Group Financial Statements

Group income statement

For the year ended 31 December 2020	Note	2020 $m	2019[a] $m	2018[a] $m
Revenue from fee business	3	**823**	1,510	1,486
Revenue from owned, leased and managed lease hotels	3	**169**	573	447
System Fund revenues		**765**	1,373	1,233
Reimbursement of costs		**637**	1,171	1,171
Total revenue	2	**2,394**	4,627	4,337
Cost of sales		**(354)**	(782)	(671)
System Fund expenses		**(867)**	(1,422)	(1,379)
Reimbursed costs		**(637)**	(1,171)	(1,171)
Administrative expenses		**(267)**	(385)	(415)
Share of losses of associates and joint ventures	2	**(14)**	(3)	(1)
Other operating income		**16**	21	14
Depreciation and amortisation	2	**(110)**	(116)	(115)
Impairment loss on financial assets		**(88)**	(8)	(17)
Other impairment charges	6	**(226)**	(131)	–
Operating (loss)/profit	2	**(153)**	630	582
Operating (loss)/profit analysed as:				
Operating profit before System Fund and exceptional items		**219**	865	832
System Fund		**(102)**	(49)	(146)
Operating exceptional items	6	**(270)**	(186)	(104)
		(153)	630	582
Financial income	7	**4**	6	5
Financial expenses	7	**(144)**	(121)	(101)
Fair value gains/(losses) on contingent purchase consideration	25	**13**	27	(4)
(Loss)/profit before tax		**(280)**	542	482
Tax	8	**20**	(156)	(132)
(Loss)/profit for the year from continuing operations		**(260)**	386	350
Attributable to:				
Equity holders of the parent		**(260)**	385	349
Non-controlling interest		**–**	1	1
		(260)	386	350
(Loss)/earnings per ordinary share:	10			
Continuing and total operations:				
Basic		**(142.9)¢**	210.4¢	183.7¢
Diluted		**(142.9)¢**	209.2¢	181.8¢

[a] Amended for presentational changes (see page 134).

Notes on pages 133 to 199 form an integral part of these Group Financial Statements.

Group statement of comprehensive income

For the year ended 31 December 2020	2020 $m	2019 $m	2018 $m
(Loss)/profit for the year	**(260)**	386	350
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
(Losses)/gains on cash flow hedges, net of related tax credit of $4m (2019: $nil, 2018: including related tax credit of $1m)	**3**	(34)	5
Costs of hedging	**(6)**	(6)	(1)
Hedging (gains)/losses reclassified to financial expenses	**(13)**	38	(8)
Exchange (losses)/gains on retranslation of foreign operations, net of related tax credit of $4m (2019: net of related tax credit of $3m, 2018: including related tax credit of $2m)	**(85)**	(39)	44
	(101)	(41)	40
Items that will not be reclassified to profit or loss:			
(Losses)/gains on equity instruments classified as fair value through other comprehensive income, net of related tax credit of $4m (2019: net of related tax charge of $2m, 2018: including related tax charge of $2m)	**(43)**	10	(14)
Re-measurement (losses)/gains on defined benefit plans, net of related tax credit of $1m (2019: net of related tax credit of $1m, 2018: net of related tax charge of $4m)	**(7)**	(6)	8
Tax related to pension contributions	**1**	–	–
	(49)	4	(6)
Total other comprehensive (loss)/income for the year	**(150)**	(37)	34
Total comprehensive (loss)/income for the year	**(410)**	349	384
Attributable to:			
Equity holders of the parent	**(410)**	348	382
Non-controlling interest	**–**	1	2
	(410)	349	384

Notes on pages 133 to 199 form an integral part of these Group 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 2020	151	10	(5)	(2,870)	57	(6)	381	809	(1,473)	8	(1,465)
Loss for the year	–	–	–	–	–	–	–	(260)	(260)	–	(260)
Other comprehensive income											
Items that may be subsequently reclassified to profit or loss:											
Losses on cash flow hedges	–	–	–	–	–	3	–	–	3	–	3
Costs of hedging	–	–	–	–	–	(6)	–	–	(6)	–	(6)
Hedging gains reclassified to financial expenses	–	–	–	–	–	(13)	–	–	(13)	–	(13)
Exchange losses on retranslation of foreign operations	–	–	–	–	–	(2)	(83)	–	(85)	–	(85)
	–	–	–	–	–	(18)	(83)	–	(101)	–	(101)
Items that will not be reclassified to profit or loss:											
Losses on equity instruments classified as fair value through other comprehensive income	–	–	–	–	(43)	–	–	–	(43)	–	(43)
Gains on equity instruments transferred to retained earnings on disposal	–	–	–	–	(3)	–	–	3	–	–	–
Re-measurement losses on defined benefit plans	–	–	–	–	–	–	–	(7)	(7)	–	(7)
Tax related to pension contributions	–	–	–	–	–	–	–	1	1	–	1
	–	–	–	–	(46)	–	–	(3)	(49)	–	(49)
Total other comprehensive loss for the year	–	–	–	–	(46)	(18)	(83)	(3)	(150)	–	(150)
Total comprehensive loss for the year	–	–	–	–	(46)	(18)	(83)	(263)	(410)	–	(410)
Transfer of treasury shares to employee share trusts	–	–	(14)	–	–	–	–	14	–	–	–
Release of own shares by employee share trusts	–	–	18	–	–	–	–	(18)	–	–	–
Equity-settled share-based cost, net of $3m reclassification to cash-settled awards	–	–	–	–	–	–	–	27	27	–	27
Tax related to share schemes	–	–	–	–	–	–	–	(1)	(1)	–	(1)
Exchange adjustments	5	–	–	(5)	–	–	–	–	–	–	–
At 31 December 2020	156	10	(1)	(2,875)	11	(24)	298	568	(1,857)	8	(1,849)

All items within total comprehensive loss are shown net of tax.

Notes on pages 133 to 199 form an integral part of these Group Financial Statements.

	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 2019	146	10	(4)	(2,865)	47	(4)	420	1,111	(1,139)	8	(1,131)
Profit for the year	–	–	–	–	–	–	–	385	385	1	386
Other comprehensive income											
Items that may be subsequently reclassified to profit or loss:											
Losses on cash flow hedges	–	–	–	–	–	(34)	–	–	(34)	–	(34)
Costs of hedging	–	–	–	–	–	(6)	–	–	(6)	–	(6)
Hedging losses reclassified to financial expenses	–	–	–	–	–	38	–	–	38	–	38
Exchange losses on retranslation of foreign operations	–	–	–	–	–	–	(39)	–	(39)	–	(39)
	–	–	–	–	–	(2)	(39)	–	(41)	–	(41)
Items that will not be reclassified to profit or loss:											
Gains on equity instruments classified as fair value through other comprehensive income	–	–	–	–	10	–	–	–	10	–	10
Re-measurement losses on defined benefit plans	–	–	–	–	–	–	–	(6)	(6)	–	(6)
	–	–	–	–	10	–	–	(6)	4	–	4
Total other comprehensive income/(loss) for the year	–	–	–	–	10	(2)	(39)	(6)	(37)	–	(37)
Total comprehensive income for the year	–	–	–	–	10	(2)	(39)	379	348	1	349
Transfer of treasury shares to employee share trusts	–	–	(19)	–	–	–	–	19	–	–	–
Purchase of own shares by employee share trusts	–	–	(5)	–	–	–	–	–	(5)	–	(5)
Release of own shares by employee share trusts	–	–	23	–	–	–	–	(23)	–	–	–
Equity-settled share-based cost	–	–	–	–	–	–	–	41	41	–	41
Tax related to share schemes	–	–	–	–	–	–	–	4	4	–	4
Equity dividends paid	–	–	–	–	–	–	–	(721)	(721)	(1)	(722)
Transaction costs relating to shareholder returns	–	–	–	–	–	–	–	(1)	(1)	–	(1)
Exchange adjustments	5	–	–	(5)	–	–	–	–	–	–	–
At 31 December 2019	151	10	(5)	(2,870)	57	(6)	381	809	(1,473)	8	(1,465)

All items within total comprehensive income are shown net of tax.

Notes on pages 133 to 199 form an integral part of these Group 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	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	154	10	(5)	(2,874)	79	–	377	898	(1,361)	7	(1,354)
Impact of adopting IFRS 9[a]	–	–	–	–	(18)	–	–	18	–	–	–
At 1 January 2018	154	10	(5)	(2,874)	61	–	377	916	(1,361)	7	(1,354)
Profit for the year	–	–	–	–	–	–	–	349	349	1	350
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	–	–	–	–	–	–	43	–	43	1	44
	–	–	–	–	–	(4)	43	–	39	1	40
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)	43	8	33	1	34
Total comprehensive income for the year	–	–	–	–	(14)	(4)	43	357	382	2	384
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)	420	1,111	(1,139)	8	(1,131)

[a] IFRS 9 was applied from 1 January 2018. Under the transition method chosen, comparative information was not restated.

All items within total comprehensive income are shown net of tax.

Notes on pages 133 to 199 form an integral part of these Group Financial Statements.

Group statement of financial position

31 December 2020	Note	2020 $m	2019 Restated[a] $m	2018 Restated[a] $m
ASSETS				
Goodwill and other intangible assets	13	**1,293**	1,376	1,143
Property, plant and equipment	14	**201**	309	273
Right-of-use assets	15	**303**	490	513
Investment in associates and joint ventures	16	**81**	110	104
Other financial assets	17	**168**	284	260
Derivative financial instruments	24	**5**	–	7
Deferred compensation plan investments	25	**236**	218	193
Non-current tax receivable		**15**	28	31
Deferred tax assets	8	**113**	66	63
Contract costs	3	**70**	67	55
Contract assets	3	**311**	311	270
Total non-current assets		**2,796**	3,259	2,912
Inventories		**5**	6	5
Trade and other receivables	18	**514**	666	610
Current tax receivable		**18**	16	27
Other financial assets	17	**1**	4	1
Derivative financial instruments	24	**–**	1	1
Cash and cash equivalents	19	**1,675**	195	704
Contract costs	3	**5**	5	5
Contract assets	3	**25**	23	20
Total current assets		**2,243**	916	1,373
Assets classified as held for sale	12	**–**	19	–
Total assets		**5,039**	4,194	4,285
LIABILITIES				
Loans and other borrowings	22	**(869)**	(87)	(104)
Lease liabilities	15	**(34)**	(65)	(55)
Trade and other payables	20	**(466)**	(568)	(616)
Deferred revenue	3	**(452)**	(555)	(572)
Provisions	21	**(16)**	(40)	(10)
Current tax payable		**(30)**	(50)	(50)
Total current liabilities		**(1,867)**	(1,365)	(1,407)
Loans and other borrowings	22	**(2,898)**	(2,078)	(1,910)
Lease liabilities	15	**(416)**	(595)	(615)
Derivative financial instruments	24	**(18)**	(20)	–
Retirement benefit obligations	27	**(103)**	(96)	(91)
Deferred compensation plan liabilities	25	**(236)**	(218)	(193)
Trade and other payables	20	**(94)**	(116)	(125)
Deferred revenue	3	**(1,117)**	(1,009)	(934)
Provisions	21	**(44)**	(22)	(17)
Deferred tax liabilities	8	**(95)**	(118)	(124)
Total non-current liabilities		**(5,021)**	(4,272)	(4,009)
Liabilities classified as held for sale	12	**–**	(22)	–
Total liabilities		**(6,888)**	(5,659)	(5,416)
Net liabilities		**(1,849)**	(1,465)	(1,131)
EQUITY				
IHG shareholders' equity		**(1,857)**	(1,473)	(1,139)
Non-controlling interest		**8**	8	8
Total equity		**(1,849)**	(1,465)	(1,131)

[a] Restated for deferred compensation plan investments and liabilities (see page 134).

Signed on behalf of the Board,

Paul Edgecliffe-Johnson
22 February 2021

Notes on pages 133 to 199 form an integral part of these Group Financial Statements.

Group Financial Statements continued
Group statement of cash flows

For the year ended 31 December 2020	Note	2020 $m	2019 $m	2018 $m
(Loss)/profit for the year		**(260)**	386	350
Adjustments reconciling (loss)/profit for the year to cash flow from operations before contract acquisition costs	26	**632**	582	564
Cash flow from operations before contract acquisition costs	26	**372**	968	914
Contract acquisition costs, net of repayments		**(64)**	(61)	(54)
Cash flow from operations		**308**	907	860
Interest paid		**(132)**	(110)	(87)
Interest received		**2**	3	2
Contingent purchase consideration paid	25	**–**	(6)	–
Tax paid on operating activities	8	**(41)**	(141)	(66)
Net cash from operating activities		**137**	653	709
Cash flow from investing activities				
Purchase of property, plant and equipment		**(26)**	(75)	(46)
Purchase of intangible assets		**(50)**	(104)	(112)
Investment in associates and joint ventures		**(2)**	(10)	(1)
Investment in other financial assets		**(5)**	(9)	(33)
Acquisition of businesses, net of cash acquired	11	**–**	(292)	(34)
Contingent purchase consideration paid	25	**–**	(2)	(4)
Capitalised interest paid	7	**(1)**	(5)	(5)
Distributions from associates and joint ventures		**5**	–	32
Disposal of hotel assets, net of costs and cash disposed		**1**	–	–
Repayments of other financial assets		**13**	4	8
Disposal of equity securities		**4**	–	–
Tax paid on disposals	8	**–**	–	(2)
Net cash from investing activities		**(61)**	(493)	(197)
Cash flow from financing activities				
Purchase of own shares by employee share trusts		**–**	(5)	(3)
Dividends paid to shareholders	9	**–**	(721)	(199)
Dividend paid to non-controlling interest		**–**	(1)	(1)
Transaction costs relating to shareholder returns		**–**	(1)	–
Issue of long-term bonds, including effect of currency swaps	23	**1,093**	–	554
Issue of commercial paper	23	**738**	–	–
Repayment of long-term bonds	23	**(290)**	–	–
Principal element of lease payments	23	**(65)**	(59)	(35)
(Decrease)/increase in other borrowings	23	**(125)**	127	(268)
Proceeds from currency swaps	23	**3**	–	3
Net cash from financing activities		**1,354**	(660)	51
Net movement in cash and cash equivalents in the year		**1,430**	(500)	563
Cash and cash equivalents at beginning of the year	19	**108**	600	58
Exchange rate effects		**86**	8	(21)
Cash and cash equivalents at end of the year	19	**1,624**	108	600

Notes on pages 133 to 199 form an integral part of these Group 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 2020 were authorised for issue in accordance with a resolution of the Directors on 22 February 2021. InterContinental Hotels Group PLC (the 'Company') is incorporated and registered in England and Wales.

Basis of preparation

The Consolidated Financial Statements of IHG have been prepared on a going concern basis (see below) and under the historical cost convention, except for assets and liabilities measured at fair value under relevant accounting standards. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the IASB and with IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and with international accounting standards as applied in accordance with the provisions of the Companies Act 2006. IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union differ in certain respects from IFRSs as issued by the IASB. However, the differences have no impact on the Consolidated Financial Statements for the years presented.

Going concern

The impact of the Covid-19 pandemic on the hospitality industry has been severe. Through 2020, many of the Group's hotels were temporarily closed, while others experienced historically low levels of occupancy and room rates.

The Group's fee-based model and wide geographic spread mean that it is well placed to manage through these uncertain times. The Group has taken various actions to manage cash outflows, including a reduction in staff costs, professional fees, capital expenditure and the suspension of the ordinary dividend. Overall fee business costs have been reduced by $150m, and capital expenditure by over $100m on prior year levels. The Group has also taken actions to reduce costs for owners and support them in managing their cash flows. Combined, these actions resulted in the Group mitigating the significant reduction in fee revenue and System Fund assessment fees to generate a free cash flow in the year of $29m[a].

The Group has taken steps to strengthen its liquidity, including agreeing amendments of existing covenants on its syndicated and bilateral revolving credit facilities ('the bank facilities') until December 2022 and issuing £600m commercial paper under the UK's Covid Corporate Financing Facility ('CCFF') which is repayable in March 2021. The covenant amendment agreements introduce a minimum liquidity covenant of $400m tested at half year and full year up to and including 31 December 2022. Minimum liquidity includes undrawn amounts from the bank facilities. The leverage ratio and interest cover covenants have been waived at June 2021 and December 2021. The covenants at June 2022 have been amended to require less than 7.5x for the leverage ratio and greater than 1.5x for interest cover (see note 24). The maturities of the bank facilities have also been extended to September 2023.

In October 2020 the Group issued two new bonds, a four-year €500m 1.625% bond and an eight-year £400m 3.375% bond. At the same time, a tender offer was completed on the £400m 3.875% November 2022 bond and £227m was repaid early from the new bond proceeds. These actions have increased the Group's liquidity, extended its debt maturity profile and reduced the Group's overall average cost of bond financing.

[a] Definitions for Non-GAAP measures can be found on pages 47 to 51. Reconciliations of these measures to the most directly comparable line items within the Group Financial Statements can be found on pages 212 to 216.

As at 31 December 2020 the Group had total liquidity of $2,925m, comprising $1,350m of undrawn bank facilities and $1,575m of cash and cash equivalents (net of overdrafts and restricted cash).

A period of 18 months has been used, from 1 January 2021 to 30 June 2022, to complete the going concern assessment. There remains unusually limited visibility on the pace and scale of market recovery and therefore there are a wide range of possible planning scenarios over the going concern period. In adopting the going concern basis for preparing these financial statements the Directors have considered a scenario (the 'Base Case') which is based on a gradual improvement in demand during 2021 as vaccines become more widely available, and a steady but gradual improvement to the end of 2023 by when RevPAR is expected to reach 90% of 2019 levels. Also, it has been assumed that the CCFF is repaid at maturity in March 2021. There are no other debt maturities in the period under consideration. The assumptions applied in the going concern assessment are consistent with those used for Group planning purposes and for impairment testing (see further detail on page 135). Under this scenario, the Group is forecast to generate positive cash flows over the 18-month period of assessment and the bank facilities remain undrawn. The principal risks and uncertainties which could be applicable have been considered and are able to be absorbed within the $400m liquidity covenant and amended covenant requirements.

The Directors have also reviewed a 'Downside Case' scenario which assumes a slower impact from vaccine rollout and is based on the performance of the second half of 2020 continuing throughout 2021, with the recovery to 2019 levels starting in 2022. Under this scenario, the Group is also forecast to generate a positive cash flow over the 18-month period and the bank facilities remain undrawn. The Downside Case was used to set the amended covenants and there is limited headroom to the covenants at 30 June 2022 to absorb additional risks. However, based on experience in 2020, the Directors reviewed a number of actions, such as reductions in bonuses and other discretionary spend, creating substantial additional headroom. After these actions are taken, the principal risks and uncertainties which could be applicable can be absorbed within the amended covenant requirements.

In the Downside Case, the Group has substantial levels of existing cash reserves available (approximately $800m at 30 June 2022) and is not expected to draw on the bank facilities. These cash reserves would increase after the additional actions are taken as described above. The Directors reviewed a reverse stress test scenario to determine how much additional RevPAR downside could be absorbed before utilisation of the bank facilities would be required. The Directors concluded that the outcome of this reverse stress test showed that it was very unlikely the bank facilities would need to be drawn.

The leverage and interest cover covenant tests at 30 June 2022, the last day of the assessment period, have been considered as part of the Base Case and Downside Case scenarios. However, as the bank facilities are unlikely to be drawn even in a scenario significantly worse than the downside scenario, the Group does not need to rely on the additional liquidity provided by the bank facilities to remain a going concern. This means that in the event the covenant test was failed, the bank facilities could be cancelled by the lenders but it would not trigger a repayment demand or create a cross-default risk. In the event that a further covenant amendment was required, the Directors believe it is reasonable to expect that such an amendment could be obtained based on prior experience in negotiating the 2020 amendments. The Group also has alternative options to manage this risk including raising additional funding in the capital markets.

Having reviewed these scenarios, the Directors have a reasonable expectation that the Group has sufficient resources to continue operating until at least 30 June 2022 and there are no material uncertainties that may cast doubt on the Group's going concern status. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

Accounting policies continued

Change in accounting policy

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 within a dedicated trust. The Group has reassessed the accounting judgement for this plan which was previously not consolidated based on a control analysis as disclosed in the Group's prior year financial statements. The Group has revisited the judgement regarding the extent of its control over the plan by placing more weighting on some of the Group's legal rights and, giving consideration to both IFRS 10 'Consolidated Financial Statements' and IAS 19 'Employee Benefits', the Group has changed its accounting policy and has recognised the related assets and liabilities on the balance sheet (see note 25). The Group's obligation to employees under the plan is limited to the fair value of assets held by the plan and so the assets and liabilities are valued at the same amount, with no net impact on profit or loss. The effect on the Consolidated Financial Statements is the recognition and presentation of deferred compensation plan investments of $236m (2019: $218m, 2018: $193m) and matching deferred compensation plan liabilities. There is no net impact on the comparative income statements, nor would there have been any net impact on the Group income statement in earlier periods.

Presentational changes

The presentation of the Group income statement has been amended to include impairment loss on financial assets as a separate line item reflecting the increased size of such losses and therefore providing more reliable and relevant information for the users of the financial statements. Comparatives have been re-presented on a consistent basis.

Presentational currency

The Consolidated Financial Statements are presented in millions of US dollars reflecting the profile of the Group's revenue and operating (loss)/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.

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 at the date of the Consolidated Financial Statements, or the reported amounts of revenues and expenses during the reporting period, or could do so within the next financial year.

Judgements

System Fund

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 System and hotel loyalty programme. Assessments are generally levied as a percentage of hotel revenues.

The Fund is not managed to generate a profit or loss for IHG over the longer term, but is managed for the benefit of the IHG System with the objective of driving revenues for the hotels in the System.

In relation to marketing and reservation services, the Group's performance obligation under IFRS 15 'Revenue from Contracts with Customers' is determined to be the continuous performance of the services rather than the spending of the assessments received. Accordingly, assessment fees are recognised as hotel revenues occur, Fund expenses are charged to the Group income statement as incurred and no constructive obligation is deemed to exist under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Accordingly, no liability is recognised relating to the balance of unspent funds.

No other critical judgements have been made in applying the Group's accounting policies.

Estimates

Management consider that critical estimates and assumptions are used in the areas described below. Estimates and assumptions are evaluated by management using historical experience and other factors believed to be reasonable based on current circumstances.

Loyalty programme

The hotel loyalty programme, IHG Rewards, 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').

Significant estimation uncertainty exists in projecting members' future consumption activity and how this may be impacted by Covid-19. The Group has extended its policies for points expiration and elite status in response to Covid-19 which, together with the impact of a gradual market recovery, will extend the period over which members consume points. These actions are expected to limit further increases in breakage in the short term and member behaviour patterns are estimated to return to pre-crisis levels over the longer term. However, if the outcome of these actions is different to expectations or member behaviour changes significantly during the recovery period, future breakage estimates could increase or decrease. At 31 December 2020, deferred revenue relating to the loyalty programme was $1,245m (2019: $1,233m, 2018: $1,181m). Based on the conditions existing at the balance sheet date, a one percentage point decrease/increase in the breakage estimate relating to earned points would increase/reduce this liability by $50m.

