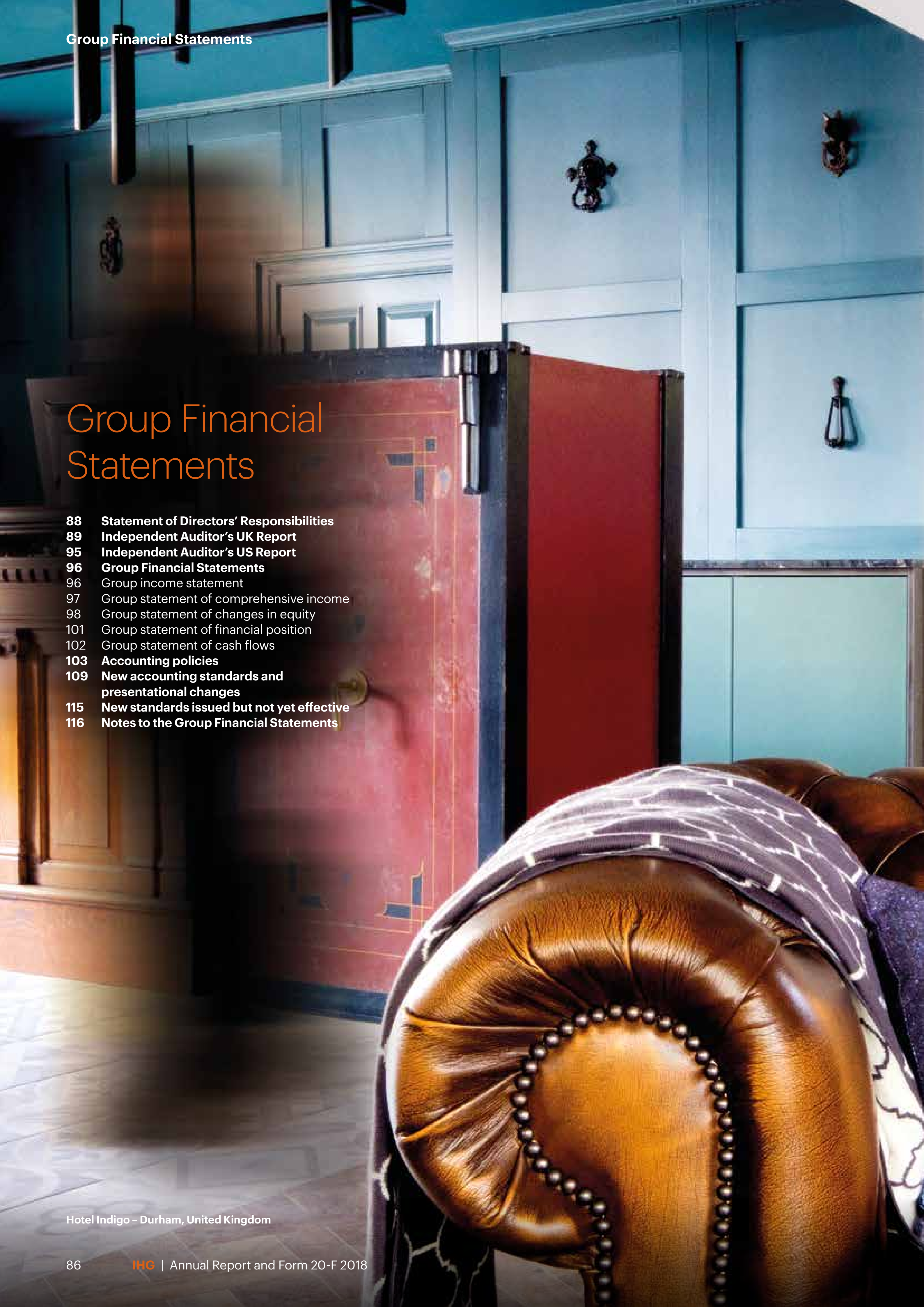
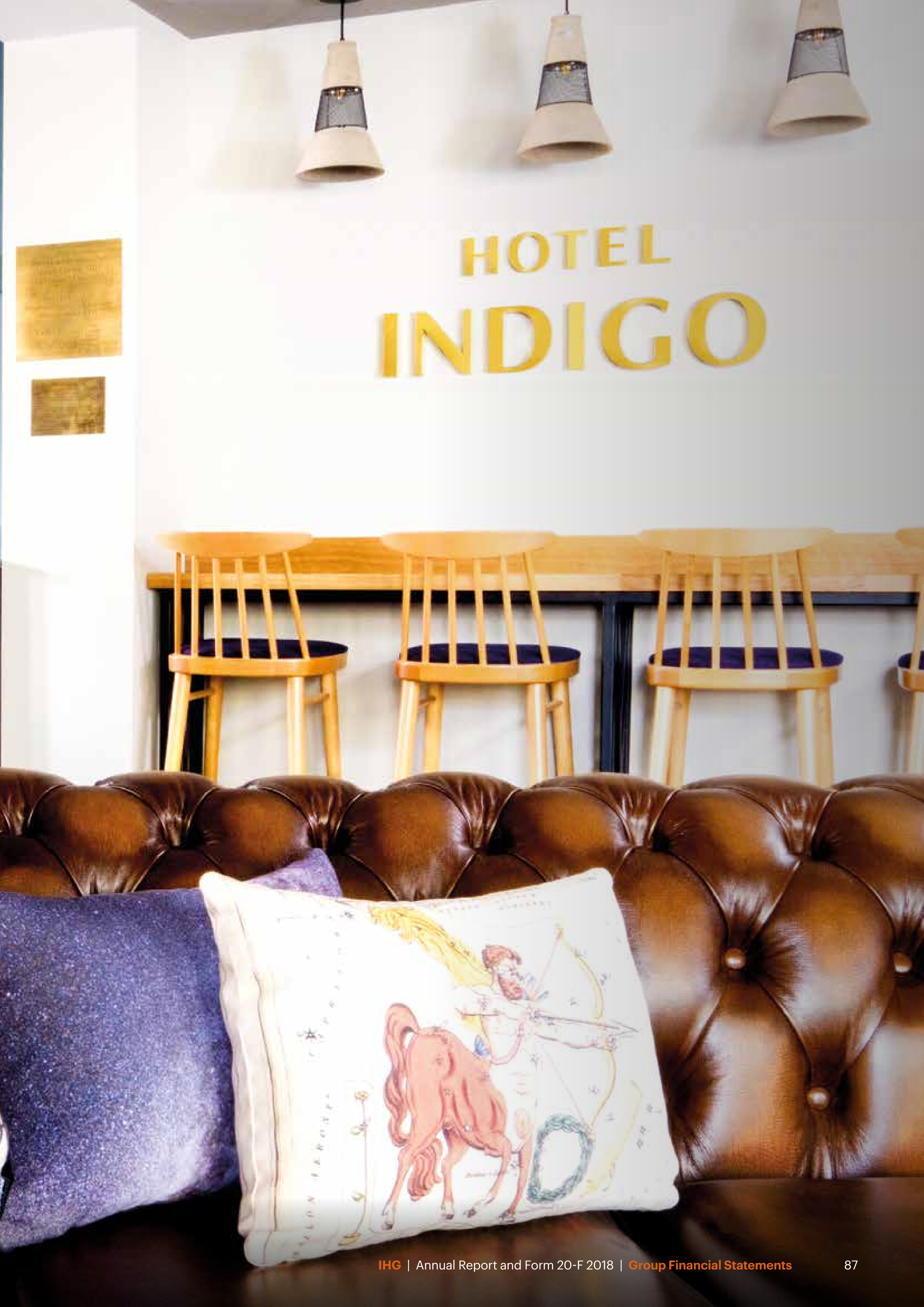


