers regarding any reporting obligations they may have with respect to the Company's ordinary shares or ADSs.

Shareholder information continued

Disclosure controls and procedures

As of the end of the period covered by this report, the Group carried out an evaluation under the supervision and with the participation of the Group's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Group's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act 1934).

These are defined as those controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act 1934 is recorded, processed, summarised and reported within the specified periods. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Group's disclosure controls and procedures were effective.

Summary of significant corporate governance differences from NYSE listing standards

The Group's statement of compliance with the principles and provisions specified in the UK Corporate Governance Code issued in April 2016 by the Financial Reporting Council (the Code) is set out on pages 70 and 71.

IHG has also adopted the corporate governance requirements of the US Sarbanes-Oxley Act and related rules and of the NYSE, to the extent that they are applicable to it as a foreign private issuer. As a foreign private issuer, IHG is required to disclose any significant ways in which its corporate governance practices differ from those followed by US companies. These are as follows:

Basis of regulation

The Code contains a series of principles and provisions. It is not, however, mandatory for companies to follow these principles. Instead, companies must disclose how they have applied them and disclose, if applicable, any areas of non-compliance along with an explanation for the non-compliance.

In contrast, US companies listed on the NYSE are required to adopt and disclose corporate governance guidelines adopted by the NYSE.

Independent Directors

The Code's principles recommend that at least half the Board, excluding the Chair, should consist of Independent Non-Executive Directors. As at 18 February 2019, the Board consisted of the Chair, independent at the time of his appointment, three Executive Directors and seven Independent Non-Executive Directors. NYSE listing rules applicable to US companies state that companies must have a majority of independent directors. The NYSE set out five bright line tests for director independence. The Board's judgement is that all of its Non-Executive Directors are independent. However, it did not explicitly take into consideration the NYSE's tests in reaching this determination.

Chair and Chief Executive Officer

The Code recommends that the Chair and Chief Executive Officer should not be the same individual to ensure that there is a clear division of responsibility for the running of the Company's business. There is no corresponding requirement for US companies. The roles of Chair and Chief Executive Officer were, as at 18 February 2019 and throughout 2018, fulfilled by separate individuals.

Committees

The Company has a number of Board Committees which are similar in purpose and constitution to those required for domestic companies under NYSE rules. The NYSE requires US companies to have audit, remuneration and nominating/corporate governance committees composed entirely of independent directors, as defined under the NYSE rules. The Company's Nomination Committee consists only of Non-Executive Directors and the Company's Audit and Remuneration Committees consists entirely of Non-Executive Directors who are independent under the standards of the Code, which may not necessarily be the same as the NYSE independence standards. The nominating/governance committee is responsible for identifying individuals qualified to become Board members and to

recommend to the Board a set of corporate governance principles. As the Company is subject to the Code, the Company's Nomination Committee is only responsible for nominating, for approval by the Board, candidates for appointment to the Board, although it also assists in developing the role of the Senior Independent Non-Executive Director. The Company's Nomination Committee consists of the Chair and all the Independent Non-Executive Directors.

The Chair of the Company is not a member of either the Remuneration or the Audit Committee. As set out on page 64, the Audit Committee is chaired by an Independent Non-Executive Director who, in the Board's view, has the experience and qualifications to satisfy the criterion under US rules for an 'audit committee financial expert'.

Non-Executive Director meetings

NYSE rules require that non-management directors of US companies must meet on a regular basis without management present, and independent directors must meet separately at least once per year. The Code requires: (i) the Board Chair to hold meetings with the Non-Executive Directors without the Executive Directors present; and (ii) the Non-Executive Directors to meet at least annually without the Chair present to appraise the Chair's performance. The Company's Non-Executive Directors have met frequently without Executive Directors being present, and intend to continue this practice, after every Board meeting if possible.

Shareholder approval of equity compensation plans

The NYSE rules require that shareholders must be given the opportunity to vote on all equity compensation plans and material revisions to those plans. The Company complies with UK requirements which are similar to the NYSE rules. The Board does not, however, explicitly take into consideration the NYSE's detailed definition of 'material revisions'.

Code of Conduct

The NYSE requires companies to adopt a code of business conduct and ethics, applicable to directors, officers and employees. Any waivers granted to directors or officers under such a code must be promptly disclosed. As set out on page 179, IHG's Code of Conduct is applicable to all Directors, officers and employees, and further information on the Code of Conduct is available on the Company's website at www.ihgplc.com/investors under Corporate governance. No waivers have been granted under the Code of Conduct.