Actuarial gains and losses would correspondingly adjust the amount of System Fund revenues recognised and deferred revenue in the Group statement of financial position.

Impairment of non-current assets

During 2020, Covid-19 has resulted in social distancing measures and travel restrictions coming into effect around the world. Occupancy levels have dropped to historic lows and fallen short of the Group's expectations of reasonably possible outcomes for the 2020 financial year which had been used to assess impairment as at 31 December 2019. Disruption to travel continues, with limited forward visibility on the pace and scale of market recovery.

The impact of this trading downturn on the Group was considered a trigger for impairment testing of all non-current assets whose value is able to be assessed independently. Assets that do not generate independent cash flows were tested for impairment within the cash-generating unit ('CGU'), or group of CGUs, to which they belong. Discounted cash flow techniques were used in most cases to calculate the recoverable amount, and in certain cases external valuers were engaged to assess fair value less costs of disposal. The key assumption in all the internal cash flow projections is RevPAR growth over the expected recovery period. To estimate this, management used economic and travel demand forecasts from Oxford Economics and Tourism Economics, respectively. These were overlaid with the Group's expectation of how the pace of a vaccine rollout will result in an industry recovery, together with management's experience of recovery periods following previous crises. Management assumed that vaccines will become widely available during 2021, which will begin to have a positive impact on travel in the second half of the year. Further adjustments were made to reflect the Group's performance relative to the industry, taking into account the Group's weighting to more resilient midscale hotels, and higher exposure to domestic travel and non-groups business. The RevPAR projections used are specific to individual countries or markets, and in the US are specific to each chainscale. In this scenario, Group RevPAR is forecast to recover to 90% of 2019 levels by the end of 2023, and to 100% by 2025. The five-year recovery period from 2021 assumes that corporate travel recovers slowly as businesses control costs in the wake of the pandemic and that international travel and groups business takes longer to recover due to ongoing social distancing measures. There remains a wide range of possible planning scenarios; the Base Case projections used are consistent with those used for Group planning purposes and for going concern and viability assessments.

Non-current assets subject to a material impairment charge in the year, or where the asset was not impaired but is materially sensitive to impairment on a change in key assumptions, are discussed further below:

North America hotels

An impairment charge of $35m was recognised in the year on property, plant and equipment relating to three premium-branded hotels in North America. The recoverable amount was measured at value in use, using a discounted cash flow approach that measures the present value of projected income flows (over a 10-year period) and the reversion of the property sale. The key assumptions are RevPAR growth (forecast as outlined above), discount rates and terminal capitalisation rates. Cash flows beyond the five-year period are extrapolated using a US long-term growth rate of 1.7% which does not exceed the long-term average US growth rate. Estimated future cash flows were discounted at pre-tax rates of 11.0%-12.0% and capitalisation rates of 7.5%-9.0% were used to calculate the eventual sales values of the hotels.

The sensitivity to the key assumptions is as follows:

- A slower recovery aligned with the Downside Case described on page 133 would have increased the impairment charge by $4m;
- A RevPAR recovery over a four-year period (one year faster than the Base Case assumption) would have reduced the impairment charge by $9m; and
- A one percentage point increase/decrease in both the discount rate and terminal capitalisation rate used would have resulted in a higher/lower impairment charge of $6m/$8m respectively.

UK portfolio

The trading conditions relating to the UK portfolio are described in note 6. An impairment charge of $50m was recognised during the year on property, plant and equipment in the UK leased hotels. The recoverable amount was measured at value in use, using a discounted cash flow approach. The key assumptions are 2021 revenues and profits, which are based on hotel budgets. For the purposes of impairment testing it is assumed that the landlord will exercise a termination right such that the current leases end in 2022 and that the hotels remain loss-making over this period. On this basis, the recoverable amount of the property, plant and equipment tested for impairment was assessed as $nil. Estimated future cash flows were discounted at a pre-tax rate of 10.1%.

There is no downward sensitivity to the key assumptions as the value of non-current assets in the UK portfolio is $nil, and no sensitivity to changes in the discount rate. Without a change to the existing lease agreement, there is no reasonably possible change in assumptions that would cause the recoverable amount to increase above $nil.

Contingent purchase consideration in relation to the UK portfolio comprises the above-market element of the expected lease payments to the landlord and includes variable rentals which are based on hotel performance. A fair value gain of $21m was recorded in the year arising from a reduction in variable rentals payable, which reduced the value of contingent consideration to $nil. As above, there is no significant sensitivity to changes in the key assumptions used. Information on the fair value calculation is included in note 25. Given the materiality of the items and the fact that the same underlying cash flows have been used to test for impairment and to measure the fair value of contingent purchase consideration, they have been classified as exceptional items (see note 6).

Accounting policies continued

US corporate headquarters

As a response to workplace efficiency studies conducted in 2019, the reorganisation completed in 2020 (see note 6) and the anticipated impact of Covid-19 on working habits, in 2020 management approved a decision to sublet, and commenced marketing of, approximately half of the space in the Group's US corporate headquarters. The corporate workforce will be consolidated in the retained space and the area to be sublet is expected to be vacated in the first half of 2021. The sublease rentals are expected to be lower than the head lease rentals which, together with the impact of the expected time taken and costs incurred to sublet the space, result in the recoverable value of the assets being significantly below carrying value. This has resulted in an impairment charge of $50m at 31 December 2020.

The recoverable amount was measured at fair value less costs of disposal, which is considered to be equivalent to value in use. The key assumptions are the time taken to successfully sublet the whole space (over 2021-2023) and sublease rentals per square foot. A pre-tax discount rate of 8.5% was applied. Within the fair value hierarchy, this is categorised as a Level 3 fair value measurement.

The sensitivity to the key assumptions is as follows:

- An additional vacancy period of 12 months would result in a higher impairment charge of $4m;
- Subletting all floors by the end of 2021 would result in a lower impairment charge of $1m; and
- A decrease/increase of 8% in sublease rentals per square foot would have resulted in a higher/lower impairment charge of $2m.

$37m of this impairment charge was borne by the System Fund in line with existing principles for cost allocation relating to this facility. The remaining $13m is recognised in the Americas region ($6m) and Central ($7m).

Barclay associate

An impairment charge of $13m has been recognised in 2020. The recoverable amount of the investment has been measured at 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. The external valuer assumed a return to 2019 RevPAR levels over a three to four-year period, based on industry data specific to the New York market and supply factors in the luxury market located close to the InterContinental New York Barclay. The pre-tax discount and capitalisation rates used in the valuation were 7.5% and 6.0%, respectively.

The sensitivity to the key assumptions is as follows:

- A slower RevPAR recovery over a four to five-year period would have increased the impairment charge by $12m;
- A quicker RevPAR recovery over a two to three-year period would have reduced the impairment charge by $11m;
- A one percentage point increase/decrease in the discount rate used would have resulted in a $7m higher/lower impairment charge; and
- A one percentage point increase/decrease in the terminal capitalisation rate used would have resulted in a higher/lower impairment charge of $8m/$11m respectively.

The impairment charge is presented net of a $4m fair value gain on a put option over part of the Group's investment in the associate given the interaction between the value of the option and the value of the associate investment. The investment value and option value are presented separately in the Group statement of financial position; the put option value of $4m is presented within derivative financial instruments. The put option has been valued as the excess of the amount receivable under the option (which is based on the Group's capital invested to date) over fair value, as calculated for impairment testing and described above. The interaction between the associate value and the option results in 75% of any decrease in the fair value of the associate being offset by an equivalent increase in the value of the put option. Applying the sensitivities above, any increase in the value of the associate would reduce the put option value to $nil, resulting in a $4m fair value loss.

Six Senses management agreements

An impairment charge of $41m was recognised during the year on the Six Senses management agreements acquired in 2019. The key assumption is RevPAR growth (forecast as detailed on page 135). Cash flows beyond the five-year period are extrapolated using a long-term growth rate of 2.0% which does not exceed the long-term growth rate for the relevant markets. On this basis, the recoverable amount of the management agreement portfolio was estimated as $3m. Estimated future cash flows were discounted at pre-tax rates of 8.5%-14.7% depending on the country or region of the contract (see further detail in note 13). The impairment charge relates to the following regions: Americas $5m, EMEAA $33m, Greater China $3m.

There is no significant downside sensitivity as the contracts are valued at $3m. The upside sensitivity to the key assumption is as follows:

- A RevPAR recovery over a four-year period (one year faster than the Base Case assumption) would have reduced the impairment charge by $2m.

InterContinental Boston
No impairment of property, plant and equipment and right-of-use assets was recognised in relation to the InterContinental Boston in the year. The recoverable amount was measured at value in use, using a discounted cash flow approach. The key assumptions are RevPAR growth (forecast as outlined on page 135) and discount rate. Cash flows beyond the five-year period are extrapolated using a US long-term growth rate of 1.7% which does not exceed the long-term average US growth rate. Estimated future cash flows were discounted at a pre-tax rate of 7.7%.

The sensitivity to the key assumptions is as follows:

- A slower recovery aligned with the Downside Case described on page 133 would have resulted in an impairment charge of $18m; and
- A one percentage point increase in the discount rate used would have resulted in an impairment charge of $32m.

Trade deposits and contract assets relating to Service Properties Trust
Impairment of trade deposits and loans (included within other financial assets on the Group statement of financial position), and of contract assets, primarily relates to deposits of $66m made to Service Properties Trust ('SVC') in connection with a portfolio of management agreements. The deposits were non-interest-bearing and repayable at the end of the management agreement terms and were therefore previously held at a discounted value, with the balance on initial recognition recorded as a contract asset. As a result of Covid-19 the deposit was used in the first six months of 2020 to fund owner returns and was not expected to be recoverable. The deposit ($33m) and associated contract asset ($33m) were therefore impaired in full at 30 June 2020. The management agreements were subsequently terminated on 30 November, and as such there is no sensitivity to further impairment.

Other non-current assets
The impairment testing of the Kimpton management contract portfolio is no longer considered to be a significant estimate as the remaining carrying value is not significant and is not materially sensitive to changes in key assumptions.

Details of impairment testing on other non-current assets are contained at:

Asset type	Note
Goodwill and brands	13
Software	13
Management agreements	13
Property, plant and equipment	14
Right-of-use assets	15
Investments in associates	16
Trade deposits and loans	17
Contract costs	3
Contract assets	3

Expected credit losses
Occupancy levels have improved since the peak of the pandemic, but remain significantly lower than prior years. As such, cash inflows to hotel owners have been reduced. The Group has undertaken a number of actions to support the liquidity of hotel owners, including the waiver of certain fees, extended credit terms and, where appropriate, the use of payment plans. In comparison to the prior year, the Group has experienced an increase in 'days sales outstanding' and a reduction in cash collection. These factors, taken together with limited forward visibility on the pace and scale of market recovery, result in an increased level of uncertainty in calculating expected credit losses (see note 18).

The sensitivity of the amounts provided is as follows:

- The provision equates to 20% of gross debt, with each one percentage point change resulting in a $4m change to the provision;
- A 10% change in the expected collection rate for amounts provided relating to hotel owners subject to payment plans or identified as distressed would result in a $2m change in the provision; and
- A 10% collection rate of amounts over 180 days would reduce the provision by $8m.

Significant accounting policies

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.

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 Group 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.

Accounting policies continued

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 for each annual period 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.

Franchise and management agreements also contain a promise to provide technology support and network services to hotels. A monthly technology fee, based on either gross rooms revenues or the number of rooms in the hotel, is charged and recognised over time as these services are delivered. Technology fee income is included in Central revenue.

Technical service fees are received in relation to design and engineering support provided prior to opening of certain hotel properties. These services are a distinct performance obligation and the fees are recognised as revenue over the pre-opening period in line with the stage of completion of the project.

IHG's global insurance programme provides coverage to managed hotels for risks such as US workers' compensation, employee and general liability. Premiums are payable by the hotels to the third-party insurance provider. As some of the risk is reinsured by the Group's captive insurance company ('the Captive'), SCH Insurance Company, premiums paid from the third-party insurance provider to the Captive are recognised as revenue as premiums are earned.

Contract assets
Amounts paid to hotel owners to secure management and franchise agreements ('key money') are treated as consideration payable to a customer. A contract asset is recorded which is recognised as a deduction to revenue over the initial term of the contract. Where loans are provided to an owner the difference, if any, between the face and market value of the loan on inception is recognised as a contract asset.

Typically, contract assets are not financial assets as they represent amounts paid by the Group at the beginning of a contract, and so are tested for impairment based on value in use rather than with reference to expected credit losses. Contract assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If carrying values exceed the recoverable amount determined by reference to estimated future cash flows discounted to their present value using a pre-tax discount rate, the contract assets are written down to the recoverable amount.

In limited cases, the Group may provide performance guarantees to third-party hotel owners to secure management agreements. The expected value of payments under performance guarantees reduces the overall transaction price and is recognised as a deduction to revenue over the term of the contract.

Contract costs
Certain costs incurred to secure management and franchise agreements, typically developer commissions, are capitalised and amortised as an expense over the initial term of the related contract. These costs are presented as 'contract costs' in the Group statement of financial position.

Contract costs are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If carrying values exceed the recoverable amount determined by reference to estimated future cash flows discounted to their present value using a pre-tax discount rate, the contract costs are written down to the recoverable amount.

Revenue from owned, leased and managed lease 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 are recognised when the rooms are occupied and food and beverages are sold. Guest deposits received in advance of hotel stays are recorded as deferred revenue on the balance sheet. They are recognised as revenue along with any balancing payment from the guest when the associated stay occurs, or are returned to the customer in the event of a cancellation.

Cost reimbursements

In a managed property, the Group typically acts as employer of the general manager and, in some cases, 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 and other co-brand 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 System and hotel loyalty programme. The Fund also benefits from 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 over the longer term, but is managed for the benefit of the IHG System with the objective of driving revenues for the hotels in the System.

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), 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 agreements, IHG receives assessment fees based on total qualifying hotel revenue from IHG Rewards 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. Revenue 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, which is adjusted to reflect actual experience up to the reporting date.

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-brand credit card agreements comprise:

a) Arranging for the provision of future benefits to members who have earned points or free night certificates;
b) Marketing services; and
c) Providing the co-brand partner with the right to access the loyalty programme.

Revenue from a) and b) are reported within System Fund revenues. Prior to 1 January 2020, revenue from co-brand credit card agreements relating to the right to access the loyalty programme was recorded within the Fund. As of 1 January 2020, this revenue is recorded within fee business revenue (see note 3).

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.

Accounting policies continued

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 their size, nature, or incidence so as to facilitate comparison with prior periods and to assess underlying trends in the financial performance of the Group and its reportable segments. In determining whether an event or transaction is exceptional, management considers quantitative as well as qualitative factors.

Examples of exceptional items that meet the above definition and which have been presented as exceptional items in prior years include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals and reorganisation costs.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants relating to costs are recognised on a systematic basis within the Group income statement as an offset to the costs which the grants are intended to compensate.

Business combinations and goodwill

On the acquisition of a business, identifiable assets acquired and liabilities assumed are measured at their fair value. Contingent liabilities 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 144 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 purchase consideration is measured at fair value on the date of acquisition and is re-measured at fair value at each reporting date with changes in fair value recognised on the face of the Group income statement below operating loss/profit. Deferred purchase consideration is measured at amortised cost and the effect of unwinding the discount is recorded in financial expenses.

Payments of contingent purchase consideration reduce the balance sheet liability. The portion of each payment relating to the original estimate of the fair value of the contingent purchase consideration on acquisition is reported within cash flow from investing activities in the Group statement of cash flows and the portion of each payment relating to the increase or decrease in the liability since the acquisition date is reported within cash flow from operations.

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.

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 agreements

Management agreements acquired as part of a business combination are initially recorded at the fair value attributed to those contracts on acquisition.

The value of management agreements is amortised on a straight-line basis over the contract lives, including any extension periods at the Group's option.

Software

Acquired and internally developed software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Following initial recognition, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Costs are generally amortised over estimated useful lives of three to five years on a straight-line basis with the exception of the Guest Reservation System which is amortised over 10 years (see page 167).

Internally generated development costs are capitalised and amortised over the estimated useful life of the asset when all of the following can be demonstrated: the ability and intention to complete the project; that the completed software will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the project; and the ability to measure the expenditure.

Costs incurred in the research phase before the above criteria are met are expensed.

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 – over a maximum of 50 years; and
- Fixtures, fittings and equipment – three to 25 years.

All depreciation is charged on a straight-line basis. Residual value is reassessed annually.

Leases
On inception of a contract, the Group assesses whether it contains a lease. A contract contains a lease when it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to use the asset and the obligation under the lease to make payments are recognised in the Group statement of financial position as a right-of-use asset and a lease liability.

Lease contracts may contain both lease and non-lease components. The Group allocates payments in the contract to the lease and non-lease components based on their relative stand-alone prices and applies the lease accounting model only to lease components.

The right-of-use asset recognised at lease commencement includes the amount of lease liability recognised, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated to a residual value over the shorter of the asset's estimated useful life and the lease term. Right-of-use assets are also adjusted for any re-measurement of lease liabilities and are subject to impairment testing. Residual value is reassessed annually.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments (including 'in-substance fixed' payments) and variable lease payments that depend on an index or a rate, less any lease incentives receivable. 'In-substance fixed' payments are payments that may, in form, contain variability but that, in substance, are unavoidable. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease term includes periods subject to extension options which the Group is reasonably certain to exercise and excludes the effect of early termination options where the Group is reasonably certain that it will not exercise the option. Minimum lease payments include the cost of a purchase option if the Group is reasonably certain it will purchase the underlying asset after the lease term.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the 'in-substance fixed' lease payments or as a result of a rent review or change in the relevant index or rate.

Variable lease payments that do not depend on an index or a rate are recognised as an expense in the period over which the event or condition that triggers the payment occurs.

The Group has opted not to apply the lease accounting model to intangible assets, leases of low-value assets or leases which have a term of less than 12 months. Costs associated with these leases are recognised as an expense on a straight-line basis over the lease term.

Subleases of the Group's assets are classified as operating leases when the risks and rewards of ownership are not substantially transferred to the sub-lessee. Rental income arising is accounted for on a straight-line basis in the Group income statement.

Lease payments are presented as follows in the Group statement of cash flows:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities are presented within cash flows from operating activities;
- Payments for the interest element of recognised lease liabilities are included in 'interest paid' within cash flows from operating activities; and
- Payments for the principal element of recognised lease liabilities are presented within cash flows from financing activities.

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.

In determining the extent of power or significant influence, consideration is given to other agreements between the Group, the investee entity, and the investing partners, including any related management or franchise agreements and the existence of any performance guarantees.

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, applying consistent accounting policies. 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 Group income statement.

Impairment of non-financial assets
Non-financial assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable and, in the case of goodwill and brands with indefinite lives, at least annually. Assets that do not generate independent cash flows are allocated to the cash-generating unit ('CGU'), or group of CGUs, to which they belong. If carrying values exceed their estimated recoverable amount, the assets or CGUs 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 Group income statement.

With the exception of goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Accounting policies continued

Financial assets
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 ('FVTPL').

Financial assets which are held to collect contractual cash flows and give rise to cash flows that are solely payments of principal and interest are subsequently measured at amortised cost. Interest on these assets is calculated using the effective interest rate method and is recognised in the Group income statement as financial income. The Group recognises a provision for expected credit losses for financial assets 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 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 Group income statement. On disposal of equity investments, any related balance within the fair value reserve is reclassified to retained earnings. Dividends from equity investments classified as FVOCI are recognised in the Group income statement as other operating income when the dividend has been declared, when receipt of the funds is probable, and when the dividend is not a return of invested capital. Equity instruments classified as FVOCI are not subject to impairment assessment.

Financial assets measured at FVTPL include money market funds and other financial assets which do not have a fixed date of repayment.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost. A provision for impairment is made for lifetime expected credit losses. The Group has established a provision matrix that is based on its historical credit loss experience by region and number of days past due. Adjustments are made where management's expectations of credit losses change.

Trade receivables are written off once determined to be uncollectable.

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.

Cash and cash equivalents may include amounts which are subject to regulatory or other contractual restrictions and not available for general use by the Group.

Cash balances are classified as other financial assets when subject to a specific charge or contractually ring-fenced for a specific purpose, such that the Group does not control the circumstances or timing of its release.

Money market funds
Money market funds are held at FVTPL, with distributions recognised in financial income.

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.

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.

Finance costs
Financial income and expenses comprise income and charges on the Group's financial assets and liabilities and related hedging instruments.

Finance charges relating to bank and other borrowings, including transaction costs and any discount or premium on issue, are recognised in the Group income statement using the effective interest rate method.

In the statement of cash flows, interest paid and received is presented within cash from operating activities, including any fees and discounts on issuance or settlement of borrowings.

Borrowing costs attributable to the acquisition or development of assets that necessarily take a substantial period of time to prepare for their intended use are capitalised as part of the asset cost.

Capitalised interest paid is presented within investing activities in the statement of cash flows.

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 (see below).

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 Group 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.

Interest paid reported within the Group statement of cash flows includes interest paid on the Group's bonds, including the effect of the related derivative financial instruments.

Cash flow hedges

Financial instruments are designated as cash flow hedges when they hedge 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 Group income statement, within financial expenses.

Net investment hedges

Financial instruments are designated 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 Group income statement.

Fair value measurement

The Group measures each of the following at fair value on a recurring basis:

- Financial assets and liabilities at FVTPL;
- Financial assets measured at FVOCI; and
- Derivative financial instruments.

Other assets are measured at fair value when impaired or re-measured on classification as held for sale 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 reassessing 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 25.

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.

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.

Accounting policies continued

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.

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

Taxes

Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the tax authorities. 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 property, plant and equipment, intangible assets, application fees, contract costs, unrelieved tax losses, associates, gains rolled over into replacement assets, deferred compensation 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.

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. Otherwise, the assets and liabilities are not offset.

Retirement benefits

Defined contribution plans

Payments to defined contribution schemes are charged to the Group income statement as they fall due.

Defined benefit plans

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 value of plan liabilities at the period-end date is the amount of deficit recorded in the Group statement of financial position.

The service cost of providing pension benefits to employees, together with the net interest expense or income for the year, is charged to the Group income statement within 'administrative expenses'. Net interest is calculated by applying the discount rate to the defined benefit liability. 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 when 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 which 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.

Assets and liabilities 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 of disposal.

Depreciation and amortisation is not charged against assets classified as held for sale.

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.

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.

New accounting standards
Adoption of new accounting standards
From 1 January 2020, the Group has applied the amendments to:

- IAS 1 and IAS 8 'Definition of Material';
- IFRS 3 'Definition of a Business';
- IFRS 9, IAS 39 and IFRS 7 'Interest Rate Benchmark Reform Phase 1';
- IFRS 16 'Covid-19 related Rent Concessions'; and
- References to the Conceptual Framework in IFRS Standards.

