

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).

A. Leadership

A.1 The role of the Board

The Board leads IHG's strategic direction, long-term objectives and success of the Group. Further responsibilities of the Board are set out on page 47.

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 2017 Board meetings are set out on page 52, attendance information on page 47 and biographical information on pages 48 and 49.

All Directors are covered by the Group's directors' and officers' liability insurance policy (see page 160).

A.2 Divisions of responsibility

The separate roles of the Chairman 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 48 for more details.

A.3 The Chairman

As well as building and maintaining an effective Board, Patrick Cescau leads the operation and governance of the Board and its Committees. The Chairman was independent on appointment. See page 48 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 Chairman, Chief Executive Officer and other Executive Directors. He also leads the annual performance review of the Chairman with the other Non-Executive Directors (see page 54), and as necessary, provides advice and judgement to the Chairman, and serves as an intermediary for other Directors when necessary.

After each Board meeting, Non-Executive Directors and the Chairman meet without Executive Directors being present (see page 52). 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 47 to 61 and the Directors' Remuneration Report as a whole.

The Board considers that the Group has complied in all material respects with the Code for the year ended 31 December 2017.

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.

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 Chairman, are Independent Non-Executive Directors (see page 47). Further details of the composition of the Board and Committees are available on pages 47 to 49.

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 2017 are in the Nomination Committee Report on page 61. The overall process of appointment and removal of Directors is overseen by the Board as a whole. Two Non-Executive Directors have served for six 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 48 and 49.

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 chairmanship in addition to their role. The commitments of each Director are included in the Directors' biographical details on pages 48 and 49. Details of Directors' service contracts and appointment terms are set out on pages 73, 76 and 168.

The Chairman annually reviews the time each Non-Executive Director dedicates to IHG as part of the internal performance evaluation of each Director (see page 54) and is satisfied that their other duties and time commitments do not conflict with those as Directors.

B.4 Development

The Chairman 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 53).

B.5 Information and support

The Chairman 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 52 for more details.

B.6 Evaluation

In 2016, we engaged Dr Tracy Long of Boardroom Review Limited, an external facilitator with no connection to IHG, to lead the Board effectiveness evaluation. This evaluation concluded during 2017. More information on the evaluation is on page 54.

B.7 Re-election

All of the Directors retire and seek election or re-election at each AGM. Director's biographies are set out on pages 48 and 49 and details of their performance evaluations are on page 54.

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 80.

The status of IHG as a going concern is set out in the Directors' Report on page 163. 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 43.

The statement from our Auditor, Ernst & Young LLP, about its reporting responsibilities is set out on pages 81 to 86.

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 20 to 22 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 47, 52, and 56 to 59.

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 2017 and up to 19 February 2018; (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 43 and also in the Audit Committee Report on pages 56 to 59.

Details of the Directors' assessment of the prospects of the Group are set out on page 22.

C.3 Audit Committee and Auditor

The Audit Committee is comprised entirely of Independent Non-Executive Directors (see page 47 for membership details). Ian Dyson, the Chairman of the Committee has recent and relevant financial experience and the Committee has 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 56 to 59.

The Committee reviewed the effectiveness and independence of Ernst & Young LLP during 2017 and also concluded 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 can be found on page 59.

D. Remuneration

D.1 The level and components of remuneration

The Remuneration Committee's activities during 2017 are set out on page 64 and its membership details are on page 47. The Directors' Remuneration Report is set out on pages 64 to 77. The annual report on remuneration for 2017 (pages 70 to 77) is subject to the annual advisory vote at the AGM in 2018.

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 64 to 77.

During 2017, 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. See page 55 for details of meetings with major institutional investors and other shareholders.

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 55 for more details.