Compliance certification

Each chief executive of a US company must certify to the NYSE each year that he or she is not aware of any violation by the Company of any NYSE corporate governance listing standard. As the Company is a foreign private issuer, the Company's Chief Executive Officer is not required to make this certification. However, he is required to notify the NYSE promptly in writing after any of the Company's executive officers become aware of any non-compliance with those NYSE corporate governance rules applicable to the Company.

Selected five-year consolidated financial information

The selected consolidated financial data set forth in the table below for the years ended 31 December 2014, 2015, 2016, 2017 and 2018 have been prepared in accordance with IFRS as issued by the IASB and in accordance with IFRS as adopted by the EU, and is derived from the audited Group Financial Statements.

IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB. However, the differences have no impact on the Group Financial Statements for the years presented. The selected consolidated financial data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Group Financial Statements and notes thereto included elsewhere in this Annual Report and Form 20-F.

Group income statement data

For the year ended 31 December	\$m, except earnings per ordinary share				
	2018	2017 Restated ^a	2016 Restated ^a	2015	2014
Total revenue	4,337	4,075	3,912	1,803	1,858
Operating profit before exceptional items	670	724	741	680	651
Exceptional items	(104)	4	(29)	819	29
Operating profit	566	728	712	1,499	680
Financial income	5	4	6	5	3
Financial expenses	(86)	(76)	(86)	(92)	(83)
Profit before tax	485	656	632	1,412	600
Tax:					
On profit before exceptional items	(160)	(203)	(185)	(180)	(179)
On exceptional items	22	(2)	12	(8)	(29)
Exceptional tax	5	90	-	-	-
	(133)	(115)	(173)	(188)	(208)
Profit for the year from continuing operations:	352	541	459	1,224	392
Attributable to:					
Equity holders of the parent	351	540	456	1,222	391
Non-controlling interest	1	1	3	2	1
Earnings per ordinary share (continuing and total operations):					
Basic	184.7¢	279.8¢	215.1¢	520.0¢	158.3¢
Diluted	182.8¢	278.4¢	213.1¢	513.4¢	156.4¢

Group statement of financial position data

For the year ended 31 December	\$m, except number of shares				
	2018	2017 Restated ^a	2016 Restated ^a	2015	2014
Goodwill and other intangible assets	1,143	967	858	1,226	643
Property, plant and equipment	447	425	419	428	741
Investments and other financial assets	364	369	359	420	368
Non-current trade and other receivables	-	-	8	3	3
Retirement benefit assets	-	3	-	-	8
Non-current derivative financial instruments	7	-	-	-	-
Non-current tax receivable	31	16	23	37	34
Deferred tax assets	60	75	69	49	87
Non-current contract costs	55	51	45	-	-
Non-current contract assets	270	241	185	-	-
Current assets	1,376	863	796	1,606	624
Assets classified as held for sale	-	-	-	-	310
Total assets	3,753	3,010	2,762	3,769	2,818
Current liabilities	1,370	1,280	1,150	1,369	943
Long-term debt	2,129	1,893	1,606	1,239	1,569
Net (liabilities)/assets	(1,077)	(1,301)	(1,146)	319	(717)
Equity share capital	146	154	141	169	178
IHG shareholders' equity	(1,085)	(1,308)	(1,154)	309	(725)
Number of shares in issue at end of the year (millions)	197	197	206	248	248

^a Restated for the adoption of IFRS 15 and other presentational changes (see pages 109 to 114 of the Group Financial Statements for further details)

Shareholder information continued

Return of funds

Since March 2003, the Group has returned over £6.6 billion of funds to shareholders by way of special dividends, capital returns and share repurchase programmes. On 19 October 2018, the Company announced a \$500 million return of funds to shareholders via special dividend with share consolidation. The special dividend was paid in January 2019.