None of these amendments have had a material impact on the Group's reported financial performance or position.

New standards issued but not yet effective
In 2020, the IASB published 'Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' with an effective date of 1 January 2021.

From 1 January 2022, the Group will also apply the amendments to:

- IAS 37 'Onerous Contracts: Cost of Fulfilling a Contract';
- IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use'; and
- Other existing standards arising from the Annual Improvements to IFRSs 2018 – 2020 cycle.

The effective date for the Amendment to IAS 1 'Classification of Liabilities as Current or Non-Current' has been deferred to 1 January 2023.

There is no anticipated material impact for these amendments on the Group's reported financial performance or position.

The effective date for IFRS 17 'Insurance Contracts' has been deferred to 1 January 2023. 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=£0.78 (2019: $1=£0.78, 2018: $1=£0.75). In the case of the euro, the translation rate is $1=€0.88 (2019: $1=€0.89, 2018: $1=€0.85).

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=£0.73 (2019: $1=£0.76, 2018: $1=£0.78). In the case of the euro, the translation rate is $1=€0.81 (2019: $1=€0.89, 2018: $1=€0.87).

2. Segmental information

The Group has four reportable segments reflecting its geographical regions and its Central functions:

- Americas;
- EMEAA;
- Greater China; and
- Central.

Central functions include technology, sales and marketing, finance, human resources and corporate services; Central revenue arises principally from technology fee income.

No operating segments have been aggregated to form these reportable segments.

Management monitors the operating results of these reportable segments for the purpose of making decisions about resource allocation and performance assessment. Each of the geographical regions is led by its own Chief Executive Officer who reports to the Group Chief Executive Officer.

The System Fund is not viewed as being part of the Group's core operations as it is not managed to generate a profit or loss for IHG over the longer term. 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 Group Financial Statements, excluding System Fund and exceptional items. Group financing activities, fair value gains/(losses) on contingent purchase consideration and income taxes are managed on a Group basis and are not allocated to reportable segments.

Revenue

Year ended 31 December	2020 $m	2019 $m	2018 $m
Americas	512	1,040	1,051
EMEAA	221	723	569
Greater China	77	135	143
Central	182	185	170
Revenue from reportable segments	**992**	2,083	1,933
System Fund revenues	765	1,373	1,233
Reimbursement of costs	637	1,171	1,171
Total revenue	**2,394**	4,627	4,337

2. Segmental information continued

(Loss)/profit

Year ended 31 December	2020 $m	2019 $m	2018 $m
Americas	296	700	673
EMEAA	(50)	217	206
Greater China	35	73	70
Central	(62)	(125)	(117)
Operating profit from reportable segments	219	865	832
System Fund	(102)	(49)	(146)
Operating exceptional items (note 6)	(270)	(186)	(104)
Operating (loss)/profit	(153)	630	582
Net finance expenses	(140)	(115)	(96)
Fair value gains/(losses) on contingent purchase consideration	13	27	(4)
(Loss)/profit before tax	(280)	542	482
Tax	20	(156)	(132)
(Loss)/profit for the year	(260)	386	350

All items above relate to continuing operations.

Operating profit from reportable segments includes $4m business interruption insurance proceeds and $4m favourable litigation settlement, both in the Americas region, and $3m gain on disposal of hotel assets in EMEAA. In 2019, included $10m business interruption insurance proceeds relating to the Americas region. These amounts are included in 'other operating income' in the Group income statement.

Non-cash items included within operating profit from reportable segments

Year ended 31 December 2020	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Depreciation and amortisation[a]	41	21	6	42	110
Share-based payments cost	7	3	2	7	19
Share of losses of associates and joint ventures	14	–	–	–	14

Year ended 31 December 2019	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Depreciation and amortisation[a]	44	25	5	42	116
Share-based payments cost	9	4	2	13	28
Share of losses/(gains) of associates and joint ventures	9	(6)	–	–	3

Year ended 31 December 2018	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Depreciation and amortisation[a]	46	17	7	45	115
Share-based payments cost	8	4	3	12	27
Share of losses/(gains) of associates and joint ventures	6	(5)	–	–	1

[a] Included in the $110m (2019: $116m, 2018: $115m) of depreciation and amortisation is $29m (2019: $32m, 2018: $27m) relating to cost of sales in owned, leased and managed lease hotels, and $81m (2019: $84m, 2018: $88m) relating to other assets. A further $62m (2019: $54m, 2018: $49m) of depreciation and amortisation was recorded within System Fund expenses.

Notes to the Group Financial Statements continued

2. Segmental information continued

Capital expenditure

Year ended 31 December 2020	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Capital expenditure per management reporting	46	44	2	56	148
Contract acquisition costs	(33)	(29)	(2)	–	(64)
Timing differences and other adjustments	17	4	–	(1)	20
Additions per the Group Financial Statements	30	19	–	55	104
Comprising additions to:					
Goodwill and other intangible assets	1	1	–	50	52
Property, plant and equipment	12	13	–	5	30
Investment in associates and joint ventures	17	–	–	–	17
Other financial assets	–	5	–	–	5
	30	19	–	55	104

Year ended 31 December 2019	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Capital expenditure per management reporting	57	71	–	137	265
Goodwill	–	4	–	–	4
Contract acquisition costs	(27)	(35)	–	–	(62)
Timing differences and other adjustments	4	1	–	(4)	1
Additions per the Group Financial Statements	34	41	–	133	208
Comprising additions to:					
Goodwill and other intangible assets	–	4	–	104	108
Property, plant and equipment	19	29	–	29	77
Investment in associates and joint ventures	14	–	–	–	14
Other financial assets	1	8	–	–	9
	34	41	–	133	208

2. Segmental information continued

Geographical information

Year ended 31 December	2020 $m	2019 $m	2018 $m
Revenue			
United Kingdom	**77**	265	151
United States	**1,067**	1,957	1,950
Rest of World	**485**	1,032	1,003
	1,629	3,254	3,104
System Fund (note 33)	**765**	1,373	1,233
	2,394	4,627	4,337

For the purposes of the above table, fee business, owned, leased and managed lease and reimbursable revenues are 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.

31 December	2020 $m	2019 $m
Non-current assets		
United Kingdom	**72**	184
United States	**1,487**	1,632
Rest of World	**700**	847
	2,259	2,663

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

Notes to the Group Financial Statements continued

3. Revenue

Disaggregation of revenue

The following table presents Group revenue disaggregated by type of revenue stream and by reportable segment:

Year ended 31 December 2020	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Franchise and base management fees	452	93	61	–	606
Incentive management fees	5	14	16	–	35
Central revenue	–	–	–	182	182
Revenue from fee business	457	107	77	182	823
Revenue from owned, leased and managed lease hotels	55	114	–	–	169
	512	221	77	182	992
System Fund revenues (note 33)					765
Reimbursement of costs					637
Total revenue					2,394

Following communication with the IHG Owners Association, fees and expenses associated with the InterContinental Ambassador programme (the InterContinental Hotels & Resorts paid-for loyalty programme) previously reported within Central revenue have been moved into the System Fund to align with the treatment of IHG's other brand loyalty programmes. Revenue arising from the licence of intellectual property under co-brand credit card agreements previously recorded within the System Fund is now recorded within Central revenue (see page 139). This change is effective from 1 January 2020. For the year ended 31 December 2020, this change resulted in an increase of $20m to Central revenue and $21m to operating profit from reportable segments, and an equivalent reduction to System Fund revenues and increase to System Fund operating loss. Had this arrangement existed in the prior year, Central revenue and operating profit in 2019 would have been $18m and $22m higher respectively (2018: $15m and $20m respectively); System Fund revenues would have reduced and System Fund operating loss would have increased by the same amounts.

Year ended 31 December 2019	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Franchise and base management fees	840	247	87	–	1,174
Incentive management fees	13	90	48	–	151
Central revenue	–	–	–	185	185
Revenue from fee business	853	337	135	185	1,510
Revenue from owned, leased and managed lease hotels	187	386	–	–	573
	1,040	723	135	185	2,083
System Fund revenues (note 33)					1,373
Reimbursement of costs					1,171
Total revenue					4,627

Year ended 31 December 2018	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
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 33)					1,233
Reimbursement of costs					1,171
Total revenue					4,337

Contract balances

	2020 $m	2019 $m
Trade receivables (note 18)	309	515
Contract assets	336	334
Deferred revenue	(1,569)	(1,564)

A trade receivable is recorded when the Group 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 138.

3. Revenue continued

Contract assets

Contract assets are recorded in respect of key money payments; the difference, if any, between the initial face and market value of loans made to owners; and the value of payments under performance guarantees.

	2020 $m	2019 $m
At 1 January	**334**	290
Costs paid	**74**	64
Recognised as a deduction to revenue	**(25)**	(22)
Impairment charges	**(53)**	–
Repayments	**–**	(1)
Exchange and other adjustments	**6**	3
At 31 December	**336**	334
Analysed as:		
Current	**25**	23
Non-current	**311**	311
	336	334

Key money is recognised as a contract asset when the trigger event for payment is met and payment becomes unconditional. The Group also has future commitments for key money payments which are contingent upon future events and may reverse.

At 31 December 2020, the amount of performance guarantees included within trade and other payables was $1m (2019: $2m) and the maximum payout remaining under such guarantees was $72m (2019: $85m). In estimating amounts due under performance guarantees, the Group has considered 'force majeure' provisions within its management agreements.

Impairment of contract assets relates primarily to deposits made to SVC of $33m (see page 137). The remaining impairment of $20m relates to key money and performance guarantee payments on individual properties which are supported by future franchise and management fees. As a result of the expected impact of Covid-19 and the subsequent recovery period on trading, all significant contract assets were tested for impairment using cash flow projections which reflect the five-year RevPAR recovery period outlined on page 135. The key assumptions are the RevPAR growth forecasts and the pre-tax discount rates used, which were 8.4%-9.3% for Americas, 9.5%-10.4% for Europe, 14.1% for other EMEAA and 13.3% for Greater China.

Of the total impairment including SVC balances, $42m relates to the Americas region and $11m relates to the EMEAA region.

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 2019	1,181	77	175	73	1,506
Acquisition of businesses	–	–	–	2	2
Increase in deferred revenue	533	–	26	64	623
Recognised as revenue	(481)	(11)	(25)	(49)	(566)
Exchange and other adjustments	–	–	(4)	3	(1)
At 31 December 2019	1,233	66	172	93	1,564
Increase in deferred revenue	**344**	**–**	**14**	**45**	**403**
Recognised as revenue	**(332)**	**(11)**	**(20)**	**(39)**	**(402)**
Exchange and other adjustments	**–**	**–**	**–**	**4**	**4**
At 31 December 2020	**1,245**	**55**	**166**	**103**	**1,569**
Analysed as:					
Current	**376**	**11**	**22**	**43**	**452**
Non-current	**869**	**44**	**144**	**60**	**1,117**
	1,245	**55**	**166**	**103**	**1,569**
At 31 December 2019					
Current	476	11	25	43	555
Non-current	757	55	147	50	1,009
	1,233	66	172	93	1,564

This table does not include amounts which were received and recognised as revenue in the same year. Amounts recognised as revenue were included in deferred revenue at the beginning of the year.

Notes to the Group Financial Statements continued

3. Revenue continued

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 technical service fees and 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 2020 are as follows:

	2020			2019		
	Loyalty and co-brand $m	Other $m	Total $m	Loyalty and co-brand $m	Other $m	Total $m
Expected timing of recognition						
Less than one year	**387**	**65**	**452**	487	68	555
Between one and two years	**313**	**40**	**353**	292	34	326
Between two and three years	**249**	**29**	**278**	176	30	206
Between three and four years	**176**	**24**	**200**	115	27	142
Between four and five years	**73**	**22**	**95**	79	27	106
More than five years	**102**	**89**	**191**	150	79	229
	1,300	**269**	**1,569**	1,299	265	1,564

Contract costs

Movements in contract costs, typically developer commissions, are as follows:

	2020 $m	2019 $m
At 1 January	**72**	60
Costs incurred	**11**	19
Amortisation	**(9)**	(7)
Exchange and other adjustments	**1**	–
At 31 December	**75**	72
Analysed as:		
Current	**5**	5
Non-current	**70**	67
	75	72

Contract costs were tested for impairment during the year. As contract costs typically constitute a very small percentage of deal value, no impairment was identified.

4. Staff costs and Directors' remuneration

	2020 $m	2019 $m	2018 $m
Staff costs			
Wages and salaries	**1,233**	1,982	1,956
Social security costs	**86**	131	127
Pension and other post-retirement benefits:			
Defined benefit plans (note 27)	**3**	3	19
Defined contribution plans	**36**	64	63
	1,358	2,180	2,165
Analysed as:			
Costs borne by IHG[a]	**500**	735	708
Costs borne by the System Fund[b]	**242**	313	347
Costs reimbursed	**616**	1,132	1,110
	1,358	2,180	2,165

[a] Includes $27m classified as exceptional relating to reorganisation programmes and $nil (2019: $9m, 2018: $21m) classified as exceptional relating to the comprehensive efficiency programme completed in 2019. In 2018, included $15m classified as exceptional relating to termination of the US funded Inter-Continental Hotels Pension Plan.

[b] Includes $20m relating to the 2020 corporate reorganisation programme and $nil (2019: $8m, 2018: $21m) relating to the comprehensive efficiency programme completed in 2019.

Staff costs are presented net of government support income of $36m received in 2020. This primarily relates to employee costs at certain of the Group's leased hotels. Additionally, ongoing support has been received in the form of tax credits which have also been applicable in prior years and which relate to the Group's corporate office presence in certain countries. The income has been recognised as a reduction to the payroll costs that the grants and credits are intended to compensate. There are no unfulfilled conditions or other contingencies attaching to these grants.

	2020	2019	2018
Average number of employees, including part-time employees			
Employees whose costs are borne by IHG:			
Americas	**1,931**	2,170	2,225
EMEAA	**4,088**	5,227	3,255
Greater China	**314**	339	324
Central	**1,813**	1,900	1,794
	8,146	9,636	7,598
Employees whose costs are borne by the System Fund	**4,686**	4,800	5,214
Employees whose costs are reimbursed	**15,980**	22,207	22,518
	28,812	36,643	35,330

	2020 $m	2019 $m	2018 $m
Directors' remuneration			
Base salaries, fees, performance payments and benefits	**4.2**	6.4	7.1

More detailed information on the remuneration including pensions, share awards and shareholdings for each Director is shown in the Directors' Remuneration Report on pages 96 to 111.

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

	2020 $m	2019 $m	2018 $m
Audit of the Financial Statements[a]	**3.0**	3.0	3.3
Audit of subsidiaries	**3.3**	3.2	2.9
Audit-related assurance services	**0.2**	0.2	0.2
Other assurance services[b]	**1.1**	1.3	1.3
Other non-audit services not covered by the above	**0.1**	0.1	0.1
	7.7	7.8	7.8

[a] In 2018, included $0.4m of additional fees for specific procedures performed in relation to the implementation of new accounting standards.

[b] Excludes fees of $0.2m which have not yet been incurred.

Audit fees in respect of the pension scheme were not material.

Notes to the Group Financial Statements continued

6. Exceptional items

	Note	2020 $m	2019 $m	2018 $m
Operating exceptional items:				
Cost of sales:				
Derecognition of right-of-use assets and lease liabilities	(a)(h)	**22**	–	–
Gain on lease termination	(b)	**30**	–	–
Provision for onerous contractual expenditure	(h)	**(10)**	–	–
Reorganisation costs	(c)(h)	**(8)**	–	–
		34	–	–
Administrative expenses:				
Reorganisation costs	(c)	**(19)**	(20)	(56)
Acquisition and integration costs	(d)	**(6)**	(7)	(15)
Litigation	(e)	**(5)**	(28)	(18)
Pension settlement cost	27	**–**	–	(15)
		(30)	(55)	(104)
Impairment loss on financial assets	(f)	**(48)**	–	–
Other impairment charges:				
Goodwill	(h)	**–**	(49)	–
Management agreements	13	**(48)**	(50)	–
Property, plant and equipment	14, (h)	**(90)**	–	–
Right-of-use assets	15, (h)	**(16)**	(32)	–
Associates	16	**(19)**	–	–
Contract assets	3	**(53)**	–	–
		(226)	(131)	–
Operating exceptional items		**(270)**	(186)	(104)
Financial expenses	(g)	**(14)**	–	–
Fair value gains on contingent purchase consideration	(h)	**21**	38	–
Exceptional items before tax		**(263)**	(148)	(104)
Tax on exceptional items	(i)	**52**	20	22
Exceptional tax	(j)	**–**	–	5
Tax		**52**	20	27
Operating exceptional items analysed as:				
Americas		**(118)**	(62)	(36)
EMEAA		**(128)**	(109)	(12)
Greater China		**(5)**	–	(1)
Central		**(19)**	(15)	(55)
		(270)	(186)	(104)

The above items are treated as exceptional by reason of their size, nature, or incidence, as further described on page 140.

All items above relate to continuing operations.

6. Exceptional items continued

(a) Derecognition of right-of-use assets and lease liabilities

The UK portfolio leases and two German hotel leases contain guarantees that the Group will fund any shortfalls in lease payments up to an annual and cumulative cap. Previously the minimum 'in-substance fixed' lease payments were estimated to be equal to the cumulative amount guaranteed under the lease agreements and therefore a right-of-use asset and corresponding lease liability equal to the guaranteed amount were recognised. The unprecedented impact of Covid-19 and subsequent restrictions have resulted in a reassessment of the estimate of 'in-substance fixed' lease payments, as there is no floor to the rent reductions applicable under these leases, and the circumstances in which no rent would be payable are no longer considered to be remote.

As a result, the right-of-use assets ($49m) and lease liabilities ($71m) associated with these leases have been derecognised as they are now considered to be fully variable. This resulted in a net gain of $22m.

(b) Gain on lease termination

On 14 December 2020 as a consequence of the termination of the SVC portfolio agreement, the lease of InterContinental San Juan was terminated. The right-of-use assets ($60m) and lease liabilities ($90m) associated with this hotel have therefore been derecognised, resulting in a net gain of $30m.

(c) Reorganisation costs

In 2020, reorganisation costs relate to the UK portfolio (see below), other owned and leased hotels and a corporate reorganisation completed in the year reflecting the reassessment of near-term priorities and the resources needed to support reduced levels of demand. An additional $20m relating to the corporate restructuring was charged to the System Fund.

In 2019 and 2018, related to a comprehensive efficiency programme to fund a series of new strategic initiatives to drive an acceleration in IHG's future growth. The programme was completed in 2019 and no further restructuring costs related to this programme were incurred in 2020. The 2019 cost included consultancy fees of $6m (2018: $25m) and severance costs of $8m (2018: $18m). An additional $28m (2018: $47m) was charged to the System Fund.

(d) Acquisition and integration costs

In 2019, primarily related to the acquisition of Six Senses and in 2020, relates to the integration of that business into the operations of the Group.

(e) Litigation

In 2020, relates to the cost of settlement of $14m agreed in the year in respect of a lawsuit in the EMEAA region, offset primarily by the partial release of the 2019 provision related to a lawsuit in the Americas region which has been settled in the year (see note 21). In 2019, primarily represented management's best estimate of the settlement in respect of the Americas lawsuit, together with the cost of an arbitration award made against the Group in the EMEAA region. In 2018, primarily related to a material settlement agreed in respect of a lawsuit filed against the Group in the Americas region, together with associated legal fees.

(f) Impairment loss on financial assets

Comprises $33m and $15m related to SVC and other trade deposits and loans respectively (see note 17).

(g) Financial expenses

In October 2020 management undertook actions to strengthen liquidity and extend the maturity profile of the Group's debt. The Group issued a tender offer for its £400m 3.875% 2022 bonds resulting in a repayment of £227m and concurrently issued €500m 1.625% 2024 bonds and £400m 3.375% 2028 bonds. The exceptional charge includes the premium on repayment and associated write-off of fees and discount.

(h) Exceptional items relating to the UK portfolio

Included within exceptional items are the following items relating to the UK portfolio:

	2020 $m	2019 $m	2018 $m
Operating exceptional items:			
Cost of sales:			
Derecognition of right-of-use assets and lease liabilities	**18**	–	–
Provision for onerous contractual expenditure	**(10)**	–	–
Reorganisation costs	**(4)**	–	–
	4	–	–
Other impairment charges:			
Goodwill	**–**	(49)	–
Property, plant and equipment	**(50)**	–	–
Right-of-use assets	**–**	(32)	–
	(50)	(81)	–
Operating exceptional items	**(46)**	(81)	–
Fair value gains on contingent purchase consideration (note 25)	**21**	38	–
Exceptional items before tax	**(25)**	(43)	–

Notes to the Group Financial Statements continued

6. Exceptional items continued

(h) Exceptional items relating to the UK portfolio continued

The UK portfolio has continued to experience hugely challenging trading conditions as a result of Covid-19, with all 12 hotels closing for business in March 2020. The impact of Covid-19 and subsequent restrictions on travel caused the UK leased hotels to be closed for extended periods during 2020. Hotels which were able to open temporarily during the year experienced historically low occupancies. 11 of the hotels were closed as at 31 December 2020 and all hotels were closed during January 2021.

As described on page 155, the right-of-use asset ($22m) and lease liability ($40m) relating to the UK portfolio have been derecognised as a result of the re-estimation of the 'in-substance fixed' rent payable under the leases, resulting in a gain of $18m. The leases are now considered to be fully variable.

Under the terms of the leases, the Group is committed to certain items of contractual expenditure. A $10m provision was recognised to the extent the costs of the remaining contractual expenditure exceeded the future economic benefits expected to be received under the leases.

The hotels have incurred a total cost of $4m to restructure hotel operations in response to the future impact of Covid-19 on hotel occupancy and revenues. The reorganisation was completed in 2020.

Impairment testing was performed on the remaining property, plant and equipment in the portfolio using management forecasts covering a five-year period. The testing performed and key assumptions are detailed on page 135. In 2019, goodwill ($49m) and the right-of-use asset ($32m) (prior to derecognition) were impaired as a result of trading disruption arising from hotel renovations and rebranding.

Contingent purchase consideration comprises the present value of the above-market element of the expected lease payments to the lessor. The above-market assessment is determined by comparing the expected lease payments as a percentage of forecast hotel operating profit (before depreciation and rent) with market metrics, on a hotel by hotel basis. A fair value gain of $21m was recognised in the period (2019: $38m), arising from a reduction in expected future rentals payable such that there is no remaining above-market element. The key assumptions are detailed on page 135.

As a result of the adjustments outlined above, non-current assets, lease liabilities and contingent consideration relating to the UK portfolio were all measured at $nil at 31 December 2020.