Group Financial Statements

Hotel Indigo – Durham, United Kingdom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Statement of Directors' Responsibilities

Financial Statements and accounting records

The Directors are required to prepare financial statements for the Company and the Group at the end of each financial year in accordance with all applicable laws and regulations. Under company law directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the profit or loss of the Group for that period. In preparing these Financial Statements, IHG Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and accounting estimates that are reasonable;
- State whether the Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), for use in the EU and Article 4 of the EU IAS Regulation;
- State for the Company Financial Statements whether applicable UK accounting standards have been followed; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors have responsibility for ensuring that the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company to enable them to ensure that the Financial Statements comply with the Companies Act 2006 and, as regards the Consolidated Financial Statements, Article 4 of the EU IAS Regulation. The Directors are also responsible for the system of internal control, for safeguarding the assets of the Group and the Company, and taking reasonable steps to prevent and detect fraud and other irregularities.

Disclosure Guidance and Transparency Rules

The Board confirms that to the best of its knowledge:

- The Financial Statements have been prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group taken as a whole; and
- The Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Group taken as a whole, together with a description of the principal risks and uncertainties that it faces.

UK Corporate Governance Code

Having taken advice from the Audit Committee, the Board considers that this Annual Report and Form 20-F, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Disclosure of information to Auditor

The Directors who held office as at the date of approval of this report confirm that they have taken steps to make themselves aware of relevant audit information (as defined by Section 418(3) of the Companies Act 2006). None of the Directors are aware of any relevant audit information which has not been disclosed to the Company's Auditor.