Return of funds programme	Timing	Total return	Returned to date
£501m special dividend ^a	Paid in December 2004	£501m	£501m
£250m share buyback	Completed in 2004	£250m	£250m
£996m capital return ^a	Paid in July 2005	£996m	£996m
£250m share buyback	Completed in 2006	£250m	£250m
£497m special dividend ^a	Paid in June 2006	£497m	£497m
£250m share buyback	Completed in 2007	£250m	£250m
£709m special dividend ^a	Paid in June 2007	£709m	£709m
£150m share buyback	n/a ^b	£150m	£120m
\$500m special dividend ^{a, c}	Paid in October 2012	£315m ^d (\$500m)	£315m ^e (\$505m)
\$500m share buyback	Completed in 2014	£315m ^d (\$500m)	£315m ^f (\$500m) ^f
\$350m special dividend	Paid in October 2013	£229m ^g (\$350m)	£228m ^h (\$355m) ^h
\$750m special dividend ^a	Paid in July 2014	£447m ⁱ (\$750m)	£446m ^j (\$763m) ^j
\$1,500m special dividend ^a	Paid in May 2016	£1,038m ^k (\$1,500m)	£1,038m ^l (\$1,500m)
\$400m special dividend ^a	Paid in May 2017	£309m ^l (\$400m)	£310m ^l (\$404m)
\$500m special dividend ^a	Paid in January 2019	£389m ^m (\$500m)	£388m ^m (\$510m)
Total		£6,645m	£6,613m

^a Accompanied by a share consolidation.

^b This programme was superseded by the share buyback programme announced on 7 August 2012.

^c IHG changed the reporting currency of its Consolidated Financial Statements from sterling to US dollars effective from the Half-Year Results as at 30 June 2008.

^d The dividend was first determined in US dollars and converted to sterling immediately before announcement at the rate of \$1=£0.63, as set out in the circular detailing the special dividend and share buyback programme published on 14 September 2012.

^e Sterling dividend translated at \$1=£0.624.

^f Translated into US dollars at the average rates of exchange for the relevant years (2014 \$1=£0.61; 2013 \$1=£0.64; 2012 \$1 = £0.63).

^g The dividend was first determined in US dollars and converted to sterling immediately before announcement at the rate of \$1=£0.65, as announced in the Half-Year Results to 30 June 2013.

^h Sterling dividend translated at \$1=£0.644.

ⁱ The dividend was first determined in US dollars and converted to sterling immediately before announcement at the rate translated at \$1=£0.597.

^j Sterling dividend translated at \$1=£0.5845.

^k The dividend was first determined in US dollars and converted to sterling at the rate of \$1 = £0.6923, as announced on 12 May 2016.

^l The dividend was first determined in US dollars and converted to sterling at the rate of \$1 = £0.7724, as announced on 11 May 2017.

^m The dividend was first determined in US dollars and converted to sterling at the rate of £1 = \$1.2860, as announced on 17 January 2019.

Purchases of equity securities by the Company and affiliated purchasers

During the financial year ended 31 December 2018, 10 ordinary shares were purchased by the Company at prices ranging from 4,159 to 4,176 pence per share under the share purchase announced by the Company on 18 December 2018 in connection with the \$500 million special dividend and consolidation.

	Total number of shares (or units) purchased	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programmes	Maximum number of shares (or units) that may be purchased under the plans or programmes
Month 1 (no purchases this month)	nil	nil	nil	18,999,018 ^a
Month 2 (no purchases this month)	nil	nil	nil	18,999,018 ^a
Month 3 (no purchases this month)	nil	nil	nil	18,999,018 ^a
Month 4 (no purchases this month)	nil	nil	nil	18,999,018 ^a
Month 5 (no purchases this month)	nil	nil	nil	18,999,018 ^b
Month 6 (no purchases this month)	nil	nil	nil	18,999,018 ^b
Month 7 (no purchases this month)	nil	nil	nil	18,999,018 ^b
Month 8 (no purchases this month)	nil	nil	nil	18,999,018 ^b
Month 9 (no purchases this month)	nil	nil	nil	18,999,018 ^b
Month 10 (no purchases this month)	nil	nil	nil	18,999,018 ^b
Month 11 (no purchases this month)	nil	nil	nil	18,999,018 ^b
Month 12	10	4.166	10	18,999,018 ^b

^a Reflects the resolution passed at the Company's AGM held on 5 May 2017.

^b Reflects the resolution passed at the Company's AGM held on 4 May 2018.

Dividend history

The table below sets forth the amounts of ordinary dividends on each ordinary share and special dividends, in respect of each financial year indicated.