(i) Tax on exceptional items

The tax impacts of the exceptional items are shown in the table below:

	2020		2019		2018	
	Current tax $m	**Deferred tax $m**	Current tax $m	Deferred tax $m	Current tax $m	Deferred tax $m
Derecognition of right-of-use assets and lease liabilities	**–**	**(4)**	–	–	–	–
Provision for onerous contractual expenditure	**–**	**2**	–	–	–	–
Reorganisation costs	**3**	**2**	4	–	11	–
Acquisition and integration costs	**1**	**–**	–	–	2	–
Litigation	**–**	**–**	–	6	5	–
Pension settlement cost	**–**	**–**	–	–	5	1
Impairment of financial assets	**4**	**2**	–	–	–	–
Other impairment charges	**6**	**37**	–	18	–	–
Financial expenses	**–**	**3**	–	–	–	–
Fair value gains on contingent purchase consideration	**–**	**(4)**	–	(6)	–	–
Adjustments in respect of prior years[a]	**–**	**–**	–	(2)	(2)	–
	14	**38**	4	16	21	1
Total current and deferred tax		**52**		20		22

[a] In 2019, related to a 2014 disposal. In 2018, related to the 2017 sale of a minority investment.

(j) Exceptional tax

In 2018, related to a tax credit in regard to US tax reform impacts.

7. Finance costs

	2020 $m	2019 $m	2018 $m
Financial income			
Financial income on deposits and money market funds	**2**	3	2
Interest income on loans and other assets	**2**	3	3
	4	6	5
Financial expenses			
Interest expense on external borrowings	**102**	78	61
Interest expense on lease liabilities	**37**	41	39
Capitalised interest	**(1)**	(5)	(5)
Unwind of discount on deferred purchase consideration	**1**	1	1
Other charges[a]	**5**	6	5
	144	121	101
Analysed as:			
Financial expenses before exceptional items	**130**	121	101
Exceptional financial expenses (note 6)	**14**	–	–
	144	121	101

[a] Other charges includes bank charges and non-bank interest expense.

During the year, $3m (2019: $13m, 2018: $14m) was payable to the IHG Rewards 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.

Capitalised interest relates to the System Fund. The rate used for capitalisation of interest was 2.9% (2019: 3.1%, 2018: 3.0%).

Net interest payable on a frozen GAAP basis as calculated for bank covenants was $111m (2019: $99m). Further details are provided on page 181.

8. Tax

Tax on (loss)/profit

	2020 $m	2019 $m	2018 $m
Current tax			
UK corporation tax at 19.00%:			
Current period	**–**	5	10
Adjustments in respect of prior periods	**(2)**	13	4
	(2)	18	14
Foreign tax:			
Current period	**43**	154	95
Benefit of tax reliefs on which no deferred tax previously recognised	**(2)**	(2)	(1)
Adjustments in respect of prior periods	**(5)**	(11)	(13)
	36	141	81
	34	159	95
Deferred tax			
Origination and reversal of temporary differences	**(35)**	11	39
Changes in tax rates and tax laws	**(8)**	2	1
Adjustments to estimated recoverable deferred tax assets[a]	**(14)**	(2)	(2)
Reduction in deferred tax expense by previously unrecognised deferred tax assets	**(1)**	–	–
Adjustments in respect of prior periods	**4**	(14)	(1)
	(54)	(3)	37
Income tax (credit)/charge for the year	**(20)**	156	132
Analysed as tax relating to:			
Profit before exceptional items[b]	**32**	176	159
Exceptional items:			
Tax on exceptional items (note 6)	**(52)**	(20)	(22)
Exceptional tax (note 6)	**–**	–	(5)
	(20)	156	132

[a] Represents a reassessment of the recovery of recognised and off-balance sheet deferred tax assets in line with the Group's profit forecasts.

[b] Includes $41m (2019: $113m, 2018: $93m) in respect of US taxes.

All items above relate to continuing operations.

Notes to the Group Financial Statements continued

8. Tax continued

	Total[a] 2020 %	2019 %	2018 %	Before exceptional items and System Fund[b] 2020 %	2019 %	2018 %
Reconciliation of tax charge						
UK corporation tax at standard rate	**19.0**	19.0	19.0	**19.0**	19.0	19.0
Tax credits	**0.5**	(0.8)	(0.5)	**(1.7)**	(0.6)	(0.3)
System Fund[c]	**(6.6)**	1.1	5.0	**(1.1)**	(0.5)	(0.5)
Impairment charges	**–**	1.7	–	**–**	–	–
Other permanent differences	**(4.2)**	1.3	0.6	**12.1**	0.8	0.3
Non-recoverable foreign taxes[d]	**(5.1)**	3.2	0.7	**16.9**	2.4	0.5
Net effect of different rates of tax in overseas businesses[e]	**(4.5)**	6.7	4.6	**18.9**	5.5	3.7
Effect of changes in tax rates and tax laws[f]	**2.9**	(0.4)	0.3	**(9.6)**	(0.3)	0.2
Reduction in current tax expense by previously unrecognised deferred tax assets	**0.7**	(0.4)	(0.4)	**(2.4)**	(0.3)	(0.3)
Items on which deferred tax arose but where no deferred tax is recognised[g]	**(1.9)**	–	–	**5.1**	–	–
Effect of adjustments to estimated recoverable deferred tax assets[h]	**5.1**	(0.4)	0.1	**(16.9)**	(0.3)	0.1
Reduction in deferred tax expense by previously unrecognised deferred tax assets	**0.3**	–	–	**–**	–	–
Adjustment to tax charge in respect of prior periods	**0.9**	(2.2)	(2.0)	**(2.7)**	(1.9)	(1.0)
	7.1	28.8	27.4	**37.6**	23.8	21.7

[a] Calculated in relation to total (losses)/profits including exceptional items and System Fund.

[b] Calculated in relation to profits excluding exceptional items and System Fund earnings.

[c] The System Fund is, in general, not subject to taxation.

[d] The large increase in 2020 when compared to 2019 is as a result of the material decrease in Group profitability. This has meant that the Group has no longer been able to obtain effective relief for withholding taxes incurred on its revenues and in respect of other taxes, primarily in the US and Singapore. The increase from 2018 to 2019 was caused by the recognition in 2018 of a carryback claim in the US in respect of foreign tax credits.

[e] Before exceptional items and System Fund includes 18.9 percentage points (2019: 4.9 percentage points, 2018: 4.2 percentage points) driven by the relatively high blended US rate, which includes US Federal and State taxes as well as Base Erosion and Anti-Avoidance Tax ('BEAT'). In 2020, the lower profitability has resulted in a large impact of BEAT, and the trading results in the year have led to a higher proportion of the Group's profit being taxed in the US.

[f] In 2020, the UK Government reversed a previously enacted drop to the UK rate of corporation tax. This has led to an increase in value to the Group's existing deferred tax assets in the UK, contributing to a benefit to the Group effective tax rate, before exceptional items and System Fund, of 7.9 percentage points.

[g] Predominantly in respect of losses arising in the year.

[h] During 2020, the Group simplified its Group structure leading to an increase to existing deferred tax assets within the UK.

A reconciliation between total tax rate and tax rate before exceptional items and System Fund is shown below:

	2020 (Loss)/profit before tax $m	2020 Tax $m	2020 Rate %	2019 Profit before tax $m	2019 Tax $m	2019 Rate %	2018 Profit before tax $m	2018 Tax $m	2018 Rate %
Group income statement	**(280)**	**(20)**	**7.1**	542	156	28.8	482	132	27.4
Adjust for:									
Exceptional items (note 6)	**263**	**52**		148	20		104	27	
System Fund	**102**	**–**		49	–		146	–	
	85	**32**	**37.6**	739	176	23.8	732	159	21.7

Information concerning Non-GAAP measures can be found in the Strategic Report on pages 47 to 51.

8. Tax continued

Tax paid

Total net tax paid during the year of $41m (2019: $141m, 2018: $68m) comprises $41m (2019: $141m, 2018: $66m) paid in respect of operating activities and $nil (2019: $nil, 2018: $2m) paid in respect of investing activities.

The total tax paid includes, in respect of the US:

- payments of $29m (2019: $80m, 2018: $54m); and
- refunds arising from earlier periods of $24m (2019: $nil, 2018: $34m);

and in respect of the UK:

- payments of $2m (2019: $13m, 2018: $23m); and
- refunds arising from earlier periods of $nil (2019: $nil, 2018: $11m).

A reconciliation of tax paid to the total tax charge in the Group income statement is as follows:

	2020 $m	2019 $m	2018 $m
Current tax charge in the Group income statement	(34)	(159)	(95)
Current tax (charge)/credit in the Group statement of comprehensive income	(1)	2	1
Current tax credit taken directly to equity	–	4	8
Total current tax charge	(35)	(153)	(86)
Movements to tax contingencies[a]	(8)	3	(4)
Timing differences of cash tax paid and foreign exchange differences	2	9	22
Tax paid per cash flow	**(41)**	(141)	(68)

[a] Tax contingency movements are included within the current tax charge but do not impact cash tax paid in the year. Settlement of tax contingencies are included within cash tax paid in the year but not recorded in the current year tax charge.

Current tax

Within current tax payable is $25m (2019: $33m) 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 (2019: $9m).

Notes to the Group Financial Statements continued

8. Tax continued

Deferred tax

	Property, plant, equipment and software $m	Other intangible assets $m	Application fees $m	Deferred gains on loan notes $m	Associates $m	Losses $m	Employee benefits $m	Deferred compen-sation $m	Credit losses $m	Contract costs $m	Other short-term temporary differences[a] $m	Total $m
At 1 January 2019	(120)	(18)	43	(35)	(56)	35	30	42	1	(14)	31	(61)
Group income statement	–	3	–	1	(2)	(9)	1	(1)	11	(2)	1	3
Assets of businesses acquired	–	–	–	–	–	–	–	–	–	–	2	2
Group statement of comprehensive income	–	–	–	–	–	–	1	–	–	–	(1)	–
Exchange and other adjustments	1	1	–	–	–	1	1	–	–	–	–	4
At 31 December 2019	(119)	(14)	43	(34)	(58)	27	33	41	12	(16)	33	(52)
Group income statement	**23**	**14**	**(2)**	**–**	**–**	**28**	**–**	**1**	**10**	**(1)**	**(19)**	**54**
Group statement of comprehensive income	**–**	**–**	**–**	**–**	**–**	**6**	**1**	**–**	**–**	**–**	**8**	**15**
Group statement of changes in equity	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**	**(1)**
Exchange and other adjustments	**1**	**–**	**1**	**–**	**1**	**–**	**1**	**–**	**–**	**–**	**(2)**	**2**
At 31 December 2020	**(95)**	**–**	**42**	**(34)**	**(57)**	**61**	**34**	**42**	**22**	**(17)**	**20**	**18**

[a] The above table has been re-presented in order to separately disclose the deferred tax on 'deferred compensation' and 'credit losses' (both previously disclosed in 'other short-term temporary differences'), to disaggregate the deferred tax on 'application fees' and 'contract costs', to present deferred tax on share-based compensation within 'employee benefits' (previously disclosed within 'other short-term temporary differences') and to disclose deferred taxes on 'contract assets' within 'other short-term temporary differences' (previously disclosed within 'Other intangible assets and contract assets').

The deferred tax on the loan notes represents tax that is expected to come due in 2025 (2019: 2025). The deferred tax in respect of losses of $61m (2019: $27m) comprises $60m in respect of revenue losses (2019: $27m) and $1m in respect of capital losses (2019: $nil). There is no tax in respect of uncertain tax positions recorded within deferred taxes.

A deferred tax asset of $95m (2019: $4m) has been recognised in legal entities which have made a loss in the current or the previous year. Of the 2020 amount, $89m (2019: $nil) is within the UK tax group and predominantly represents revenue tax losses and future tax deductions for amortisation.

The recoverability of these UK deferred tax assets has been assessed by:

- starting with the Group profit forecasts prepared by management, consistent with those used when reviewing for impairment (see page 135);
- overlaying tax principles to those forecasts; and
- following the methodology required by IAS 12.

This has demonstrated that $87m of the UK deferred tax assets should reverse over a 10-year period. Under UK law, tax losses do not expire, although can only be offset against 50% of annual UK taxable profits, and accordingly, if the anticipated recovery to previous profitability were to be over a longer period, the length of time for recovery of the deferred tax asset would increase.

The remaining $2m of the UK deferred tax asset is in a legal entity which was loss making in 2019 and became profitable in 2020, and is forecast to remain so. Additional UK deferred tax assets of $14m are recognised in legal entities which were profitable in both the current and previous years.

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 $m	Deferred gains on loan notes $m	Associates $m	Losses $m	Employee benefits $m	Deferred compen-sation $m	Credit losses $m	Contract costs $m	Other short-term temporary differences $m	Total $m
UK	19	9	–	–	–	50	10	–	–	–	15	103
US	(115)	(10)	42	(34)	(57)	5	23	42	16	(11)	10	(89)
Other	1	1	–	–	–	6	1	–	6	(6)	(5)	4
At 31 December 2020	(95)	–	42	(34)	(57)	61	34	42	22	(17)	20	18

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:

	2020 $m	2019 $m
Analysed as:		
Deferred tax assets	113	66
Deferred tax liabilities	(95)	(118)
	18	(52)

The Group does not recognise deferred tax assets if it cannot anticipate being able to offset them against existing deferred tax liabilities or against future profits or gains.

The total unrecognised deferred tax position is as follows:

	Gross		Unrecognised deferred tax	
	2020 $m	2019 $m	2020 $m	2019 $m
Revenue losses	467	413	76	65
Capital losses	562	541	109	95
	1,029	954	185	160
Tax credits	12	13	12	13
Leases	–	25	–	7
Other[a]	19	2	3	1
	1,060	994	200	181

[a] Primarily relates to costs incurred for which tax relief has not been obtained.

There is no expiry date to any of the above unrecognised assets other than for the losses and tax credits as shown in the table below:

	Gross		Unrecognised deferred tax	
	2020 $m	2019 $m	2020 $m	2019 $m
Expiry date				
2021	33	31	8	6
2022	11	10	3	2
2023	2	2	–	–
2024	5	4	1	1
2025	110	91	26	20
2026	1	–	–	–
2027	3	3	1	1
After 2027	24	21	17	16

No deferred tax liability has been provided in respect of $0.5bn (2019: $0.9bn) 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.

Tax risks, policies and governance

Policies and procedures related to tax risk management are subject to regular review and update and are approved by the IHG Audit Committee. 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. IHG's Approach to Tax document is available on IHG's website at **www.ihgplc.com/responsible-business**. In addition, as a result of its business profile as a hotel manager and also as a residual legacy from prior acquisitions, IHG has 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).

Notes to the Group Financial Statements continued

8. Tax continued

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.

The impact of Covid-19 has resulted in changes to the Group's current geographic profit mix and this trend is expected to continue for at least the short term. This is likely to result in a higher than usual tax rate for the Group in the short term.

Worldwide tax reform continues, most notably with the OECD's review into "Tax Challenges Arising from Digitalisation", and this could impact the tax profile of the Group over the longer term. The Group continues to monitor activity in this area.

The Group anticipates the exit from the European Union will not cause a material impact on its future underlying effective tax rate.

9. Dividends

	2020 cents per share	2019 cents per share	2018 cents per share	2020 $m	2019 $m	2018 $m
Paid during the year						
Final (declared for previous year)	–	78.1	71.0	–	139	130
Interim	–	39.9	36.3	–	72	69
Special (note 29)	–	262.1	–	–	510	–
	–	380.1	107.3	–	721	199
Proposed (not recognised as a liability at 31 December)						
Final	–	–	78.1	–	–	141

On 20 March 2020, the Board withdrew its recommendation of a final dividend in respect of 2019 of 85.9¢ per share, a payment of which would have had a cash outflow of approximately $150m in the first half of 2020. A final dividend in respect of 2020 is not proposed and there was no interim dividend for the year. The Board will consider future dividends once visibility of the pace and scale of market recovery has improved.

10. (Loss)/earnings per ordinary share

Basic (loss)/earnings per ordinary share is calculated by dividing the profit or loss 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 (loss)/earnings per ordinary share is calculated by adjusting basic (loss)/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 and changes in the fair value of contingent purchase consideration, to give a more meaningful comparison of the Group's performance.

Additionally, 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 over the longer term.

IHG also records an interest charge on the outstanding cash balance relating to the IHG Rewards 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 or loss available for equity holders.

10. (Loss)/earnings per ordinary share continued

Continuing and total operations	2020	2019	2018
Basic (loss)/earnings per ordinary share			
(Loss)/profit available for equity holders ($m)	(260)	385	349
Basic weighted average number of ordinary shares (millions)	182	183	190
Basic (loss)/earnings per ordinary share (cents)	(142.9)	210.4	183.7
Diluted (loss)/earnings per ordinary share			
(Loss)/profit available for equity holders ($m)	(260)	385	349
Diluted weighted average number of ordinary shares (millions)	182	184	192
Diluted (loss)/earnings per ordinary share (cents)	(142.9)	209.2	181.8
Adjusted earnings per ordinary share			
(Loss)/profit available for equity holders ($m)	(260)	385	349
Adjusting items:			
System Fund revenues and expenses ($m)	102	49	146
Interest attributable to the System Fund ($m)	(4)	(18)	(19)
Operating exceptional items ($m) (note 6)	270	186	104
Exceptional financial expenses ($m) (note 6)	14	–	–
Change in fair value of contingent purchase consideration ($m) (note 25)	(13)	(27)	4
Tax on exceptional items ($m) (note 6)	(52)	(20)	(22)
Exceptional tax ($m) (note 6)	–	–	(5)
Adjusted earnings ($m)	57	555	557
Basic weighted average number of ordinary shares (millions)	182	183	190
Adjusted earnings per ordinary share (cents)	31.3	303.3	293.2
Adjusted diluted earnings per ordinary share			
Adjusted earnings ($m)	57	555	557
Diluted weighted average number of ordinary shares (millions)	182	184	192
Adjusted diluted earnings per ordinary share (cents)	31.3	301.6	290.1

	2020 millions	2019 millions	2018 millions
Diluted weighted average number of ordinary shares is calculated as:			
Basic weighted average number of ordinary shares	182	183	190
Dilutive potential ordinary shares	–	1	2
	182	184	192

The effect of the notional exercise of outstanding ordinary share awards is anti-dilutive in 2020, and therefore has not been included in the diluted earnings per share calculation.

Information concerning Non-GAAP measures can be found in the Strategic Report on pages 47 to 51.

Notes to the Group Financial Statements continued

11. Acquisition of businesses

Six Senses

On 12 February 2019, the Group acquired a 100% ownership interest in Six Senses Hotels Resorts Spas ('Six Senses'), a leading operator of top-tier luxury hotels, resorts and spas with a world-renowned reputation for wellness and sustainability. The total purchase consideration was $304m, comprising $299m paid on acquisition, including the settlement of working capital, and $5m of contingent purchase consideration. The fair value of net assets acquired was $246m, including brands of $189m, management agreements of $45m, and a right-of-use asset of $19m offset by an equal lease liability. Goodwill recognised was $58m.

The contingent purchase consideration has been revalued as at 31 December 2020 (see note 25).

The value of management agreements and right-of-use assets recognised on acquisition were impaired by $41m and $5m respectively in 2020 (see notes 13 and 15).

UK portfolio

On 25 July 2018, the Group completed a deal to operate nine hotels under long-term leases from Covivio 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 at 31 December 2018. On 14 February 2019, the Group added a further two hotels to the portfolio bringing the total hotels in the UK portfolio to 12.

The total purchase consideration for the 12 hotels was $73m, comprising $10m paid on acquisition, a working capital refund of $3m and $66m of contingent purchase consideration. The fair value of the net assets acquired was $14m and goodwill of $64m was recognised, of which $12m was recognised in 2019.

Goodwill and non-current assets acquired were impaired in full during 2019 and 2020 such that the remaining value is $nil (see note 6).

The contingent purchase consideration was revalued to $nil as at 31 December 2020 (see note 25).

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 & Resorts' brand and associated management agreements ('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.

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.

The total purchase consideration was $88m, comprising $13m paid on acquisition, $22m of deferred purchase consideration and $53m of contingent purchase consideration. The fair value of the net assets acquired was $53m, including brands of $57m and management agreements of $6m. Goodwill recognised was $35m.

The contingent purchase consideration has been revalued as at 31 December 2020 (see note 25).

The value of management agreements recognised on acquisition were impaired by $2m in 2020 (see note 13).

Cash flows relating to acquisitions

	2020 $m	2019 $m	2018 $m
Cash paid on acquisition, including working capital settlement	–	299	22
Settlement of stamp duty liability	–	3	14
Less: cash and cash equivalents acquired	–	(7)	(2)
Less: working capital settlement received in year following acquisition	–	(3)	–
Net cash outflow arising on acquisitions	–	292	34

12. Assets and liabilities sold and held for sale

No assets were classified as held for sale at 31 December 2020.

During the year ended 31 December 2020 the Group sold one hotel in EMEAA, the Holiday Inn Melbourne Airport. This was classified as held for sale at 31 December 2019, with no change to the carrying value on initial classification. Total consideration of $2m was received. Net of disposal costs a total gain of $3m is included in 'other operating income' in the Group income statement.

13. Goodwill and other intangible assets

	Goodwill $m	Brands $m	Software $m	Management agreements $m	Other intangibles $m	Total $m
Cost						
At 1 January 2019	455	250	781	77	18	1,581
Acquisition of businesses (note 11)	70	189	–	45	–	304
Additions	4	–	98	–	6	108
Capitalised interest	–	–	5	–	–	5
Disposals	–	–	(22)	–	–	(22)
Exchange and other adjustments	–	–	2	–	(1)	1
At 31 December 2019	529	439	864	122	23	1,977
Additions	**–**	**–**	**50**	**–**	**2**	**52**
Disposals	**–**	**–**	**(29)**	**–**	**–**	**(29)**
Exchange and other adjustments	**8**	**–**	**1**	**–**	**–**	**9**
At 31 December 2020	**537**	**439**	**886**	**122**	**25**	**2,009**
Amortisation and impairment						
At 1 January 2019	(142)	–	(281)	(10)	(5)	(438)
Provided	–	–	(35)	(3)	(2)	(40)
System Fund expense	–	–	(46)	–	(1)	(47)
Impairment charge	(49)	–	–	(50)	–	(99)
Disposals	–	–	22	–	–	22
Exchange and other adjustments	1	–	–	–	–	1
At 31 December 2019	(190)	–	(340)	(63)	(8)	(601)
Provided	**–**	**–**	**(36)**	**(1)**	**(1)**	**(38)**
System Fund expense	**–**	**–**	**(51)**	**–**	**(2)**	**(53)**
Impairment charge	**–**	**–**	**–**	**(48)**	**–**	**(48)**
System Fund impairment charge	**–**	**–**	**(4)**	**–**	**–**	**(4)**
Disposals	**–**	**–**	**29**	**–**	**–**	**29**
Exchange and other adjustments	**(1)**	**–**	**–**	**–**	**–**	**(1)**
At 31 December 2020	**(191)**	**–**	**(402)**	**(112)**	**(11)**	**(716)**
Net book value						
At 31 December 2020	**346**	**439**	**484**	**10**	**14**	**1,293**
At 31 December 2019	339	439	524	59	15	1,376
At 1 January 2019	313	250	500	67	13	1,143

Notes to the Group Financial Statements continued

13. Goodwill and other intangible assets continued

Goodwill and brands

Allocation of goodwill and brands to CGUs

The Group's CGUs are consistent with prior years; however, the level at which goodwill is monitored by management has changed to the Group's operating segments, namely Americas, EMEAA and Greater China. This better reflects (i) how the Group's performance is monitored, including the measurement of overheads at a regional level with no measurement at any lower level, and (ii) how management executes on its regional strategies. Both of these factors have become more pronounced in the year as a result of historic lows in occupancy levels, the termination of the SVC portfolio of management agreements (see page 137), and the corporate reorganisation. In addition to changing the level at which goodwill is tested, the same approach has been applied to the Group's brands with indefinite lives; testing brands at the same level goodwill is allocated is consistent year on year. Prior to making this change, management reconfirmed each of the brands, which relate to the Group's luxury and lifestyle portfolio, have indefinite lives and continue to form an integral part of the Group's strategy. Under the prior methodology, the CGU with the smallest headroom was Americas Managed; impairment tests were performed using the prior methodology (i.e. with no aggregation of CGUs) using the Base Case scenario (see below) and the Downside Case scenario (see page 133). No impairment arose under either scenario.