	Interim dividend		Final dividend		Total dividend		Special dividend	
	pence	cents	pence	cents	pence	cents	pence	cents
2018	27.7	36.3	N/A^a	78.1	N/A^a	114.4	203.8^d	262.1^d
2017	24.4	33.0	50.2	71.0	74.6	104.0	156.4 ^b	202.5 ^b
2016	22.6	30.0	49.4	64.0	72.0	94.0	438.2 ^b	632.9 ^b
2015	17.7	27.5	40.3	57.5	58.0	85.0	-	-
2014	14.8	25.0	33.8	52.0	48.6	77.0	174.9 ^b	293.0 ^b
2013	15.1	23.0	28.1	47.0	43.2	70.0	87.1	133.0
2012	13.5	21.0	27.7	43.0	41.2	64.0	108.4 ^b	172.0 ^b
2011	9.8	16.0	24.7	39.0	34.5	55.0	-	-
2010	8.0	12.8	22.0	35.2	30.0	48.0	-	-
2009	7.3	12.2	18.7	29.2	26.0	41.4	-	-
2008 ^c	6.4	12.2	20.2	29.2	26.6	41.4	-	-
2007	5.7	11.5	14.9	29.2	20.6	40.7	200 ^b	-
2006	5.1	9.6	13.3	25.9	18.4	35.5	118 ^b	-
2005	4.6	8.1	10.7	18.7	15.3	26.8	-	-

^a The sterling amount of the final dividend will be announced on 26 April 2019 using the average of the daily exchange rates from 23 April 2019 to 25 April 2019 inclusive.

^b Accompanied by a share consolidation.

^c IHG changed the reporting currency of its Consolidated Financial Statements 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 prior to payment.

^d This special dividend was announced on 19 October 2018 and paid on 29 January 2019

Shareholder information continued

Shareholder profiles

Shareholder profile by type as at 31 December 2018

Category of shareholder	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
Private individuals	33,811	93.62	9,062,327	4.58
Nominee companies	1,421	3.93	159,881,084	80.91
Limited and public limited companies	782	2.17	14,993,201	7.59
Other corporate bodies	92	0.25	13,547,738	6.86
Pension funds, insurance companies and banks	10	0.03	113,250	0.06
Total	36,116	100	197,597,600	100

Shareholder profile by size as at 31 December 2018

Range of shareholdings	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
1-199	24,346	67.41	1,463,101	0.74
200-499	6,493	17.98	2,030,722	1.03
500-999	2,687	7.44	1,863,709	0.94
1,000-4,999	1,816	5.03	3,480,091	1.76
5,000-9,999	225	0.62	1,588,042	0.80
10,000-49,999	294	0.81	6,748,648	3.42
50,000-99,999	77	0.21	5,560,335	2.81
100,000-499,999	121	0.34	25,665,203	12.99
500,000-999,999	30	0.08	20,451,816	10.35
1,000,000 and above	27	0.07	128,745,897	65.16
Total	36,116	100	197,597,600	100

Shareholder profile by geographical location as at 31 December 2018

Country/Jurisdiction	Percentage of issued share capital
UK	46.0
Rest of Europe	17.5
US (including ADRs)	34.3
Rest of world	2.2
Total	100

The geographical profile presented is based on an analysis of shareholders (by manager) of 40,000 shares or above where geographical ownership is known. This analysis only captures 90.7% of total issued share capital. Therefore, the known percentage distributions have been multiplied by 100/90.7 (1.102) to achieve the figures shown in the table above.

As of 18 February 2019, 14,213,048 ADSs equivalent to 14,213,048 ordinary shares, or approximately 7.84% of the total issued share capital, were outstanding and were held by 438 holders. Since certain ordinary shares are registered in the names of nominees, the number of shareholders on record may not be representative of the number of beneficial owners.

As of 18 February 2019, there were a total of 35,179 recorded holders of ordinary shares, of whom 261 had registered addresses in the US and held a total of 383,344 ordinary shares (0.2% of the total issued share capital).

Exhibits

The following exhibits are filed as part of this Annual Report on Form 20-F with the SEC, and are publicly available through the SEC's website at www.sec.gov