The table below summarises the movements in the carrying value of goodwill and brands and the final allocation for impairment testing purposes as at 31 December 2020.

	At 1 January 2020 $m	Additions $m	Reallocation $m	Exchange differences $m	Impairment $m	At 31 December 2020 $m
Goodwill and brands						
Americas Managed	**384**	–	**(384)**	–	–	–
Americas Franchised	**37**	–	**(37)**	–	–	–
Americas (group of CGUs)	–	–	**421**	–	–	**421**
EMEAA – Europe Managed	**94**	–	**(94)**	–	–	–
EMEAA – Europe Franchised	**10**	–	**(10)**	–	–	–
EMEAA – rest of region	**228**	–	**(228)**	–	–	–
EMEAA (group of CGUs)	–	–	**332**	**7**	–	**339**
Greater China	**25**	–	–	–	–	**25**
	778	–	–	**7**	–	**785**

	At 1 January 2019 $m	Additions $m	Reallocation $m	Exchange differences $m	Impairment $m	At 31 December 2019 $m
Goodwill and brands						
Americas Managed	272	112	–	–	–	384
Americas Franchised	37	–	–	–	–	37
EMEAA – Europe Managed	42	52	–	–	–	94
EMEAA – Europe Franchised	10	–	–	–	–	10
EMEAA – rest of region	136	92	–	–	–	228
Greater China	18	7	–	–	–	25
UK portfolio	–	–	49	–	(49)	–
Unallocated	48	–	(49)	1	–	–
	563	263	–	1	(49)	778

Impairment testing of goodwill and brands (excluding the UK portfolio)

The recoverable amounts of the CGUs, or groups of CGUs, have been determined from value in use calculations. The key assumption is RevPAR growth and the expected recovery period (see page 135). Cash flows beyond the five-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.

13. Goodwill and other intangible assets continued

The weighted average terminal growth rates and pre-tax discount rates used, which are considered to be key assumptions, are as follows:

	2020		2019[a]	
	Terminal growth rate %	Pre-tax discount rate %	Terminal growth rate %	Pre-tax discount rate %
Americas	1.7	8.5	1.9	8.8
EMEAA	1.9	12.1	2.1	9.1
Greater China	2.5	13.3	2.5	10.8

[a] Re-presented to reflect the weighted average terminal growth rates and pre-tax discount rates applied across the groups of CGUs.

The recoverable amounts of the CGUs, or groups of CGUs, exceeded their carrying value such that no impairment has arisen.

The recoverable amounts of the CGUs, or groups of CGUs, have also been calculated for the Downside Case scenario (see page 133) with no impairment arising.

UK portfolio

For impairment testing of the UK portfolio, which is reported within the EMEAA reportable segment, each hotel is deemed to be a CGU. The 12 individual hotels are treated as a group for impairment testing of goodwill, as goodwill cannot be allocated to individual hotels other than on an arbitrary basis. Impairment charges in 2019 and 2020 are summarised in note 6, with the key assumptions detailed on page 135.

Software

Software includes $274m relating to the development of the next-generation Guest Reservation System with Amadeus. Of this amount, $141m relating to Phase 2 of the project is not yet being amortised as it has not been completed; the project is expected to complete and commence amortisation in the first half of 2021. Phase 1 is being amortised over 10 years, with eight years remaining at 31 December 2020, reflecting the Group's experience of the long life of guest reservation systems and the initial term over which the Group is party to a technology agreement with Amadeus.

Substantially all software additions are internally developed. Individual assets were reviewed for impairment in the year, with $4m impairment charged to the System Fund relating to projects which are no longer expected to complete.

Management agreements

Management agreements relate to contracts recognised at fair value on acquisition. The weighted average remaining amortisation period for all management agreements is 18 years (2019: 26 years).

2020 impairment testing of management agreements

The impairment charge of $48m relates to the Kimpton ($5m), Regent ($2m) and Six Senses ($41m) management agreement portfolios acquired in 2015, 2018 and 2019 respectively. The key assumption is RevPAR growth (detailed on page 135). Cash flows beyond the five-year period are extrapolated using long-term growth rates that do not exceed the average long-term growth rates for the relevant markets.

Contracts were valued at the higher of value in use and fair value less costs of disposal, using discounted cash flow techniques that measure the present value of projected income flows. Where the recoverable amount is measured at fair value, this is categorised as a Level 3 fair value measurement.

Management agreement portfolios	Region	Basis of recoverable amount	Recoverable amount $m	Long-term growth rate %	Pre-tax discount rate %
Kimpton	Americas	Value in use	4	1.7	8.4
Regent	Greater China	Value in use	3	2.0-4.6	7.0-15.9
Six Senses (open hotels)	EMEAA	Fair value less costs of disposal	–	2.0	8.9-14.7
	Greater China	Fair value less costs of disposal	–	2.0	9.9
Six Senses (pipeline)	Americas	Value in use	1	2.0	9.8
	EMEAA	Value in use	2	2.0	8.9
	Greater China	Value in use	–	2.0	8.5

Sensitivities relating to the Six Senses portfolio are detailed on page 136. The recoverable amount of management agreements is $10m which is the maximum sensitivity to further impairment.

2019 impairment testing of management agreements

The 2019 impairment charge of $50m related to the Kimpton management agreement portfolio acquired in 2015 and arose from revised expectations regarding future trading, the rate of hotel exits and the cost of retaining hotels in the portfolio. The recoverable amount was based on value in use calculations using management fee projections based on near-term industry projected growth rates for the sector and were discounted at a rate of 8.0%.

Notes to the Group Financial Statements continued

14. Property, plant and equipment

	Land and buildings $m	Fixtures, fittings and equipment $m	Total $m
Cost			
At 1 January 2019	199	314	513
Acquisition of businesses	1	1	2
Additions	9	68	77
Transfers to assets classified as held for sale (note 12)	–	(12)	(12)
Fully depreciated assets written off	(2)	(60)	(62)
Disposals	–	(6)	(6)
Exchange and other adjustments	–	2	2
At 31 December 2019	207	307	514
Additions	**2**	**28**	**30**
Fully depreciated assets written off	**–**	**(17)**	**(17)**
Disposals	**(1)**	**(2)**	**(3)**
Exchange and other adjustments	**–**	**6**	**6**
At 31 December 2020	**208**	**322**	**530**
Depreciation and impairment			
At 1 January 2019	(72)	(168)	(240)
Provided	(3)	(35)	(38)
System Fund expense	–	(2)	(2)
Transfers to assets classified as held for sale (note 12)	–	9	9
Fully depreciated assets written off	2	60	62
Disposals	–	4	4
At 31 December 2019	(73)	(132)	(205)
Provided	**(4)**	**(33)**	**(37)**
System Fund expense	**–**	**(5)**	**(5)**
Impairment charge	**(39)**	**(51)**	**(90)**
System Fund impairment charge	**–**	**(5)**	**(5)**
Fully depreciated assets written off	**–**	**17**	**17**
Disposals	**1**	**1**	**2**
Exchange and other adjustments	**–**	**(6)**	**(6)**
At 31 December 2020	**(115)**	**(214)**	**(329)**
Net book value			
At 31 December 2020	**93**	**108**	**201**
At 31 December 2019	134	175	309
At 1 January 2019	127	146	273

The Group's property, plant and equipment mainly comprises buildings and leasehold improvements on 23 hotels (2019: 26 hotels), but also offices and computer hardware, throughout the world.

Impairment testing of property, plant and equipment
Total impairment charges of $90m were recognised in relation to property, plant and equipment in the year, in addition $5m was recognised in the System Fund.

For impairment testing of hotel properties, each hotel is deemed to be a CGU. Covid-19 was considered as a trigger for impairment testing for all hotel assets and impairment charges of $50m were recognised in relation to the UK portfolio and $35m relating to three premium-branded hotels in North America, both based on value in use calculations. The key assumptions and sensitivities relating to these assets are detailed on page 135.

Impairment charges of $3m were also recognised in relation to three development land sites held by the Group in the US which were measured at fair value. The sites were appraised by a professional external valuer using comparable sales data. Within the fair value hierarchy, this is categorised as a Level 3 measurement.

Impairment charges of $7m were recognised in relation to property, plant and equipment in the US corporate headquarters. The key assumptions and sensitivities are detailed on page 136. $5m of this impairment charge was borne by the System Fund in line with existing principles for cost allocation relating to this facility.

14. Property, plant and equipment continued

Net book value by operating segment

The table below analyses the net book value of the Group's property, plant and equipment by operating segment at 31 December 2020:

	Americas $m	EMEAA $m	Greater China $m	Central $m	Total $m
Land and buildings	**81**	**1**	**–**	**11**	**93**
Fixtures, fittings and equipment	**46**	**10**	**–**	**52**	**108**
	127	**11**	**–**	**63**	**201**

15. Leases

Right-of-use assets

	Property $m	Other $m	Total $m
Cost			
At 1 January 2019	792	5	797
Additions and other re-measurements	39	1	40
Acquisition of businesses (note 11)	25	–	25
Transfers to assets classified as held for sale (note 12)	(23)	–	(23)
Terminations	(15)	(1)	(16)
Exchange and other adjustments	4	–	4
At 31 December 2019	822	5	827
Additions and other re-measurements	**12**	**1**	**13**
Derecognition	**(93)**	**–**	**(93)**
Terminations	**(125)**	**(2)**	**(127)**
Exchange and other adjustments	**1**	**–**	**1**
At 31 December 2020	**617**	**4**	**621**
Depreciation and impairment			
At 1 January 2019	(282)	(2)	(284)
Provided	(37)	(1)	(38)
System Fund expense	(5)	–	(5)
Impairment charge	(32)	–	(32)
Transfers to assets classified as held for sale (note 12)	8	–	8
Terminations	14	1	15
Exchange and other adjustments	(1)	–	(1)
At 31 December 2019	(335)	(2)	(337)
Provided	**(34)**	**(1)**	**(35)**
System Fund expense	**(4)**	**–**	**(4)**
Impairment charge	**(16)**	**–**	**(16)**
System Fund impairment charge	**(32)**	**–**	**(32)**
Derecognition	**44**	**–**	**44**
Terminations	**64**	**1**	**65**
Exchange and other adjustments	**(3)**	**–**	**(3)**
At 31 December 2020	**(316)**	**(2)**	**(318)**
Net book value			
At 31 December 2020	**301**	**2**	**303**
At 31 December 2019	487	3	490
At 1 January 2019	510	3	513

The Group's leased assets mainly comprise hotels and offices. Leases contain a wide range of different terms and conditions. The term of property leases ranges from 1-99 years. The weighted average lease term remaining on the Group's top eight leases (which comprise 92% of the right-of-use asset net book value) is 53 years.

Many of the Group's property leases contain extension or early termination options, which are used for operational flexibility. One of the Group's top eight leases contains a material extension option which is not included in the calculation of the lease asset and liability as the extension would not take effect before 2031. The value of the undiscounted rental payments relating to this lease and not included in the value of the lease asset and liability is $288m. Additionally, the Group has the option to extend the term of the InterContinental Boston lease for two additional 20-year terms, the first of which would take effect from 2105. These extension options have not been included in the calculation of the lease liability.

Notes to the Group Financial Statements continued

15. Leases continued

Impairment testing of right-of-use assets

For impairment testing of hotel properties, each hotel is deemed to be a CGU. The impact of Covid-19 and the recovery period on trading was considered as a trigger for impairment testing for all hotel assets and an impairment charge of $5m was recognised relating to one hotel in the EMEAA region, based on value in use calculations. Trading projections reflect the five-year RevPAR recovery period outlined on page 135 and estimated future cash flows were discounted at a pre-tax rate of 8.8%.

Additionally, impairment charges of $43m were recognised in relation to the US corporate headquarters, using the assumptions described on page 136. $32m of this impairment charge was borne by the System Fund in line with existing principles for cost allocation relating to this facility.

Other right-of-use assets were also tested for impairment with no resulting charge, the most significant of which was the InterContinental Boston, which has non-current assets with a total carrying value of $195m. Details of the testing performed and sensitivities are contained on page 137.

Terminations

The lease of the InterContinental San Juan was terminated in 2020, resulting in a total gain of $30m (see note 6). Other terminations relate mainly to office properties where the lease was terminated in the period.

Lease liabilities

Total lease liabilities are analysed as follows:

	2020 $m	2019 $m
Currency		
US dollars	**385**	514
Sterling	**10**	52
Euros	**7**	43
Other	**48**	51
	450	660
Analysed as:		
Current	**34**	65
Non-current	**416**	595
	450	660

Amounts recognised in profit or loss

The following amounts were recognised as expense/(income) in the year:

	2020 $m	2019 $m	2018 $m
Depreciation of right-of-use assets	**35**	38	35
System Fund depreciation of right-of-use assets	**4**	5	4
Impairment charge	**16**	32	–
System Fund impairment charge	**32**	–	–
Derecognition of right-of-use assets and lease liabilities	**(22)**	–	–
Gain on lease termination	**(30)**	–	–
Expense relating to variable lease payments	**7**	58	48
Expense relating to short-term leases and low-value assets	**2**	3	3
Income from sub-leasing right-of-use assets	**(1)**	(2)	(2)
Recognised in operating (loss)/profit	**43**	134	88
Interest on lease liabilities	**37**	41	39
Total recognised in the Group income statement	**80**	175	127

Amounts recognised in the Group statement of cash flows

Total cash paid during the year relating to leases of $104m (2019: $159m, 2018: $132m) comprises $39m (2019: $100m, 2018: $97m) paid in respect of operating activities and $65m (2019: $59m, 2018: $35m) paid in respect of financing activities.

Variable lease payments

Variable lease payments are payable under certain of the Group's hotel leases and arise where the Group is committed to making additional lease payments that are contingent on the performance of the hotels.

Variable lease payments relating to the UK portfolio and two German hotels are discussed in note 6.

Exposure to future cash outflows

At 31 December 2020, the Group was committed to future cash outflows of $nil (2019: $3m) relating to leases that have not yet commenced. A lease liability is recorded when the leased assets are available for use by the Group.

The maturity analysis of lease liabilities is disclosed in note 24.

The undiscounted future cash flows receivable from subleased properties amount to $2m (2019: $3m, 2018: $3m).

16. Investment in associates and joint ventures

	2020 $m	2019 $m
Cost		
At 1 January	**145**	140
Additions	**17**	14
Share of (losses)/gains	**(14)**	(3)
System Fund share of losses	**(1)**	–
Dividends and distributions	**(7)**	(7)
Exchange and other	**(4)**	1
At 31 December	**136**	145
Impairment		
At 1 January	**(35)**	(36)
Charge for the year[a]	**(23)**	–
Exchange and other	**3**	1
At 31 December	**(55)**	(35)
Net book value	**81**	110

[a] In note 6 the $23m impairment charge is presented net of $4m gain on related put option.

Barclay associate

The Group held one material associate investment at 31 December 2020, a 19.9% interest in 111 East 48th Street Holdings, LLC (the 'Barclay associate') which owns InterContinental New York Barclay, a hotel managed by the Group. 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.

Due to the significant trading impact of Covid-19 and resulting restrictions in New York, the hotel was closed for most of 2020 and does not expect to reopen until Spring 2021. The 2021 closure period and the significant impact on RevPAR during the recovery period is considered to affect the hotel valuation, hence impairment testing was performed on the Barclay associate, resulting in an impairment charge of $13m. There is also a related put option which was valued at $4m. Details of the put option, impairment testing performed and sensitivities are contained on page 136.

Summarised financial information in respect of the Barclay associate is set out below:

31 December	2020 $m	2019 $m
Non-current assets	**497**	515
Current assets	**32**	75
Current liabilities	**(19)**	(22)
Non-current liabilities	**(247)**	(323)
Net assets	**263**	245
Group share of reported net assets at 19.9%	**52**	49
Adjustments to reflect impairment, capitalised costs, and additional rights and obligations under the shareholder agreement	**(9)**	4
Carrying amount	**43**	53

Year ended 31 December	2020 $m	2019 $m
Revenue	**16**	108
Loss from continuing operations and total comprehensive loss for the year	**(52)**	(17)
Group's share of loss for the year, including the cost of funding owner returns	**(13)**	(10)

Notes to the Group Financial Statements continued

16. Investment in associates and joint ventures continued

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		
	2020 $m	2019 $m	2018 $m	2020 $m	2019 $m	2018 $m	2020 $m	2019 $m	2018 $m
Share of (losses)/gains									
(Losses)/profits from continuing operations and total comprehensive (loss)/profit for the year	(3)	7	2	2	–	5	(1)	7	7

Impairment testing was performed on other associate investments containing hotel assets using management forecasts covering a five-year period, as detailed on page 135. This resulted in impairment of two associates, both in the Americas region, by a total of $8m. Estimated future cash flows were discounted at pre-tax rates of 12.0% and 8.4%, resulting in recoverable amounts of $1m and $4m respectively.

A further associate with a value of $5m at 31 December 2019 was liquidated in 2020. A final dividend of $3m was received and the remaining investment of $2m was impaired to $nil; the charge is recognised within Central costs.

During 2018, the Group received a distribution of $32m from a joint venture following the sale of the hotel owned by the joint venture. A further $2m was received in 2020 on liquidation of the joint venture.

17. Other financial assets

	2020 $m	2019 $m
Equity securities:		
Equity shares quoted on an active market	–	8
Other equity shares	88	125
	88	133
Restricted funds:		
Shortfall reserve deposit	9	25
Ring-fenced amounts to satisfy insurance claims:		
Cash	3	11
Money market funds	15	16
Bank accounts pledged as security	43	41
Other	3	5
	73	98
Trade deposits and loans	8	57
	169	288
Analysed as:		
Current	1	4
Non-current	168	284
	169	288

17. Other financial assets continued

Equity securities

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 methodology to calculate fair value and the sensitivities to the relevant significant unobservable inputs are detailed in note 25. The fair value of the most significant investments at 31 December 2020 together with the dividend income received in 2020 is as follows:

	2020 Fair value $m	2020 Dividend income[a] $m
Investment in entity which owns:		
InterContinental The Willard Washington DC	22	–
InterContinental San Francisco	15	1
InterContinental Grand Stanford Hong Kong	27	–

[a] Reported within 'other operating income' in the Group income statement.

Restricted funds

The shortfall reserve deposit is held for the specific purpose of funding shortfalls in owner returns relating to the Barclay associate. The calculation of shortfalls is subject to 'force majeure' clauses which include epidemics. Any shortfalls funded are subject to potential clawback in future years. The maximum length of time for which the restricted funds will be held is the life of the hotel management agreement. $16m was withdrawn from the deposit during the current year in connection with the refinancing of the hotel's senior bank loan and to fund working capital requirements.

Amounts ring-fenced to satisfy insurance claims are principally held in the Group's Captive, which is a regulated entity (see note 21).

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 27). The amounts pledged as security may change in future years subject to the trustees' agreement and updated actuarial valuations. The bank accounts will continue to be pledged as security until the date at which the UK unfunded pension liabilities have been fully discharged, unless otherwise agreed with the trustees.

Trade deposits and loans

In 2019, trade deposits and loans included a discounted value related to deposits made to SVC. The deposits ($33m) were impaired in full in the year (see page 137) and the contracts were subsequently terminated on 30 November 2020.

Expected credit losses

Other financial assets with a total value of $66m (2019: $136m) are subject to the expected credit loss model requirements of IFRS 9. Equity securities, money market funds and other amounts measured at fair value are excluded. With the exception of the expected credit loss arising on trade deposits and loans (see below), expected credit losses are considered to be immaterial. Included within trade deposits and loans is an owner loan with a principal value of $6m where repayments due in 2020 have not been received; this loan was impaired in full in the year. Other trade deposits and loans are not past due.

	2020 $m	2019 $m
Trade deposits and loans:		
Gross and net balance with no significant increase in credit risk since initial recognition	4	54
Gross balance with a significant increase in credit risk since initial recognition	19	–
Provision for lifetime expected credit losses[a]	(15)	–

[a] Comprises $6m and $9m relating to the Americas and EMEAA regions respectively.

Credit risk

Restricted funds are held with bank counterparties which are rated at least A+ based on Standard and Poor's ratings.

The maximum exposure to credit risk of other financial assets at the end of the reporting period by geographic region is as follows:

	2020 $m	2019 $m
Americas	72	169
EMEAA	64	81
Greater China	33	38
	169	288

Notes to the Group Financial Statements continued

18. Trade and other receivables

	2020 $m	2019 $m
Trade receivables[a]	309	515
Other receivables	129	37
Prepayments	76	114
	514	666

[a] Including cost reimbursements of $26m (2019: $67m).

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.

Other receivables includes $77m relating to the UK portfolio rent. The Group has deferred rent payments due since 1 April 2020 (other than payments of ground rent) with consideration given to the UK Government and other commercial tenant protection measures which are in place up to 31 March 2021. A final rent reconciliation is expected in mid-2021, at which point no further rent will be payable and any rent paid in relation to 2020 will be recoverable from the landlord. $65m has been recognised within trade and other payables in relation to the rents due under the leases at 31 December, with the receivable balance reflecting the recovery of both amounts due and amounts paid in 2020.

Expected credit losses

The impairment charge in respect of trade receivables was $40m (2019: $8m). This amount and $48m relating to trade deposits and loans (see note 17) comprise the total impairment loss on financial assets in the Group income statement. A further impairment charge of $24m was recognised within System Fund expenses (2019: $12m).

In the Group's interim financial statements as at 30 June 2020, exceptional items included an impairment of trade receivables of $22m which had been determined to be directly as a result of Covid-19. The subsequent improvement in cash collection and the considerations required to identify whether subsequent expected credit losses over the extended period of the pandemic are due to Covid-19 have resulted in none of the full year $40m impairment of trade receivables being presented within exceptional items.

Expected credit losses were calculated as follows:

- By applying the Group's historical policy for estimating the expected credit loss provision, supported by the Group's prior experience; and
- By identifying hotel owners subject to payment plans or identified as distressed and applying a percentage provision to all outstanding receivables.

The net balances presented in the table below could result in additional credit losses if they are ultimately found to be uncollectible.

The ageing of trade receivables at the end of the reporting period is shown below; the ageing reflects the initial terms under the invoice rather than the revised terms where payment flexibility has been provided to owners. Expected credit losses relating to other receivables are immaterial.

	2020			2019		
	Gross $m	Credit loss allowance $m	Net $m	Gross $m	Credit loss allowance $m	Net $m
Not past due	153	(1)	152	363	(3)	360
Past due 1 to 30 days	59	(2)	57	74	(3)	71
Past due 31 to 90 days	61	(6)	55	56	(5)	51
Past due more than 90 days	40	(7)	33	35	(7)	28
Past due more than 180 days	74	(62)	12	5	–	5
	387	(78)	309	533	(18)	515

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 receivables during the year is as follows:

	2020 $m	2019 $m	2018 $m
At 1 January	(18)	(11)	(77)
Adjustment arising on adoption of IFRS 9[a]	–	–	67
Impairment loss	(40)	(8)	(17)
System Fund impairment loss	(24)	(12)	(11)
Amounts written off	7	14	26
Exchange and other adjustments	(3)	(1)	1
At 31 December	(78)	(18)	(11)

[a] IFRS 9 was applied from 1 January 2018. Under the transition method chosen, comparative information was not restated.

18. Trade and other receivables continued

Credit risk

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.

The maximum exposure to credit risk for trade and other receivables, excluding prepayments, at the end of the reporting period by geographic region is as follows:

	2020 $m	2019 $m
Americas	212	359
EMEAA	183	141
Greater China	43	52
	438	552

19. Cash and cash equivalents

	2020 $m	2019 $m
Cash at bank and in hand	104	160
Short-term deposits	358	–
Money market funds	892	35
Repurchase agreements	321	–
Cash and cash equivalents as recorded in the Group statement of financial position	1,675	195
Bank overdrafts (note 22)	(51)	(87)
Cash and cash equivalents as recorded in the Group statement of cash flows	1,624	108

Cash at bank and in hand includes bank balances of $55m (2019: $95m) which are matched by bank overdrafts of $51m (2019: $87m) 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. Accordingly, bank overdrafts are included within cash and cash equivalents for the purposes of the cash flow statement.

Short-term deposits, money market funds and repurchase agreements are highly liquid investments with an original maturity of three months or less.

At 31 December 2020, $5m (2019: $6m) is restricted for use on capital expenditure under hotel lease agreements and therefore not available for wider use by the Group. An additional $44m (2019: $16m) is held within countries from which funds are not currently able to be repatriated to the Group's central treasury company.

Details of the credit risk on cash and cash equivalents is included in note 24.

20. Trade and other payables

	2020 $m	2019 $m
Current		
Trade payables	80	90
Other tax and social security payable	37	42
Other payables	146	97
Deferred purchase consideration (note 25)	13	–
Contingent purchase consideration (note 25)	–	1
Accruals	190	338
	466	568
Non-current		
Other payables	4	3
Deferred purchase consideration (note 25)	11	23
Contingent purchase consideration (note 25)	79	90
	94	116

Other payables includes $65m relating to the UK portfolio rent (see note 18).

Notes to the Group Financial Statements continued

21. Provisions

	Litigation $m	Insurance reserves $m	Onerous contractual expenditure (note 6) $m	Other $m	Total $m
At 1 January 2019	2	25	–	–	27
Provided, of which $28m is recorded within exceptional items	30	13	–	–	43
Utilised	–	(8)	–	–	(8)
At 31 December 2019	32	30	–	–	62
Reclassification from trade and other payables	**2**	**–**	**–**	**–**	**2**
Provided, of which $10m is recorded within exceptional items	**7**	**13**	**10**	**4**	**34**
Utilised	**(20)**	**(7)**	**(3)**	**–**	**(30)**
Released, of which $9m is recorded within exceptional items	**(9)**	**–**	**–**	**–**	**(9)**
Exchange adjustments	**–**	**–**	**1**	**–**	**1**
At 31 December 2020	**12**	**36**	**8**	**4**	**60**

	2020 $m	2019 $m
Analysed as:		
Current	**16**	40
Non-current	**44**	22
	60	62

Litigation

The litigation provision is principally related to management's best estimate of settlements required in respect of lawsuits filed against the Group in the Americas region. The Group expects the provision to be principally utilised within 12 months. There are certain claims that the Group will be able to pursue in relation to these matters, although it is not practicable to quantify the amounts at this point in time.

In 2019, amounts were provided primarily representing management's best estimate of settlement in respect of a lawsuit filed against the Group in the Americas region, together with the cost of an arbitration award against the Group in the EMEAA region. The amounts utilised in 2020 principally reflect the final resolution of these matters.

The amount released in the year principally relates to the lawsuit within the Americas region (see above) as the Group was able to enforce certain indemnities such that the Group did not have to settle the full amount which had been provided.

Insurance reserves

The Group self-insures certain risks relating to its corporate operations and owned and leased properties, and also acts as third-party insurer for certain risks of its managed hotels. The insurance reserves held mainly relate to general liability, workers compensation, US medical and employment practices liability insurances. The amounts are based on reserves held principally in the Group's Captive insurance company, and are established using independent actuarial assessments wherever possible, or a reasonable assessment based on past claims experience.

Over and above the actuarially determined reserves, the Group is potentially exposed to claims with individual caps which do not exceed $4m for periods prior to 2011 and up to $40m in aggregate for periods since 2011, noting that actual claims did not differ significantly to estimates in 2020 or 2019.

Amounts utilised within the reserves are paid to a third-party insurer for subsequent settlement with the claimant. In order to protect the third-party insurer against the solvency risk of the Captive, the Group has outstanding letters of credit (see note 31).

In respect of the managed hotels, the Group received insurance premiums of $19m (2019: $19m, 2018: $11m) and incurred claims expense of $16m (2019: $18m, 2018: $10m). Insurance premiums earned are included in Central revenue.

Other

Includes dilapidations provisions and is expected to be utilised over a two to three-year period.

22. Loans and other borrowings

	2020 Current $m	2020 Non-current $m	2020 Total $m	2019 Current $m	2019 Non-current $m	2019 Total $m
Unsecured bank loans	–	–	–	–	125	125
£173m 3.875% bonds 2022	–	235	235	–	528	528
€500m 1.625% bonds 2024	–	611	611	–	–	–
£300m 3.75% bonds 2025	–	413	413	–	399	399
£350m 2.125% bonds 2026	–	479	479	–	462	462
€500m 2.125% bonds 2027	–	618	618	–	564	564
£400m 3.375% bonds 2028	–	542	542	–	–	–
Commercial paper	818	–	818	–	–	–
	818	2,898	3,716	–	2,078	2,078
Bank overdrafts	51	–	51	87	–	87
Total loans and other borrowings	869	2,898	3,767	87	2,078	2,165
Denominated in the following currencies:						
Sterling	821	1,669	2,490	2	1,389	1,391
US dollars	31	–	31	82	125	207
Euros	13	1,229	1,242	1	564	565
Other	4	–	4	2	–	2
	869	2,898	3,767	87	2,078	2,165

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 revolving credit facility and the Bilateral Facility comprises a $75m revolving credit facility. During 2020, the maturities of both facilities have been extended for 18 months to September 2023. The covenant tests have been waived or amended as detailed in note 24.

The Bilateral Facility contains the same terms and covenants as the Syndicated Facility (see note 24).

A variable rate of interest is payable on amounts drawn under both facilities, which were undrawn at 31 December 2020. The maximum amount drawn under the combined facilities during the year was $690m (2019: $475m).

£173m 3.875% bonds 2022
£400m 3.875% fixed interest sterling bonds were issued on 28 November 2012. On 8 October 2020 £227m were repurchased at 104.4% of face value. The premium on repayment and associated write-off of fees and discount totalling $14m are classified as exceptional costs due to their size and nature (see note 6). The remaining bonds 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.

€500m 1.625% bonds 2024
The 1.625% fixed interest euro bonds were issued on 8 October 2020 and are repayable in full on 8 October 2024. Interest is payable annually on 8 October. The bonds were initially priced at 99.563% 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 24).

£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 24).

£400m 3.375% bonds 2028
The 3.375% fixed interest sterling bonds were issued on 8 October 2020 and are repayable in full on 8 October 2028. Interest is payable annually on 8 October. The bonds were initially priced at 98.966% of face value and are unsecured.

Commercial paper
The Group issued £600m under the UK Government's Covid Corporate Financing Facility ('CCFF'), maturing on 16 March 2021. The paper was priced at 99.556% of face value and is unsecured.

Bank overdrafts
Bank overdrafts are matched by equivalent amounts of cash and cash equivalents under the Group's cash pooling arrangements (see note 19).

Notes to the Group Financial Statements continued

22. Loans and other borrowings continued

Facilities provided by banks

	2020 Utilised $m	2020 Unutilised $m	2020 Total $m	2019 Utilised $m	2019 Unutilised $m	2019 Total $m
Committed	–	1,350	1,350	125	1,225	1,350
Uncommitted	–	50	50	–	54	54
	–	1,400	1,400	125	1,279	1,404

	2020 $m	2019 $m
Expiry of unutilised facilities		
Within one year	50	54
After two but before five years	1,350	1,225
	1,400	1,279

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

23. Net debt

		2020 $m	2019 $m
Cash and cash equivalents		1,675	195
Loans and other borrowings	– current	(869)	(87)
	– non-current	(2,898)	(2,078)
Lease liabilities	– current	(34)	(65)
	– non-current	(416)	(595)
	– classified as held for sale (note 12)	–	(20)
Derivative financial instruments hedging debt values (note 24)		13	(15)
Net debt		(2,529)	(2,665)

	2020 $m	2019 $m
Movement in net debt		
Net increase/(decrease) in cash and cash equivalents, net of overdrafts	1,430	(500)
Add back financing cash flows in respect of other components of net debt:		
Principal element of lease payments	65	59
Issue of long-term bonds, including effect of currency swaps	(1,093)	–
Issue of commercial paper	(738)	–
Repayment of long-term bonds	290	–
Decrease/(increase) in other borrowings	125	(127)
Decrease/(increase) in net debt arising from cash flows	79	(568)
Other movements:		
Lease liabilities	144	(43)
Increase in accrued interest	(5)	(7)
Acquisitions and disposals	19	(25)
Exchange and other adjustments	(101)	(57)
Decrease/(increase) in net debt	136	(700)
Net debt at beginning of the year	(2,665)	(1,965)
Net debt at end of the year	(2,529)	(2,665)

Information concerning Non-GAAP measures can be found in the Strategic Report on pages 47 to 51.

Net debt on a frozen GAAP basis as calculated for bank covenants was $2,375m (2019: $2,241m). Further details are provided on page 181.

23. Net debt continued

Loans and other borrowings (excluding bank overdrafts), lease liabilities, 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 2020 $m	Financing cash flows $m	Exchange adjustments $m	Disposal $m	Other[a] $m	At 31 December 2020 $m
Unsecured bank loans	125	(125)	–	–	–	–
Lease liabilities	680	(65)	(2)	(19)	(144)	450
£173m 3.875% bonds 2022	528	(290)	–	–	(3)	235
€500m 1.625% bonds 2024	–	585	26	–	–	611
£300m 3.75% bonds 2025	399	–	13	–	1	413
£350m 2.125% bonds 2026	462	–	16	–	1	479
€500m 2.125% bonds 2027	564	–	53	–	1	618
£400m 3.375% bonds 2028	–	511	29	–	2	542
Commercial paper	–	738	78	–	2	818
	2,758	1,354	213	(19)	(140)	4,166
Currency swaps (exchange of principal)	20	(3)	–	–	–	17
Currency swaps (initial fee received)	–	3	–	–	(3)	–
	2,778	1,354	213	(19)	(143)	4,183

[a] Includes $90m lease termination relating to InterContinental San Juan (see note 6).

	At 1 January 2019 $m	Financing cash flows $m	Exchange adjustments $m	Acquisition of businesses $m	Other $m	At 31 December 2019 $m
Unsecured bank loans	–	127	(2)	–	–	125
Lease liabilities	670	(59)	1	25	43	680
£400m 3.875% bonds 2022	509	–	18	–	1	528
£300m 3.75% bonds 2025	385	–	13	–	1	399
£350m 2.125% bonds 2026	447	–	15	–	–	462
€500m 2.125% bonds 2027	569	–	(12)	–	7	564
	2,580	68	33	25	52	2,758
Currency swaps	(7)	–	–	–	27	20
	2,573	68	33	25	79	2,778

24. Financial risk management and derivative financial instruments

Overview

The Group is exposed to financial risks that arise in relation to underlying business activities. These risks include: market 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

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises: foreign exchange risk and interest rate risk. Financial instruments affected by market risk include loans and other borrowings, cash and cash equivalents, debt and equity investments and derivatives.

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 or loss, 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 sterling and euros. The Group holds its bond debt in sterling which is the primary currency of shareholder returns. US dollars are also borrowed to reflect the predominant trading currency and act as a net investment hedge of US dollar denominated assets.

The Group transacted currency swaps at the same time as the €500m 2.125% 2027 and €500m 1.625% 2024 bonds were issued in November 2018 and October 2020 in order to swap the bonds' proceeds and interest flows into sterling (see page 180).

From time to time, the Group hedges a portion of forecast foreign currency income by taking out forward exchange contracts. There were no such contracts in place at either 31 December 2020 or 31 December 2019.

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 2020 (2019: 94%).

If required, the Group uses interest rate swaps to manage interest rate risk. The Group designates interest rate swaps as cash flow hedges. No interest rate swaps were used to manage interest rate exposure during 2020, 2019, or 2018.

Notes to the Group Financial Statements continued

24. Financial risk management and derivative financial instruments continued

Derivative financial instruments

Derivatives are recorded in the Group statement of financial position at fair value (see note 25) as follows:

Description	Hedge relationship	2020 $m	2019 $m
Put option	None	4	–
Currency swaps	Cash flow hedge	(17)	(20)
Short-dated foreign exchange swaps	Net investment hedge	–	1
		(13)	(19)

	2020 $m	2019 $m
Analysed as:		
Non-current assets	5	–
Current assets	–	1
Non-current liabilities	(18)	(20)
	(13)	(19)

The carrying amount of currency swaps of $(17)m (2019: $(20)m) comprises $13m gain (2019: $15m loss) relating to exchange movements on the underlying principal, included within net debt (see note 23), and $30m loss (2019: $5m loss) relating to other fair value movements.

Details of the credit risk on derivative financial instruments are included on page 183.

Cash flow hedges

Currency swaps have been transacted to swap the proceeds from the euro bonds to sterling as follows:

Date of designation	Pay leg	Interest rate	Receive leg	Interest rate	Maturity	Risk	Hedge type	Hedged item
November 2018	£436m	3.5%	€500m	2.125%	May 2027	Foreign exchange	Cash flow	€500m 2.125% bonds 2027
October 2020	£454m	2.7%	€500m	1.625%	October 2024	Foreign exchange	Cash flow	€500m 1.625% bonds 2024

Hedge ineffectiveness arises where the cumulative changes in the fair value of the swaps exceed the change in the fair value of the bonds.

The change in the fair value of hedging instruments used to measure hedge ineffectiveness in the period mirrors that of the hypothetical derivative (hedged item) and was $7m (2019: $30m).

Hedge ineffectiveness may occur due to any opening fair value of the hedging instrument, or a change in the credit risk of the Group or counterparty. There was no ineffectiveness in 2020 or 2019.

Amounts recognised in the cash flow hedging reserve are analysed in note 29.

Net investment hedges

The Group designates the following as net investment hedges of its foreign operations, being the net assets of certain Group subsidiaries with a US dollar functional currency:

- Borrowings under the Syndicated and Bilateral Facilities; and
- Short-dated foreign exchange swaps.

The designated risk is the spot foreign exchange risk and interest on these financial instruments is taken through financial income or expense.

Short-dated foreign exchange swaps are used to manage sterling surplus cash and reduce US dollar borrowings whilst maintaining operational flexibility. The maximum amount held during the year as net investment hedges and tested for effectiveness at calendar quarter ends were short-dated foreign exchange swaps with principals of $nil (2019: $100m).

There is an economic relationship between the hedged item and the hedging instrument as the net investment creates a foreign exchange risk that will match the foreign exchange risk on the US dollar borrowing. The Group has established a hedge ratio of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component.

The change in value of hedging instruments recognised in the currency translation reserve through other comprehensive income was $1m loss (2019: $2m loss). There was no ineffectiveness recognised in the Group income statement during the current or prior year.

24. Financial risk management and derivative financial instruments 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 (loss)/profit before tax and net liabilities, and the impact of a rise in US dollar, euro and sterling interest rates on the Group's (loss)/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.

		2020 $m	2019 $m	2018 $m
Increase/(decrease) in profit before tax				
Sterling: US dollar exchange rate	5¢ fall	**5.9**	4.0	4.1
Euro: US dollar exchange rate	5¢ fall	**0.3**	(2.6)	(2.4)
US dollar interest rates	1% increase	**2.2**	(1.6)	(0.9)
Sterling interest rates	1% increase	**12.9**	0.6	5.5
Decrease/(increase) in net liabilities				
Sterling: US dollar exchange rate	5¢ fall	**30.2**	39.9	25.9
Euro: US dollar exchange rate	5¢ fall	**50.6**	24.1	23.8
Sterling: euro exchange rate	5¢ fall	**68.2**	33.0	31.9

In 2020, interest rate sensitivity relates to cash balances and would only be realised to the extent deposit rates increase by 1%.

Interest rate sensitivities include the impact of hedging and are calculated based on the year-end net debt position.

Liquidity risk

Group policy ensures sufficient liquidity is maintained to meet all foreseeable medium-term cash requirements and provide headroom against unforeseen obligations. The Group has taken steps to strengthen its liquidity in the year (see page 133).

Cash and cash equivalents are 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 $44m (2019: $16m) is held in countries where repatriation is restricted (see note 19).

Medium and long-term borrowing requirements are met through committed bank facilities and bonds as detailed in note 22. Short-term borrowing requirements may be met from drawings under uncommitted overdrafts and facilities, and are currently met by commercial paper issued under the CCFF.

The Syndicated and Bilateral Facilities contain two financial covenants: interest cover and a leverage ratio. Covenants are monitored on a 'frozen GAAP' basis excluding the impact of IFRS 16 and are tested at half year and full year on a trailing 12-month basis.

The interest cover covenant requires a ratio of Covenant EBITDA:Covenant interest payable above 3.5:1 and the leverage ratio requires Covenant net debt:Covenant EBITDA of below 3.5:1. Covenant EBITDA is calculated (on a frozen GAAP basis) as operating profit before exceptional items, depreciation and amortisation and System Fund revenues and expenses.

These covenants have been waived from 30 June 2020 through 31 December 2021 and have been relaxed for test dates in 2022. A minimum liquidity covenant of $400m has been introduced which will be tested at each test date up to and including 31 December 2022. For covenant purposes, liquidity is defined as unrestricted cash and cash equivalents (net of bank overdrafts) plus undrawn facilities with a remaining term of at least six months.

	2019 and prior	30 June 2020 to 31 December 2021	30 June 2022	31 December 2022	30 June 2023
Amended covenant test levels for Syndicated and Bilateral Facilities					
Leverage	<3.5x	waived	<7.5x	<6.5x	<3.5x
Interest cover	>3.5x	waived	>1.5x	>2.0x	>3.5x
Liquidity	n/a	$400m	$400m	$400m	n/a

The following table details performance against covenant tests. The measures used in these tests are calculated on a frozen GAAP basis and do not align to the values reported by the Group as Non-GAAP measures:

	2020 $m	2019 $m
Covenant EBITDA	**272**	897
Covenant net debt	**2,375**	2,241
Covenant interest payable	**111**	99
Leverage	**8.73**	2.50
Interest cover	**2.45**	9.06
Liquidity	**2,925**	n/a

The interest margin payable on the Syndicated and Bilateral Facilities is linked to the leverage ratio and can vary between LIBOR + 0.90% and LIBOR + 2.75%.

Notes to the Group Financial Statements continued

24. Financial risk management and derivative financial instruments continued

The following are the undiscounted contractual cash flows of financial liabilities, including interest payments. Liabilities relating to the Group's deferred compensation plan are excluded; their settlement is funded entirely by the realisation of the related deferred compensation plan investments and no net cash flow arises. The payment profile of contingent purchase 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 2020					
Non-derivative financial liabilities:					
Bank overdrafts	51	–	–	–	51
£173m 3.875% bonds 2022	9	245	–	–	254
€500m 1.625% bonds 2024	10	10	634	–	654
£300m 3.75% bonds 2025	15	15	456	–	486
£350m 2.125% bonds 2026	10	10	31	488	539
€500m 2.125% bonds 2027	13	13	39	640	705
£400m 3.375% bonds 2028	19	18	55	601	693
Commercial paper	819	–	–	–	819
Lease liabilities	57	55	136	3,257	3,505
Trade and other payables (excluding deferred and contingent purchase consideration)	453	2	1	1	457
Deferred and contingent purchase consideration	13	5	13	81	112
Derivative financial liabilities:					
Currency swaps hedging €500m 1.625% bonds 2024 outflows	16	16	652	–	684
Currency swaps hedging €500m 1.625% bonds 2024 inflows	(10)	(10)	(634)	–	(654)
Currency swaps hedging €500m 2.125% bonds 2027 outflows	21	21	63	627	732
Currency swaps hedging €500m 2.125% bonds 2027 inflows	(13)	(13)	(39)	(640)	(705)

	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 2019					
Non-derivative financial liabilities:					
Bank overdrafts	87	–	–	–	87
Unsecured bank loans	125	–	–	–	125
£400m 3.875% bonds 2022	21	21	548	–	590
£300m 3.75% bonds 2025	15	15	45	411	486
£350m 2.125% bonds 2026	10	10	29	482	531
€500m 2.125% bonds 2027	12	12	36	597	657
Lease liabilities	97	116	193	3,451	3,857
Trade and other payables (excluding deferred and contingent purchase consideration)	567	1	1	1	570
Deferred and contingent purchase consideration	3	20	19	120	162
Derivative financial liabilities:					
Forward foreign exchange contracts	(1)	–	–	–	(1)
Currency swaps hedging €500m 2.125% bonds 2027 outflows	20	20	61	627	728
Currency swaps hedging €500m 2.125% bonds 2027 inflows	(12)	(12)	(36)	(597)	(657)

24. Financial risk management and derivative financial instruments continued

Credit risk

Credit risk on cash and cash equivalents 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.

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.