Exhibit 1	Articles of Association of the Company dated 4 May 2018
Exhibit 4(a)(i) ^a	Amended and restated trust deed dated 11 August 2016 relating to a £2 billion Euro Medium Term Note Programme, among InterContinental Hotels Group PLC, Six Continents Limited, InterContinental Hotels Limited and HSBC Corporate Trustee Company (UK) Limited (incorporated by reference to Exhibit 4(a)(i) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1 - 10409) date 2 March 2017)
Exhibit 4(a)(ii) ^a	Five-year \$1.275 billion bank facility agreement dated 30 March 2015, among InterContinental Hotels Group PLC and certain of its subsidiaries, and Bank of America Merrill Lynch International Limited, Barclays Bank PLC, Citibank, N.A. London Branch, Commerzbank Aktiengesellschaft, London Branch, DBS Bank Ltd., London Branch, HSBC Bank plc, SunTrust Bank, The Bank of Tokyo-Mitsubishi UFJ, Ltd., The Royal Bank Of Scotland plc, U.S. Bank National Association and Wells Fargo Bank N.A., London Branch (incorporated by reference to Exhibit 4a(iii) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1 - 10409) dated 3 March 2016)
Exhibit 4(a)(iii)	Share purchase agreement between Sustainable Luxury (BVI) Limited Partnership (acting by its General Partner, Sustainable Luxury (BVI) Limited), Sustainable Luxury Holdings (BVI) Limited and Inter-Continental Hotels Corporation dated 12 February 2019
Exhibit 4(c)(i) ^a	Paul Edgecliffe-Johnson's service contract dated 6 December 2013, commencing on 1 January 2014 (incorporated by reference to Exhibit 4(c)(i) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated 26 February 2014)
Exhibit 4(c)(ii) ^a	Rules of the InterContinental Hotels Group Long Term Incentive Plan as amended on 2 May 2014 (incorporated by reference to Exhibit 4(c)(ix) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated 26 February 2015)
Exhibit 4(c)(iii) ^a	Rules of the InterContinental Hotels Group Annual Performance Plan as amended on 2 May 2014 (incorporated by reference to Exhibit 4(c)(x) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated 26 February 2015)
Exhibit 4(c)(iv) ^a	Keith Barr's service contract dated 5 May 2017, commencing on 1 July 2017 (incorporated by reference to Exhibit 4(c)(v) of the InterContinental Hotels Group Annual Report on Form 20-F (File No.1-10409) dated 1 March 2018)
Exhibit 4(c)(v) ^a	Elie Maalouf's service contract dated 19 October 2017, commencing on 1 January 2018 (incorporated by reference to Exhibit 4(c)(vi) of the InterContinental Hotels Group Annual Report on Form 20-F (File No.1-10409) dated 1 March 2018)
Exhibit 8	List of subsidiaries as at 31 December 2018 (can be found on pages 159 to 161)
Exhibit 12(a)	Certification of Keith Barr filed pursuant to 17 CFR 240.13a-14(a)
Exhibit 12(b)	Certification of Paul Edgecliffe-Johnson filed pursuant to 17 CFR 240.13a-14(a)
Exhibit 13(a)	Certification of Keith Barr and Paul Edgecliffe-Johnson furnished pursuant to 17 CFR 240.13a-14(b) and 18 U.S.C.1350
Exhibit 15(a)	Consent of independent registered public accounting firm, Ernst & Young LLP
Exhibit 101	XBRL Instance Document and related items

^a Incorporated by reference.

Form 20-F cross-reference guide

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Glossary

ADR

an American Depositary Receipt, being a receipt evidencing title to an ADS.

ADR Depositary (J.P. Morgan)

J.P. Morgan Chase Bank N.A.

ADS

an American Depositary Share as evidenced by an ADR, being a registered negotiable security, listed on the New York Stock Exchange, representing one ordinary share of 20³⁴⁰/₂₉₉ pence each of the Company.

AGM

Annual General Meeting of InterContinental Hotels Group PLC.

EMEA

Europe, Middle East, Asia and Africa.

Annual Report

The Annual Report and Form 20-F in relation to the years ending 31 December 2017 or 2018 as relevant.

APP

Annual Performance Plan.

Articles

the Articles of Association of the Company for the time being in force.

average daily rate

rooms revenue divided by the number of room nights sold.

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.

Board

The Board of Directors of InterContinental Hotels Group PLC.

capital expenditure

purchases of property, plant and equipment, intangible assets, associate and joint venture investments, and other financial assets.

cash-generating units (CGUs)

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.

Code

UK Corporate Governance Code issued in April 2016 by the Financial Reporting Council in the UK. The Code was revised in 2018; references to the revised Code are indicated as the 'new Code' or '2018 Code'.

Companies Act

the Companies Act 2006, as amended from time to time.

Company or Parent Company

InterContinental Hotels Group PLC.

comparable RevPAR

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

Compound Annual Growth Rate (CAGR)

the annual growth rate over a period of years, calculated on the basis that each year's growth is compounded, that is, the amount of growth in each year is included in the following year's number, which in turn grows further.

constant currency

a current-year value translated using the previous year's average 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.

Deferred Compensation Plan

the Defined Contribution Deferred Compensation Plan.

derivatives

financial instruments used to reduce risk, the price of which is derived from an underlying asset, index or rate.

direct channels

methods of booking hotel rooms (both digital and voice) not involving third-party intermediaries.

Director

a director of InterContinental Hotels Group PLC.

DR Policy

Directors' Remuneration Policy.

EBIT

earnings before interest and tax.

EBITDA

earnings excluding exceptional items and the impact of the System Fund, before interest, tax, depreciation and amortisation.

Employee Engagement survey

we ask our employees and those who work in our managed hotels (excluding our joint venture hotels) to participate in a survey to measure employee engagement.

EU

the European Union.

euro or €

the currency of the European Economic and Monetary Union.

exceptional items

items that 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 (Staybridge Suites and Candlewood Suites).

fee business

IHG's franchise and managed businesses combined.

fee margin or fee-based margin

operating profit as a percentage of revenue, excluding revenue and operating profit from owned, leased and managed lease hotels, Kimpton in 2015 only, and significant liquidated damages.

franchisee

an owner who uses a brand under licence from IHG.

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.

Group or IHG

the Company and its subsidiaries.

Guest Love

IHG's guest satisfaction measurement tool used to measure brand preference and guest satisfaction.

Guest Reservation System or GRS

our global electronic guest reservation system.

hedging

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

hotel revenue

revenue from all revenue-generating activity undertaken by managed and owned, leased and managed lease hotels, including room nights, food and beverage sales.

IASB

International Accounting Standards Board.

IFRS

International Financial Reporting Standards as adopted by the EU and issued by the IASB.

IHG PLC

InterContinental Hotels Group PLC.

indirect channels

online travel intermediaries and business and leisure travel agents.

interest rate swap

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

liquidated damages

payments received in respect of the early termination of franchise and management contracts.

LTIP

Long Term Incentive Plan.

managed leases

properties structured 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.

net debt

borrowings less cash and cash equivalents, including the exchange element of the fair value of currency swaps hedging the borrowings.

net rooms supply

net total number of IHG system hotel rooms.

NYSE

New York Stock Exchange.

occupancy rate

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

ordinary share

from 9 October 2012 until 30 June 2014, the ordinary shares of 14¹⁹⁴/₃₂₉ pence each in the Company; from 1 July 2014, the ordinary shares of 15²⁶⁵/₃₂₉ pence each in the Company; from 9 May 2016 the ordinary shares of 18³¹⁸/₃₂₉ pence each in the Company; from 8 May 2017 the ordinary shares of 19¹⁷/₂₁ pence each in the Company; and from 14 January 2019 the ordinary shares of 20³⁴⁰/₃₉₉ pence each in the Company.

owner

the ultimate owner of a hotel property.

pipeline

hotels/rooms that will enter the IHG 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.

ppt

a percentage point is the unit for the arithmetic difference of two percentages.

reimbursable revenues

reimbursements from managed and franchised hotels for costs incurred by IHG, for example the cost of IHG employees working in managed hotels. The related revenues and costs are presented gross in the Group income statement and there is no impact to profit.

revenue management

the employment of pricing and segment strategies to optimise the revenue generated from the sale of room nights.

revenue per available room or 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, leased or managed lease by IHG.

rooms revenue

revenue generated from the sale of room nights.

royalties

fees, based on rooms revenue, that a franchisee pays to the Group.

SEC

US Securities and Exchange Commission.

sterling or pounds sterling, £, pence or p

the pound sterling, the currency of the United Kingdom.

subsidiary

a company over which the Group exercises control.

System

hotels/rooms operating under franchise and management agreements together with IHG owned, leased and managed lease hotels/rooms, globally (the IHG System) or on a regional basis, as the context requires.

System contribution to revenue

percentage of rooms revenue delivered through IHG's direct and indirect systems and channels.

System Fund or Fund

assessment fees and contributions collected from hotels within the IHG System which fund activities that drive revenue to our hotels including marketing, the IHG Rewards Club loyalty programme and our distribution channels.

technology fee income

income received from hotels under franchise and management agreements for the use of IHG's Guest Reservation System.

total gross revenue

total rooms revenue from franchised hotels and total hotel revenue from managed, owned, leased and managed lease hotels. Other than owned, leased and managed lease hotels, it is not revenue wholly attributable to IHG, as it is mainly derived from hotels owned by third parties.