Repurchase agreements 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 Group's exposure to credit risk arises from default of the counterparty, with the maximum exposure equal to the carrying amount of each financial asset, including derivative financial instruments. The expected credit loss on cash and cash equivalents is considered to be immaterial.

The table below analyses the Group's short-term deposits, money market funds and repurchase agreement collateral classified as cash and cash equivalents at 31 December 2020 by counterparty credit rating:

	AAA $m	AA $m	AA- $m	A+ $m	A $m	A- $m	Total $m
Short-term deposits	–	–	98	165	94	1	358
Money market funds	892	–	–	–	–	–	892
Repurchase agreement collateral	238	65	18	–	–	–	321

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern. The capital structure consists of net debt, issued share capital and reserves. The structure is managed with the objective of maintaining 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 adjusted EBITDA. The Group has a stated aim of maintaining this ratio at 2.5x to 3.0x. The ratio at 31 December 2020 (which differs from the ratio as calculated on a frozen GAAP basis for covenant tests) was 7.69 (2019: 2.72).

The Group currently has a senior unsecured long-term credit rating of BBB- from Standard and Poor's. In the event this rating was downgraded below BBB- there would be an additional step-up coupon of 1.25% payable on the bonds which would result in additional interest of approximately $36m per year.

Notes to the Group Financial Statements continued

25. Classification and measurement of financial instruments

Accounting classification

	2020 $m	2019 Restated[a] $m
Financial assets		
Financial assets measured at fair value through other comprehensive income:		
Equity securities (note 17)	88	133
Financial assets measured at fair value through profit or loss:		
Money market funds:		
Cash and cash equivalents (note 19)	892	35
Other financial assets (note 17)	15	16
Other financial assets (note 17)	–	3
Derivative financial instruments (note 24)	5	1
Deferred compensation plan investments	236	218
	1,148	273
Financial assets measured at amortised cost:		
Cash and cash equivalents (note 19)	783	160
Other financial assets (note 17)	66	136
Trade and other receivables, excluding prepayments (note 18)	438	552
	1,287	848
Financial liabilities		
Financial liabilities measured at fair value through profit or loss:		
Contingent purchase consideration (note 20)	(79)	(91)
Derivative financial instruments (note 24)	(18)	(20)
Deferred compensation plan liabilities	(236)	(218)
	(333)	(329)
Financial liabilities measured at amortised cost:		
Loans and other borrowings (note 22)	(3,767)	(2,165)
Trade and other payables, excluding deferred and contingent purchase consideration (note 20)	(457)	(570)
Deferred purchase consideration (note 20)	(24)	(23)
	(4,248)	(2,758)

[a] Restated for deferred compensation plan investments, see page 134.

Right of offset

Other than in relation to cash pooling arrangements (see note 19), there are no financial instruments with a significant fair value subject to enforceable master netting arrangements and other similar agreements that are not offset in the Group statement of financial position.

25. Classification and measurement of financial instruments continued

Fair value hierarchy

The following table provides the carrying value, fair value and position in the fair value measurement hierarchy of the Group's financial assets and liabilities. Those measured at amortised cost are only included if their carrying amount is not a reasonable approximation of fair value.

	2020					2019				
		Fair value					Fair value			
	Carrying value $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Carrying value $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets										
Equity securities	**88**	**–**	**–**	**88**	**88**	133	8	–	125	133
Derivative financial instruments	**5**	**–**	**1**	**4**	**5**	1	–	1	–	1
Money market funds	**907**	**907**	**–**	**–**	**907**	51	51	–	–	51
Deferred compensation plan investments	**236**	**236**	**–**	**–**	**236**	218	218	–	–	218
Trade deposits and loans	**–**	**–**	**–**	**–**	**–**	3	–	–	3	3
Liabilities										
Derivative financial instruments	**(18)**	**–**	**(18)**	**–**	**(18)**	(20)	–	(20)	–	(20)
Contingent purchase consideration	**(79)**	**–**	**–**	**(79)**	**(79)**	(91)	–	–	(91)	(91)
Deferred purchase consideration	**(24)**	**(26)**	**–**	**–**	**(26)**	(23)	(24)	–	–	(24)
£173m 3.875% bonds 2022	**(235)**	**(248)**	**–**	**–**	**(248)**	(528)	(567)	–	–	(567)
€500m 1.625% bonds 2024	**(611)**	**(630)**	**–**	**–**	**(630)**	–	–	–	–	–
£300m 3.75% bonds 2025	**(413)**	**(448)**	**–**	**–**	**(448)**	(399)	(435)	–	–	(435)
£350m 2.125% bonds 2026	**(479)**	**(489)**	**–**	**–**	**(489)**	(462)	(465)	–	–	(465)
€500m 2.125% bonds 2027	**(618)**	**(650)**	**–**	**–**	**(650)**	(564)	(601)	–	–	(601)
£400m 3.375% bonds 2028	**(542)**	**(603)**	**–**	**–**	**(603)**	–	–	–	–	–
Deferred compensation plan liabilities	**(236)**	**(236)**	**–**	**–**	**(236)**	(218)	(218)	–	–	(218)

There were no transfers between Level 1 and Level 2 fair value measurements during the year and no transfers out of Level 3. $8m was transferred into Level 3 relating to equity securities listed on quoted markets which are no longer active.

Valuation techniques

Money market funds, deferred compensation plan investments and bonds

The fair value of money market funds, deferred compensation plan investments and bonds is based on their quoted market price.

Unquoted equity shares

Unquoted equity securities are fair valued using a discounted cash flow model, either internally or using professional external valuers. The significant unobservable inputs used to determine the fair value of the equity securities are RevPAR growth (based on the RevPAR recovery assumptions detailed on page 135 or market-specific growth assumptions used by external valuers), pre-tax discount rate (which ranged from 6.4% to 10.0%), and a non-marketability factor (which ranged from 20.0% to 30.0%). In prior years, an average price-earnings (P/E) ratio was applied, however, due to the impact of Covid-19 P/E ratios have increased significantly, resulting in an increased level of uncertainty in the implied valuations and therefore management's view is that an income approach using discounted cash flows gives a more reliable valuation.

Applying a one-year slower/faster RevPAR recovery period would result in a $6m/$8m (decrease)/increase in fair value respectively. A one percentage point increase/(decrease) in the discount rate would result in a $12m/$16m (decrease)/increase in fair value respectively. A five percentage point increase/(decrease) in the non-marketability factor would result in a $5m (2019: $2m) (decrease)/increase in fair value.

Derivative financial instruments

Short-dated foreign exchange swaps 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 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.

The put option over part of the Group's investment in the Barclay associate has been valued as the excess of the amount receivable under the option (which is based on the Group's capital invested to date) over fair value, as calculated for impairment testing using discounted future cash flows as described on page 136.

Deferred purchase consideration

Deferred purchase consideration arose in respect of the acquisition of Regent, and comprises the present value of $13m payable in 2021 and $13m payable in 2024. The discount rate applied is based on observable US corporate bond rates of similar term to the expected payment dates.

Notes to the Group Financial Statements continued

25. Classification and measurement of financial instruments continued

Contingent purchase consideration

Regent $74m (2019: $66m)

Comprises the present value of the expected amounts payable on exercise of the put and call options to acquire the remaining 49% shareholding (see note 11). The amount payable on exercise of the options is based on the annual trailing revenue of RHW in the year preceding exercise, with a floor applied. The options are exercisable in a phased manner from 2026 to 2033. The value of the contingent purchase consideration is subject to periodic reassessment as interest rates and RHW revenue expectations change. At 31 December 2020, it is assumed that $39m will be paid in 2026 to acquire an additional 25% of RHW with the remaining 24% acquired in 2028 for $42m. This assumes that the options will be exercised at the earliest permissible date which is consistent with the assumption made on acquisition. The amount recognised is the discounted value of the total expected amount payable of $81m. The discount rate applied is based on observable US corporate bond rates of similar term to the expected payment dates. The range of possible outcomes remains unchanged from the date of acquisition at $81m to $261m (undiscounted).

The significant unobservable inputs used to determine the fair value of the contingent purchase consideration are the projected trailing revenues of RHW and the date of exercising the options. If the annual trailing revenue of RHW were to exceed the floor by 10%, the amount of the contingent purchase consideration recognised in the Group Financial Statements would increase by $7m (2019: $7m). If the date for exercising the options is assumed to be 2033, the amount of the undiscounted contingent purchase consideration would be $86m (2019: $86m).

UK portfolio $nil (2019: $20m)

The contingent purchase consideration comprises the present value of the above-market element of the expected lease payments to the lessor. The above-market assessment is determined by comparing the expected lease payments as a percentage of forecast hotel operating profit (before depreciation and rent) with market metrics, on a hotel by hotel basis. There is no floor to the amount payable and no maximum amount. Market rents were initially determined with assistance of professional third-party advisers. The fair value is subject to periodic reassessment as interest rates and expected lease payments change.

A fair value adjustment of $21m was recognised in the year, resulting in a reduction to the value of the liability arising mainly from a reduction in expected future rentals payable such that there is no above-market element (see note 6). The fair value is not sensitive to reasonably possible changes in assumptions (see page 135).

Six Senses $5m (2019: $5m)

Currently expected to be paid in 2022, upon certain conditions being met relating to a project to open a pipeline property. If the conditions are not met, no amounts will be paid. The impact of discounting is not material.

Level 3 reconciliation

The following table reconciles the movements in the fair values of financial instruments classified as Level 3 during the year:

	Other financial assets $m	Derivative financial instruments $m	Contingent purchase consideration $m
At 1 January 2019	108	–	(109)
Additions	8	–	–
Acquisition of businesses (note 11)	1	–	(15)
Disposals	(1)	–	–
Valuation gains recognised in other comprehensive income	12	–	–
Contingent purchase consideration paid:			
Included in net cash from operating activities	–	–	6
Included in net cash from investing activities	–	–	2
Change in fair value (of which $38m is recorded within exceptional items)	–	–	27
Exchange and other adjustments	–	–	(2)
At 31 December 2019	128	–	(91)
Additions	**5**	**–**	**–**
Transfers into Level 3	**8**	**–**	**–**
Repayments and disposals	**(5)**	**–**	**–**
Valuation losses recognised in other comprehensive income	**(47)**	**–**	**–**
Change in fair value[a]	**–**	**4**	**13**
Exchange and other adjustments	**(1)**	**–**	**(1)**
At 31 December 2020	**88**	**4**	**(79)**

[a] $21m fair value gain on contingent purchase consideration and $4m gain on derivative financial instruments are recognised as exceptional items in the Group income statement (see note 6). The remaining $8m fair value loss on contingent purchase consideration relates to Regent.

26. Reconciliation of (loss)/profit for the year to cash flow from operations before contract acquisition costs

	2020 $m	2019[a] $m	2018[a] $m
(Loss)/profit for the year	**(260)**	386	350
Adjustments for:			
Net financial expenses	**140**	115	96
Fair value (gains)/losses on contingent purchase consideration	**(13)**	(27)	4
Tax (credit)/charge (note 8)	**(20)**	156	132
Depreciation and amortisation	**110**	116	115
System Fund depreciation and amortisation	**62**	54	49
Impairment loss on financial assets	**88**	8	17
System Fund impairment loss on financial assets	**24**	12	11
Other impairment charges (note 6)	**226**	131	–
System Fund other impairment charges	**41**	–	–
Other operating exceptional items (note 6)	**(4)**	55	104
System Fund other operating exceptional items (note 6)	**20**	28	47
Share of losses of associates and joint ventures	**14**	3	1
System Fund share of losses of associates and joint ventures	**1**	–	–
Share-based payments cost	**32**	42	38
Dividends from associates and joint ventures	**2**	7	5
Decrease in inventories	**1**	–	–
Decrease/(increase) in trade and other receivables	**38**	(70)	(71)
Increase in contract costs	**(2)**	(11)	(3)
Increase in deferred revenue	**1**	57	141
(Decrease)/increase in trade and other payables	**(69)**	(63)	11
Utilisation of provisions, net of charge, excluding exceptional items	**16**	7	(6)
Retirement benefit contributions, net of costs	**(3)**	(3)	(12)
Cash flows relating to exceptional items	**(87)**	(55)	(137)
Contract assets deduction in revenue	**25**	21	19
Other movements in contract assets	**(7)**	(1)	3
Other items	**(4)**	–	–
Total adjustments	**632**	582	564
Cash flow from operations before contract acquisition costs	**372**	968	914

[a] Amended for presentational changes, see page 134.

27. 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 & 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 ('UK plan') 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 Group meets the benefit payment obligations of the remaining members as they fall due. A charge over certain ring-fenced bank accounts totalling $43m (£31m) at 31 December 2020 (see note 17) is currently held as security on behalf of the remaining members.

US

During 2018, 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 Group contribution of $12m, $1.5m of which was subsequently returned to the Group as a 'mistake-in-fact' contribution refund. The net pension settlement cost of $15m was recorded as an exceptional item in 2018.

Notes to the Group Financial Statements continued

27. Retirement benefits continued

The Group continues to maintain the unfunded Inter-Continental Hotels Non-qualified Pension Plans ('US plans') and unfunded Inter-Continental Hotels Corporation Postretirement Medical, Dental, Vision and Death Benefit Plan ('US post-retirement plan'), both of which are defined benefit plans. Both plans are closed to new members. A Retirement Committee, comprising senior Group 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.

	Defined benefit obligation			Fair value of plan assets			Net defined benefit liability/(asset)		
	2020 $m	2019 $m	2018 $m	2020 $m	2019 $m	2018 $m	2020 $m	2019 $m	2018 $m
At 1 January	96	91	250	–	–	(152)	96	91	98
Recognised in profit or loss									
Interest expense/(income)	3	3	6	–	–	(2)	3	3	4
Exceptional item: settlement loss	–	–	14	–	–	1	–	–	15
	3	3	20	–	–	(1)	3	3	19
Recognised in other comprehensive income									
Actuarial loss/(gain) arising from changes in:									
Demographic assumptions	(3)	(1)	–	–	–	–	(3)	(1)	–
Financial assumptions	10	9	(14)	–	–	–	10	9	(14)
Experience adjustments	1	(1)	(3)	–	–	–	1	(1)	(3)
Return on plan assets	–	–	–	–	–	8	–	–	8
Re-measurement loss/(gain)	8	7	(17)	–	–	8	8	7	(9)
Exchange adjustments	2	1	(1)	–	–	–	2	1	(1)
	10	8	(18)	–	–	8	10	8	(10)
Other									
Group contributions	–	–	–	(6)	(6)	(16)	(6)	(6)	(16)
Benefits paid	(6)	(6)	(11)	6	6	11	–	–	–
Settlement payments	–	–	(150)	–	–	150	–	–	–
	(6)	(6)	(161)	–	–	145	(6)	(6)	(16)
At 31 December	103	96	91	–	–	–	103	96	91
Comprising:									
UK unfunded plan	31	26	24	–	–	–	31	26	24
US unfunded plans	50	48	45	–	–	–	50	48	45
US unfunded post-retirement plans	22	22	22	–	–	–	22	22	22
	103	96	91	–	–	–	103	96	91

	Defined benefit obligation			Fair value of plan assets			Net defined benefit liability/(asset)		
	2020 $m	2019 $m	2018 $m	2020 $m	2019 $m	2018 $m	2020 $m	2019 $m	2018 $m
Movement in asset restriction									
At 1 January	–	–	–	–	–	3	–	–	3
Recognised in other comprehensive income	–	–	–	–	–	(3)	–	–	(3)
At 31 December	–	–	–	–	–	–	–	–	–

For the year ended 31 December 2018, the total amount of re-measurement gains and losses recorded in other comprehensive income, including the movement in the asset restriction, was a gain of $12m.

27. Retirement benefits continued

Assumptions

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

	2020 %	2019 %	2018 %
UK plan only:			
Pension increases	**3.0**	2.7	3.2
Inflation rate	**3.0**	2.7	3.2
Discount rate:			
UK plan	**1.4**	2.1	3.0
US plans	**1.9**	2.9	3.9
US post-retirement plan	**2.0**	2.9	4.0
US healthcare cost trend rate assumed for the next year:			
Pre-65 (ultimate rate reached in 2029)	**6.4**	6.7	7.1
Post-65 (ultimate rate reached in 2029)	**6.8**	7.1	7.6
Ultimate rate that the cost 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 S3PA 'light' year of birth tables with projected mortality improvements using the CMI_2019 model and a 1.25% per annum long-term trend and a smoothing parameter ('s-kappa') of 7.5 with weightings of 95% and 82% for pensioners and 98% and 81% for non-pensioners, male and female respectively. In the US, the current assumptions use rates from the Pri-2012 Mortality Study and Generationally Projected with Scale MP-2020 mortality tables.

The assumptions used for life expectancy at retirement age are as follows:

				UK			US
		2020 Years	2019 Years	2018 Years	2020 Years	2019 Years	2018 Years
Current pensioners at 65[a]	– male	**24**	24	24	**22**	21	21
	– female	**26**	26	26	**23**	23	23
Future pensioners at 65[b]	– male	**25**	25	25	**23**	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 2040.

The assumptions allow for expected increases in longevity.

Notes to the Group Financial Statements continued

27. Retirement benefits continued

Sensitivities

Changes in assumptions used for determining retirement benefit costs and obligations may have an impact on the Group income statement and the Group statement of financial position. The key assumptions are the discount rate, the rate of inflation, the assumed mortality rate and the healthcare costs trend rate. The sensitivity analysis below relates to the benefit obligation and is based on extrapolating reasonable changes in these assumptions, using year-end conditions and assuming no interdependency between the assumptions:

		$m
Increase/(decrease) in liabilities		
Discount rate	0.25% decrease	**3.2**
	0.25% increase	**(3.2)**
Inflation rate	0.25% decrease	**(1.4)**
	0.25% increase	**1.4**
Mortality rate	One-year increase	**5.7**
Healthcare costs trend rate	1% decrease	**(1.6)**
	1% increase	**1.7**

Future payments

Group payments are expected to be $6m in 2021.

The estimated future benefit payments are:

	2020 $m	2019 $m
Within one year	**6**	6
Between one and five years	**22**	22
More than five years	**101**	107
	129	135

Average duration

The average duration of the pensions obligations is:

	2020 Years	2019 Years
UK plan	**19.0**	18.0
US plans	**9.3**	9.3
US post-retirement plan	**9.9**	9.8

28. 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 average of the middle market quoted prices on the three consecutive business days following the announcement of the Group's results for the relevant financial year. A number of executives participated in the APP during the year and conditional rights over 138,268 (2019: 217,122, 2018: 175,944) shares were awarded to participants. In 2020, this number included 27,245 (2019: 86,126, 2018: 48,771) shares awarded as part of recruitment terms or for one-off individual awards.

The APP plan rules were approved by shareholders at the 2014 AGM.

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. In addition, certain awards to Executive Directors are subject to a further two-year holding period after vesting.

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 3.5 times salary for eligible employees. The LTIP provides for the grant of 'nil cost options' to participants as an alternative to conditional share awards. During the year, conditional rights over 1,078,752 (2019: 826,313, 2018: 784,119) shares were awarded to employees under the plan, comprising 382,658 (2019: 286,746, 2018: 257,240) performance-related awards and 696,094 (2019: 539,567, 2018: 526,879) restricted stock units.

The LTIP plan rules were first approved by shareholders at the 2014 AGM and were most recently amended and approved by shareholders at the 2020 AGM.

Colleague Share Plan

The Colleague Share Plan gives eligible corporate employees the opportunity to purchase shares up to an annual limit of $1,000 (or local currency equivalent limit) or such other amount determined by the Board or its duly authorised committee. After the end of the plan year, the participant will be awarded the right to receive one matching share for every purchased share (subject to continued employment). If the participant holds the purchased shares until the second anniversary of the end of the plan year, the conditional right to matching shares vests. During the year, 36,298 (2019: nil, 2018: nil) shares were purchased by participating employees. Matching shares will be awarded for the first cycle in 2021 and will vest after 12 months.

More detailed information on the performance measures for awards to Executive Directors is shown in the Directors' Remuneration Report on pages 96 to 111.

Notes to the Group Financial Statements continued

28. Share-based payments continued

The Group recognised a cost of $19m (2019: $28m, 2018: $27m) in operating (loss)/profit and $nil (2019: $1m, 2018: $1m) within exceptional administrative expenses related to equity-settled share-based payment transactions during the year, net of $11m (2019: $12m, 2018: $11m) borne by the System Fund. The Group also recognised a cost of $2m (2019: $2m, 2018: $nil) in operating (loss)/profit related to cash-settled share-based payment transactions.

No consideration was received in respect of ordinary shares issued under option schemes during 2020, 2019 or 2018.

The Group uses separate option pricing models and assumptions depending on the plan. The following table sets out information about awards granted in 2020, 2019 and 2018 under the APP and LTIP. The total fair value of the Colleague Share Plan is not significant.

	APP			LTIP		
	Binomial valuation model			Monte Carlo Simulation and Binomial valuation model		
	2020	2019	2018	**2020**	2019	2018
Weighted average share price (pence)	**3,771.0**	4,597.0	4,645.0	**3,450.0**	4,850.0	4,774.0
Expected dividend yield	**n/a**	n/a	n/a	**1.48%**	2.16%	2.27%
Risk-free interest rate				**0.02%**	0.72%	0.84%
Volatility[a]				**33%**	19%	25%
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 2018	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
Granted	217	287	540
Vested	(276)	(293)	(422)
Share capital consolidation	(21)	–	–
Lapsed or cancelled	(15)	(387)	(144)
Outstanding at 31 December 2019	496	695	1,275
Granted	**138**	**383**	**696**
Vested	**(188)**	**(179)**	**(413)**
Lapsed or cancelled	**(33)**	**(85)**	**(137)**
Outstanding at 31 December 2020	**413**	**814**	**1,421**
Fair value of awards granted during the year (cents)			
2020	**4,965.9**	**2,473.5**	**4,397.5**
2019	5,888.7	4,985.6	5,862.1
2018	6,066.2	4,748.7	5,966.0
Weighted average remaining contract life (years)			
At 31 December 2020	**1.0**	**1.4**	**1.3**
At 31 December 2019	1.1	1.3	1.2
At 31 December 2018	1.0	0.8	1.2

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 4,874.5p (2019: 4,584.8p). The closing share price on 31 December 2020 was 4,690.0p and the range during the year was 2,385.5p to 5,223.0p.

29. 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 2018 (ordinary shares of $19\frac{17}{21}$p each)	197	53	101	154
Exchange adjustments	–	(3)	(5)	(8)
At 31 December 2018 (ordinary shares of $19\frac{17}{21}$p each)	197	50	96	146
Share capital consolidation	(10)	–	–	–
Exchange adjustments	–	2	3	5
At 31 December 2019 (ordinary shares of $20\frac{340}{399}$p each)	187	52	99	151
Exchange adjustments	**–**	**1**	**4**	**5**
At 31 December 2020 (ordinary shares of $20\frac{340}{399}$p each)	**187**	**53**	**103**	**156**

The authority given to the Company at the AGM held on 7 May 2020 to purchase its own shares was still valid at 31 December 2020. A resolution to renew the authority will be put to shareholders at the AGM on 7 May 2021.