Total Shareholder Return or TSR

the theoretical growth in value of a shareholding over a period, by reference to the beginning and ending share price, and assuming that dividends, including special dividends, are reinvested to purchase additional units of the equity.

UK

the United Kingdom.

UK GAAP

United Kingdom Generally Accepted Accounting Practice.

US

the United States of America.

US 401(k) Plan

the Defined Contribution 401(k) plan.

US dollars, US\$, \$ or ¢

the currency of the United States of America.

working capital

the sum of inventories, receivables and payables of a trading nature, excluding financing and taxation items.

Useful information

Investor information

Website and electronic communication

As part of IHG's commitment to reduce the cost and environmental impact of producing and distributing printed documents in large quantities, this Annual Report and Form 20-F 2018 has been made available to shareholders through our website at www.ihgplc.com/investors under Annual Report.

Shareholders may electronically appoint a proxy to vote on their behalf at the 2019 AGM. Shareholders who hold their shares through CREST may appoint proxies through the CREST electronic proxy appointment service, by using the procedures described in the CREST Manual.

Shareholder hotel discount

IHG offers discounted hotel stays (subject to availability) for registered shareholders only, through a controlled-access website. This is not available to shareholders who hold shares through nominee companies, ISAs or ADRs. For further details please contact the Company Secretary's office (see the opposite page).

Responsible Business Report

In line with our commitment to responsible business practices, this year we have produced a Responsible Business Report showcasing our approach to responsible business and progress against our corporate responsibility targets.



Visit www.ihgplc.com/responsible-business for details.

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 0371 384 2132^a (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 0371 384 2268^a.



See www.shareview.co.uk/info/drip for a DRIP application form and information booklet.

Bank mandate

We encourage shareholders to have their dividends paid directly into their UK bank or building society accounts, to ensure efficient payment and clearance of funds on the payment date. For further information, please contact our Registrar (see page opposite).

Overseas payment service

It is also possible for shareholders to have their dividends paid directly to their bank accounts in a local currency. Charges are payable for this service.



Go to www.shareview.co.uk/info/ops for further information.

Out-of-date/unclaimed dividends

If you think that you have out-of-date dividend cheques or unclaimed dividend payments, please contact our Registrar (see the opposite page).

Individual Savings Account (ISA)

Equiniti offers a Stocks and Shares ISA that can invest in IHG shares. For further information, please contact Equiniti on 0345 300 0430^a.

Share dealing services

Equiniti offers the following share-dealing facilities.

Postal dealing

For more information, call 0371 384 2248^a.

Telephone dealing

For more information, call 0345 603 7037^b.

Internet dealing

Visit www.shareview.co.uk for more information.

Changes to the base cost of IHG shares

Details of all the changes to the base cost of IHG shares held from April 2004 to January 2019, for UK Capital Gains Tax purposes, may be found on our website at www.ihgplc.com/investors under Shareholder centre in the Tax information section.

'Gone away' 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. Please contact ProSearch on +44 (0) 800 612 8671 or email info@prosearchassets.com for further details.

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 at www.fca.org.uk/consumers on the Financial Conduct Authority website.

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

Trading markets

The principal trading market for the Company's ordinary shares is the London Stock Exchange (LSE). The ordinary shares are also listed on the NYSE, trading in the form of ADSs evidenced by ADRs. Each ADS represents one ordinary share. The Company has a sponsored ADR facility with J.P. Morgan as ADR Depositary.

American Depositary Receipts (ADRs)

The Company's shares are listed on the NYSE 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 J.P. Morgan Chase Bank, N.A., our ADR Depositary bank (contact details shown on the opposite page).

Documents on display

Documents referred to in this Annual Report and Form 20-F that are filed with the SEC can be found at the SEC's public reference room located at 100 F Street, NE Washington, DC 20549. For further information and copy charges please call the SEC at 1-800-SEC-0330. The Company's SEC filings since 22 May 2002 are also publicly available through the SEC's website at www.sec.gov. Copies of the Company's Articles can be obtained via the website at www.ihgplc.com/investors under Corporate governance or from the Company's registered office on request.

^a Lines are open from 08:30 to 17:30 Monday to Friday, excluding UK public holidays.