The Company no longer has an authorised share capital.

In October 2018, the Group announced a $500m return of funds to shareholders by way of a special dividend and share consolidation. On 11 January 2019, shareholders approved the share consolidation on the basis of 19 new ordinary shares of $20\frac{340}{399}$p per share for every 20 existing ordinary shares of $19\frac{17}{21}$p, 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 previously reported earnings per share has not been restated.

At 31 December 2020, 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 $20\frac{340}{399}$p 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 128 to 130 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 $1.4m (2019: $4.9m, 2018: $3.6m) in respect of 0.05m (2019: 0.1m, 2018: 0.2m) InterContinental Hotels Group PLC ordinary shares held by employee share trusts, with a market value at 31 December 2020 of $3.1m (2019: $9.6m, 2018: $8.3m).

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. The revaluation reserve relates to the previous revaluations of property, plant and equipment which were included at deemed cost on adoption of IFRS. 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 through other comprehensive income.

Notes to the Group Financial Statements continued

29. Equity continued

Cash flow hedging reserve

	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)
Costs of hedging deferred and recognised in other comprehensive income	–	(6)	(6)
Change in fair value of currency swaps recognised in other comprehensive income	(34)	–	(34)
Reclassified from other comprehensive income to profit or loss – included in financial expenses	38	–	38
At 31 December 2019	1	(7)	(6)
Costs of hedging deferred and recognised in other comprehensive income	**–**	**(6)**	**(6)**
Change in fair value of currency swaps recognised in other comprehensive income	**(1)**	**–**	**(1)**
Reclassified from other comprehensive income to profit or loss – included in financial expenses	**(13)**	**–**	**(13)**
Deferred tax	**4**	**–**	**4**
Exchange adjustments	**(2)**	**–**	**(2)**
At 31 December 2020	**(11)**	**(13)**	**(24)**

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.

Costs of hedging reflects the gain or loss which is excluded from the designated hedging instrument relating to 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 $9m (2019: $8m) net interest payable on the currency swaps and an exchange gain of $22m (2019: $30m loss) which offsets a corresponding loss/gain on the €500m 2.125% bonds and €500m 1.625% bonds (2019: €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 financial instruments that provide a hedge against net investments in foreign operations. On adoption of IFRS, cumulative exchange differences were deemed to be $nil.

The fair value of derivative financial instruments designated as hedges of net investments in foreign operations outstanding at 31 December 2020 was $nil (2019: $1m asset, 2018: $1m asset).

Treasury shares

During 2020, 0.6m (2019: 0.8m, 2018: 0.8m) treasury shares were transferred to the employee share trusts. As a result of the 2019 share consolidation, the number of shares held in treasury reduced by 0.3m during 2019. At 31 December 2020, 5.1m shares (2019: 5.7m, 2018: 6.8m) with a nominal value of $1.4m (2019: $1.6m, 2018: $1.7m) 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.

30. Capital and other commitments

	2020 $m	2019 $m
Contracts placed for expenditure not provided for in the Group Financial Statements		
Property, plant and equipment	**17**	52
Intangible assets	**2**	7
	19	59

The Group has also committed to invest a further $6m (2019: $6m) in one of its associates.

31. 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.

The Group may 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 inquiries received and class action filings to date, other than described 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, with one subsequently withdrawn in 2018. Settlement in respect of one lawsuit was agreed in 2019, and a further lawsuit was settled on 2 September 2020. Both of these settlements are expected to be paid under the Group's insurance programmes.

The fourth lawsuit remains open. The claimant alleges that security failures allowed customers' financial information to be compromised. 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 separate claim was filed in 2019 against Kimpton. The allegations relate to a breach of the reservation system previously used by Kimpton. 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.

Litigation

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. These legal claims and proceedings are in various stages and include disputes related to specific hotels where the potential materiality is not yet known; 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.

Two claims were filed on 19 March 2018 and 6 December 2018 against the Group and other hotel companies, alleging violations of anti-trust regulations. One of the matters is a class action, and both suits allege that the defendant hotel companies conspired to eliminate competitive branded keyword search advertising in the hotel industry, which allegedly raised prices for hotel rooms in violation of applicable law. The Group disputes the allegations. 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.

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 Group Financial Statements (see note 21), 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.

Third-party bank loans

In limited cases, the Group may guarantee part of mortgage loans made to facilitate third-party ownership of hotels under IHG management or franchise agreements. These guarantee arrangements are treated as insurance contracts as IHG is insuring the bank against default by the hotel, with a liability only being recognised in the event that a payout becomes probable. At 31 December 2020, there were guarantees of up to $56m in place (2019: $55m). During 2020, the underlying mortgage loans have been subject to periods of forbearance, deferring debt service payments; and/or, in the case of several loans, have been modified to be interest only through a given time period.

The largest guarantee is $21m; the underlying managed hotel is temporarily closed and is currently subject to a principal and interest forbearance agreement. Although an entity of the Group is severally liable for this amount, there is a cross-indemnity that the Group would seek to pursue for the other partners' share of any amount funded under the guarantee.

Other

At 31 December 2020, the Group had outstanding letters of credit of $43m (2019: $33m) mainly relating to the Group's Captive (see note 21). The letters of credit do not have set expiry dates, but are reviewed and amended as required.

The Group has made business insurance claims in relation to a small number of owned, leased and managed properties relating to the impact of Covid-19. It is not currently possible to determine the amounts which may be recovered.

Notes to the Group Financial Statements continued

32. Related party disclosures

	2020 $m	2019 $m	2018 $m
Total compensation of key management personnel			
Short-term employment benefits	**10.5**	15.8	18.2
Contributions to defined contribution pension plans	**0.3**	0.5	0.5
Equity compensation benefits[a]	**2.3**	12.1	13.0
	13.1	28.4	31.7

[a] As measured in accordance with IFRS 2.

There were no other transactions with key management personnel during the years ended 31 December 2020, 2019 or 2018. Key management personnel comprises the Board and Executive Committee.

Related party disclosures for associates and joint ventures are as follows:

	Associates			Joint ventures			Total		
	2020 $m	2019 $m	2018 $m	2020 $m	2019 $m	2018 $m	2020 $m	2019 $m	2018 $m
Revenue from associates and joint ventures	**1**	10	9	**–**	–	1	**1**	10	10
Other amounts owed by associates and joint ventures	**11**	3	1	**–**	–	–	**11**	3	1
Amounts owed to associates and joint ventures	**(4)**	(4)	(2)	**–**	–	–	**(4)**	(4)	(2)

The Group has provided a guarantee of $12m (2019: $12m) against the bank loan of one associate (see note 31) and has provided performance guarantees with a maximum pay-out remaining of $10m (2019: $10m) (see note 3).

The Group funds shortfalls in owner returns relating to the Barclay associate (see note 17). In addition, loans both to and from the Barclay associate of $237m (2019: $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 0.8% in 2020 (2019: 2.1%)) and presented net in the Group income statement.

33. System Fund

System Fund revenues comprise:

	2020 $m	2019 $m	2018 $m
Assessment fees and contributions received from hotels	**490**	1,036	979
Loyalty programme revenues, net of the cost of point redemptions	**275**	337	254
	765	1,373	1,233

System Fund expenses include:

	2020 $m	2019 $m	2018 $m
Marketing	**109**	461	427
Payroll costs (note 4)	**242**	313	347
Depreciation and amortisation	**62**	54	49
Impairment loss on financial assets (note 18)	**24**	12	11
Other impairment charges	**41**	–	–

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 2020 are disclosed below. Unless otherwise stated, the ownership interest disclosed comprises either ordinary shares, certificated or un-certificated membership interests which are indirectly held by InterContinental Hotels Group PLC.

Fully owned subsidiaries

24th Street Operator Sub, LLC (k)
36th Street IHG Sub, LLC (k)
426 Main Ave LLC (k)
46 Nevins Street Associates, LLC (k)
2250 Blake Street Hotel, LLC (k)
Allegro Management LLC (k)
Alpha Kimball Hotel LLC (k)
American Commonwealth Assurance Co. Ltd. (m)
Asia Pacific Holdings Limited (n)
Barclay Operating Corp. (cj)
BHMC Canada Inc. (o)
BHR Holdings B.V. (p)
BHR Pacific Holdings, Inc. (k)
BHTC Canada Inc. (o)
Blythswood Square Glasgow Hotel OpCo Ltd (n)
BOC Barclay Sub LLC (cj)
Bristol Oakbrook Tenant Company (k)
Cambridge Lodging LLC (k)
Capital Lodging LLC (k)
CF Irving Owner, LLC (k)
CF McKinney Owner, LLC (k)
CF Waco Owner, LLC (k)
Compañía Inter-Continental De Hoteles El Salvador SA (n)
Crowne Plaza LLC (k)
Cumberland Akers Hotel LLC (k)
Dunwoody Operations, Inc. (k)
Edinburgh George Street Hotel OpCo Ltd (n)
Edinburgh IC Limited (cr)
EVEN Real Estate Holding LLC (k)
General Innkeeping Acceptance Corporation (b) (l)
Grand Central Glasgow Hotel OpCo Limited (n)
Guangzhou SC Hotels Services Ltd. (t)
H.I. (Ireland) Limited (u)
H.I. Soaltee Management Company Ltd (ac)
HI Sugarloaf, LLC (ci)
Hale International Ltd. (ct)
HC International Holdings, Inc. (w)
HH France Holdings SAS (x)
HH Hotels (EMEA) B.V. (p)
HH Hotels (Romania) SRL (y)
HIM (Aruba) NV (z)
Hoft Properties LLC (k)
Holiday Hospitality Franchising, LLC (k)
Holiday Inn Mexicana S.A. de C.V. (ab)
Holiday Inns (China) Ltd (ac)
Holiday Inns (Courtalin) Holding (x)
Holiday Inns (Courtalin) SAS (x)
Holiday Inns (England) Limited (n)
Holiday Inns (Germany), LLC (l)
Holiday Inns (Jamaica) Inc. (l)
Holiday Inns (Middle East) Limited (ac)
Holiday Inns (Philippines), Inc. (l)
Holiday Inns (Saudi Arabia), Inc. (l)
Holiday Inns (Thailand) Ltd. (ac)
Holiday Inns (UK), Inc. (l)
Holiday Inns Crowne Plaza (Hong Kong), Inc. (l)
Holiday Inns Holdings (Australia) Pty Ltd (aa)
Holiday Inns Inc. (k)
Holiday Inns Investment (Nepal) Ltd. (ac)
Holiday Inns of America (UK) Limited (n)
Holiday Inns of Belgium N.V. (ad)
Holiday Pacific Equity Corporation (k)
Holiday Pacific LLC (k)
Holiday Pacific Partners, LP (k)
Hotel InterContinental London (Holdings) Limited (n)
Hotel Inter-Continental London Limited (n)
Hoteles Y Turismo HIH SRL (n)
IC Hotelbetriebsfuhrungs GmbH (ae)
IC Hotels Management (Portugal) Unipessoal, Lda (af)
IC International Hotels Limited Liability Company (ag)
IHC Buckhead, LLC (ci)
IHC Edinburgh (Holdings) (n)
IHC Hopkins (Holdings) Corp. (k)
IHC Hotel Limited (n)
IHC Inter-Continental (Holdings) Corp. (k)
IHC London (Holdings) (n)
IHC May Fair (Holdings) Limited (n)
IHC May Fair Hotel Limited (n)
IHC M-H (Holdings) Corp. (k)
IHC Overseas (U.K.) Limited (n)
IHC UK (Holdings) Limited (n)
IHC United States (Holdings) Corp. (b) (k)
IHC Willard (Holdings) Corp. (k)
IHG (Marseille) SAS (x)
IHG (Myanmar) Ltd (ah)
IHG (Thailand) Limited (aj)
IHG Amsterdam Management BV (p)
IHG Bangkok Ltd (ct)
IHG Brasil Administracao de Hoteis e Servicos Ltda (ak)
IHG Civ Holding Co-Investment Fund, LLC (k)
IHG Civ Holding Main Fund, LLC (k)
IHG Commission Services SRL (co)
IHG Community Development, LLC (ci)
IHG de Argentina SA (al)
IHG ECS (Barbados) SRL (co)
IHG Franchising Brasil Ltda (bd)
IHG Franchising DR Corporation (k)
IHG Franchising, LLC (k)
IHG Hotels (New Zealand) Limited (an)
IHG Hotels Limited (n)
IHG Hotels Management (Australia) Pty Limited (b) (aa)
IHG Hotels Nigeria Limited (ao)
IHG Hotels South Africa (Pty) Limited (ap)
IHG International Partnership (n)
IHG Istanbul Otel Yönetim Limited Sirketi (bx)
IHG Japan (Management) LLC (ar)
IHG Japan (Osaka) LLC (ar)
IHG Management (Maryland) LLC (as)
IHG Management (Netherlands) B.V. (p)
IHG Management d.o.o. Beograd (cc)
IHG Management MD Barclay Sub LLC (cj)
IHG Management SL d.o.o (bo)
IHG Mexico Operaciones SA de CV (ab)
IHG Orchard Street Member, LLC (k)
IHG Peru SRL (dd)
IHG PS Nominees Limited (n)
IHG Sermex SA de CV (ab)
IHG Systems Pty Ltd (b) (aa)
IHG Szalloda Budapest Szolgaltato Kft. (at)
IHG Technology Solutions LLC (k)
IND East Village SD Holdings, LLC (k)
InterContinental Berlin Service Company GmbH (au)
InterContinental (Branston) 1 Limited (c) (n)
InterContinental (PB) 1 (n)
InterContinental (PB) 3 Limited (n)
InterContinental Brasil Administracao de Hoteis Ltda (q)
Inter-Continental D.C. Operating Corp. (k)
Inter-Continental Florida Investment Corp. (k)
Inter-Continental Florida Partner Corp. (k)
InterContinental Gestion Hotelera S.L. (by)
Inter-Continental Hospitality Corporation (k)
InterContinental Hotel Berlin GmbH (au)
InterContinental Hotel Düsseldorf GmbH (av)
Inter-Continental Hoteleira Limitada (aw)
Inter-Continental Hotels (Montreal) Operating Corp. (ax)
Inter-Continental Hotels (Montreal) Owning Corp. (ax)
InterContinental Hotels (Puerto Rico) Inc. (az)
Inter-Continental Hotels (Singapore) Pte. Ltd. (ai)
Inter-Continental Hotels Corporation (k)
Inter-Continental Hotels Corporation de Venezuela C.A. (ba)
Intercontinental Hotels Corporation Limited (b) (m)
InterContinental Hotels Group (Asia Pacific) Pte Ltd (ai)
InterContinental Hotels Group (Australia) Pty Limited (aa)
InterContinental Hotels Group (Canada) Inc. (o)
InterContinental Hotels Group (España) SA (by)
InterContinental Hotels Group (Greater China) Limited (ac)
InterContinental Hotels Group (India) Pvt. Ltd (aq)
InterContinental Hotels Group (Japan) Inc. (l)
InterContinental Hotels Group (New Zealand) Limited (an)
InterContinental Hotels Group (Shanghai) Ltd. (bb)
InterContinental Hotels Group Customer Services Limited (n)
InterContinental Hotels Group do Brasil Limitada (bc)
InterContinental Hotels Group Healthcare Trustee Limited (n)
InterContinental Hotels Group Operating Corp. (e) (k)
InterContinental Hotels Group Resources, LLC (b) (k)
InterContinental Hotels Group Services Company (n)
InterContinental Hotels Italia, S.r.L. (be)
InterContinental Hotels Limited (a) (n)
InterContinental Hotels Management GmbH (bf)
InterContinental Hotels Management Montenegro d.o.o. (ce)
InterContinental Hotels Nevada Corporation (ck)
Inter-Continental Hotels of San Francisco Inc. (k)
Inter-Continental IOHC (Mauritius) Limited (bg)
InterContinental Management AM LLC (cm)
InterContinental Management Bulgaria EOOD (bp)
InterContinental Management France SAS (x)
InterContinental Management Poland sp. Z.o.o (cn)
InterContinental Overseas Holdings, LLC (k)
KG Benefits LLC (k)
KG Gift Card Inc. (bz)
KG Liability LLC (k)
KG Technology, LLC (k)
KHP Washington Operator LLC (k)
KHRG 11th Avenue Hotel LLC (k)
KHRG 851 LLC (k)
KHRG Aertson LLC (k)
KHRG Alexis, LLC (k)
KHRG Allegro, LLC (k)
KHRG Argyle, LLC (k)
KHRG Austin Beverage Company, LLC (k)
KHRG Baltimore, LLC (k)
KHRG Born LLC (k)
KHRG Boston Hotel, LLC (k)
KHRG Bozeman LLC (k)
KHRG Buckhead LLC (k)
KHRG Canary LLC (k)
KHRG Cayman LLC (k)
KHRG Cayman Employer Ltd. (k)
KHRG Dallas LLC (k)
KHRG Dallas Beverage Company LLC (k)
KHRG DC 1731 LLC (k)
KHRG DC 2505 LLC (k)
KHRG Employer, LLC (k)
KHRG Goleta LLC (k)
KHRG Gray LLC (k)
KHRG Gray U2 LLC (k)
KHRG Huntington Beach LLC (k)
KHRG Key West LLC (k)
KHRG King Street, LLC (k)

Notes to the Group Financial Statements continued

34. Group companies continued

Fully owned subsidiaries continued
KHRG La Peer LLC (k)
KHRG Miami Beach LLC (k)
KHRG Muse LLC (k)
KHRG New Orleans LLC (k)
KHRG NPC LLC (k)
KHRG Palladian LLC (k)
KHRG Palomar Phoenix LLC (k)
KHRG Philly Monaco LLC (k)
KHRG Pittsburgh LLC (k)
KHRG Porsche Drive LLC (k)
KHRG Reynolds LLC (k)
KHRG Riverplace LLC (k)
KHRG Sacramento LLC (k)
KHRG Savannah LLC (k)
KHRG Schofield LLC (k)
KHRG SFD LLC (k)
KHRG SF Wharf LLC (k)
KHRG SF Wharf U2 LLC (k)
KHRG South Beach LLC (k)
KHRG State Street LLC (k)
KHRG Sutter LLC (k)
KHRG Sutter Union LLC (k)
KHRG Taconic LLC (k)
KHRG Tariff LLC (k)
KHRG Texas Hospitality, LLC (k)
KHRG Texas Operations, LLC (k)
KHRG Tryon LLC (k)
KHRG Vero Beach, LLC (k)
KHRG Vintage Park LLC (k)
KHRG VZ Austin LLC (k)
KHRG Wabash LLC (k)
KHRG Westwood, LLC (k)
KHRG Wilshire LLC (k)
Kimpton Hollywood Licenses LLC (k)
Kimpton Hotel & Restaurant Group, LLC (k)
Kimpton Phoenix Licenses Holdings LLC (k)
Louisiana Acquisitions Corp. (k)
Luxury Resorts and Spas (France) SAS (dc)
Manchester Oxford Street Hotel OpCo Limited (n)
Mercer Fairview Holdings LLC (k)
Met Leeds Hotel OpCo Limited (n)
MH Lodging LLC (k)
Oxford Spires Hotel OpCo Limited (n)
Oxford Thames Hotel OpCo Limited (n)
PML Services LLC (as)
Pollstrong Limited (n)
Powell Pine, Inc. (k)
Priscilla Holiday of Texas, Inc. (cl)
PT Regent Indonesia (bh)
PT SC Hotels & Resorts Indonesia (bh)
Raison d'Etre Holdings (BVI) Limited (v)
Raison d'Etre Services (BVI) Limited (v)
Raison d'Etre Spas, LLC (k)
Raison d'Etre Spas, Sweden AB (db)
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 (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 (cb)
Semiramis for training of Hotel Personnel and Hotel Management SAE (ch)
SF MH Acquisition LLC (k)
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)
Six Senses Americas IP LLC (k)
Six Senses Capital Pte. Ltd (ay)
Six Senses North America Management LLC (k)
SLC Sustainable Luxury Cyprus Limited (cs)
Solamar Lodging LLC (k)
Southern Pacific Hotels Properties Limited (v)
SPHC Management Ltd. (bq)
St David's Cardiff Hotel OpCo Limited (n)
Sustainable Luxury Holdings (BVI) Limited (v)
Sustainable Luxury Lanka Pvt. Ltd (cv)
Sustainable Luxury Maldives Private Limited (cw)
Sustainable Luxury Mauritius Limited (cx)
Sustainable Luxury Services (BVI) Limited (v)
Sustainable Luxury Singapore Private Limited (ai)
Sustainable Luxury UK Limited (cy)
Sustainable Luxury USA Limited (cz)
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)
Vista Rockville FF&E, LLC (as)
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%
IHG ANA Hotels Group Japan LLC (74.66%) (ar)
IHG ANA Hotels Holdings Co., Ltd. (66%) (ar)
Regent Hospitality Worldwide, Inc. (51%) (bt)
Sustainable Luxury Holding (Thailand) Limited (49%) (c) (j) (cu)
Sustainable Luxury Hospitality (Thailand) Limited (49%) (c) (j) (cu)
Sustainable Luxury Management (Thailand) Limited (49%) (c) (j) (cu)
Sustainable Luxury Operations (Thailand) Ltd (99.98%) (j) (cu)
Universal de Hoteles SA (9.99%) (j) (bj)
World Trade Centre Montreal Hotel Corporation (74.11%) (bl)

Associates, joint ventures and other
111 East 48th Street Holdings LLC (19.9%) (g) (h) (k)
Alkoer, S. de R.L. de C.V. (50%) (h) (cg)
BCRE IHG 180 Orchard Holdings LLC (49%) (g) (cf)
Beijing Orient Express Hotel Co., Ltd. (16.15%) (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)
EDG Alpharetta EH LLC (0%) (d) (h) (r)
Gestion Hotelera Gestel, C.A. (50%) (c) (h) (ba)
Groups360 LLC (13.05%) (h) (k)
H.I. Soaltee Hotel Company Private Ltd (26%) (br)
Inter-Continental Hotels Saudi Arabia Limited (40%) (bs)
NF III Seattle, LLC (25%) (g) (r)
NF III Seattle Op Co, LLC (25%) (g) (r)
Nuevas Fronteras S.A. (23.66%) (cd)
President Hotel & Tower Co Ltd. (30%) (bu)
Shanghai Yuhuan Industrial Development Co., Ltd (1%) (da)
Sustainable Luxury Gravity Global Private Limited (51%) (h) (de)
SURF-Samui Pte. Ltd (49%) (ay)
Tianjin ICBCI IHG Equity Investment Fund Management Co., Limited (21.04%) (bv)

Key
(a) Directly owned by InterContinental Hotels Group PLC
(b) Ordinary shares and preference shares
(c) Ordinary A and ordinary B shares
(d) 8% cumulative 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
(j) Minority interest relates to one or more individual shareholders who are employed or were previously employed by the entity

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