^b Lines are open from 08:00 to 16:30 Monday to Friday, excluding UK public holidays.

Financial calendars

Dividends

	2018
2018 Interim dividend of 27.7p per share (36.3¢ per ADR)	
Payment date	5 October
	2019
Special dividend of 203.8p per ordinary share (262.1¢ per ADR)	
Record date	11 January
Ex-dividend date	14 January
Payment date	29 January
	2019
2018 Final dividend of 78.1¢ per ordinary share ^a	
Ex-dividend date	28 March
Record date	29 March
Payment date	14 May

^a The sterling amount of the final dividend will be announced on 26 April 2019 using the average of the daily exchange rates from 23, April 2019 to 25 April 2019 inclusive.

Other dates

	2018
Financial year end	31 December
	2019
Announcement of Preliminary Results for 2018	19 February
Announcement of 2019 First Quarter Interim Management Statement	3 May
Annual General Meeting	3 May
Announcement of Half-Year Results for 2019	6 August
Announcement of 2019 Third Quarter Interim Management Statement	18 October
Financial year end	31 December
	2020
Announcement of Preliminary Results for 2019	February

Contacts

Registered office

Broadwater Park, Denham, Buckinghamshire, UB9 5HR, United Kingdom

Telephone:
+44 (0) 1895 512 000

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 Secretary's office at the above address.

Registrar

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, United Kingdom

Telephone:
0371 384 2132 (UK calls)
+44 (0) 121 415 7034 (non-UK calls)

For those with hearing difficulties a text phone is available on 0371 384 2255 for UK callers with compatible equipment.

www.shareview.co.uk

ADR Depository

J.P. Morgan Chase Bank N.A., PO Box 64504, St. Paul, MN 55164-0504, United States of America

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

Email: jpmorgan.adr@eg-us.com

www.adr.com

Auditor

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

IHG® Rewards Club

If you wish to enquire about, or join, IHG Rewards Club, visit www.ihg.com/rewardsclub or telephone:

+44 (0) 2033 499 033^a
(UK and other countries inside Europe and Africa)
+1 888 211 9874^b (US and Canada)
+1 800 272 9273^b (Mexico)
+1 801 975 3013^c (Spanish) (Central and South America)
+971 4 429 0530^c (Middle East)
+61 2 9935 8362^c (Australia)
+86 21 2033 4848^c (Mandarin and Cantonese) (China)
+81 3 5767 9325^c (Japan)
+63 2 857 8778^c (Korea)
+63 2 857 8788^c (all other countries in Asia Pacific)

^a Toll charges apply.

^b Toll-free.

^c International calling rates apply.

Forward-looking statements

The Annual Report and Form 20-F 2018 contains 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 Chair's statement and in the Chief Executive Officer'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 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 being subject to a competitive and changing industry; the Group's exposure to risks related to executing and realising benefits from strategic transactions, including acquisitions and restructuring; the Group's dependence upon a wide range of external stakeholders and business partners; the Group's exposure to increasing competition from online travel agents and intermediaries; 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 exposure to inherent reputation risks; the Group's exposure to risks associated with its intellectual property; the risks involved in the Group's reliance upon its reservation system and other key technology platforms, and the risks that could disrupt the operation and/or integrity of these systems; 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; the risks associated with collective bargaining activity which could disrupt operations, increase labour costs or interfere with the ability of management to focus on executing business strategies; the risks associated with the Group's financial stability and its ability to borrow and satisfy debt covenants; the risk of litigation; the risks related to cybersecurity and data privacy; compliance with existing and changing regulations and societal expectations across numerous countries, territories and jurisdictions; the risks associated with insuring its business; the risks associated with uncertainties associated with brand development and expansion; the Group's exposure to an impairment of the carrying value of its brands, goodwill or other tangible and intangible assets negatively affecting its consolidated operating results; the risk associated with the Group's operations being dependent on maintaining sufficient liquidity to meet all foreseeable medium-term requirements and provide headroom against unforeseen obligations; the risks associated with credit risk on treasury transactions; and the risks associated with changes in tax rates.

The main factors that could affect the business and financial results are described in the Strategic Report of the Annual Report and Form 20-F 2018.

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InterContinental Hotels Group PLC's commitment to environmental issues is reflected in this Annual Report.

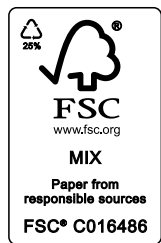
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