Management's report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Group, as defined in Rule 13a–15(f) and 15d–15(f) under the Securities Exchange Act of 1934 as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Group's internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Group's transactions and dispositions of assets;
- Are designed to provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the Financial Statements in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU, and that receipts and expenditure are being made only in accordance with authorisation of management and the Directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the Group's assets that could have a material effect on the Financial Statements.

Any internal control framework has inherent limitations and internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate.

Management has undertaken an assessment of the effectiveness of the Group's internal control over financial reporting at 31 December 2018 based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria).

Based on this assessment, management has concluded that as at 31 December 2018 the Group's internal control over financial reporting was effective.

During the period covered by this document there were no changes in the Group's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the effectiveness of the internal controls over financial reporting.

The Group's internal control over financial reporting at 31 December 2018, together with the Group's Consolidated Financial Statements, were audited by Ernst & Young LLP, an independent registered public accounting firm. Their report on internal control over financial reporting can be found on page 95.

For and on behalf of the Board

Keith Barr
Chief Executive Officer
18 February 2019

Paul Edgecliffe-Johnson
Chief Financial Officer
18 February 2019

Independent Auditor's UK Report

Independent Auditor's Report to the members of InterContinental Hotels Group PLC

Our opinion on the Financial Statements

In our opinion:

- InterContinental Hotels Group PLC's Group Financial Statements and Parent Company Financial Statements (the Financial Statements) give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- The Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'; and
- The Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

What we have audited

InterContinental Hotels Group PLC's (IHG's, the Group's) Financial Statements for the year ended 31 December 2018 comprise:

Group	Company
Group income statement	Parent Company statement of financial position
Group statement of comprehensive income	Parent Company statement of changes in equity
Group statement of changes in equity	Related notes 1 to 12 to the Parent Company Financial Statements
Group statement of financial position	
Group statement of cash flows	
Related notes 1 to 34 to the Group Financial Statements and accounting policies, new accounting standards and presentational changes and new standards issued but not yet effective	

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- The disclosures in the Annual Report set out on page 26 that describe the principal risks and explain how they are being managed or mitigated;
- The Directors' confirmation set out on page 88 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- The Directors' statement set out on page 88 in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements;
- Whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- The Directors' explanation set out on page 30 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• The valuation of deferred revenue related to the IHG Rewards Club loyalty programme. • Allocation of revenues and costs to the System Fund. • The carrying value of the Kimpton assets and the investment in the Barclay associate. • Presentation of reorganisation costs in the Group income statement. • Acquisition accounting for the Regent and UK portfolio transactions.
Audit scope	• We performed a full scope audit of 22 components and specific audit procedures on a further 28 components. • For 20 full scope components audit procedures were performed by a combination of the Primary Team and one or more component teams. • The components where we performed full or specific audit procedures accounted for 94% of profit before tax adjusted for pre-tax exceptional items and the System Fund and 92% of revenue.
Materiality	• Overall Group materiality of $35m was applied which represents 5% of profit before tax adjusted for pre-tax exceptional items and the System Fund. We considered it appropriate to maintain our planning materiality rather than increasing it to $37m based on the final reported results.

Independent Auditor's UK Report continued

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Group Financial Statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Risk direction	Our response to the risk	Key observations communicated to the Audit Committee
The valuation of deferred revenue related to the IHG Rewards Club (IHGRC) loyalty programme *Refer to the Audit Committee Report (page 65); Critical accounting policies and the use of judgements, estimates and assumptions (page 108); and note 3 of the Group Financial Statements (page 121).* Revenue related to loyalty points earned by members or sold under co-branding arrangements is deferred until the points are consumed. We focus on this area due to: • The changes in accounting for the IHGRC loyalty programme revenues following the adoption of IFRS 15 – *Revenue from Contracts with Customers*. • The size of the deferred revenue balance ($1,181m at 31 December 2018, $1,057m at 31 December 2017). • The complexity of the model and the high volume of input data to determine the deferred revenue balance. • The judgement involved in estimating the future consumption rate of points by the members of the loyalty programme.	↑	We verified management's conclusion to defer the recognition of revenue until points are consumed to be consistent with the principles of IFRS 15 and audited the impact on the Group's 2018 financial statements. We assessed the reasonableness of the estimated future consumption of earned points, which is the key estimate in the determination of the deferred revenue liability, by: • Engaging EY actuarial specialists to assist in challenging and evaluating the appropriateness of the methodology, data and assumptions applied by management and its actuarial specialist. • Developing our own model to form an independent view of an acceptable range for the consumption rate. We tested internal financial controls, including IT controls, over the valuation of revenue and deferred revenue, in particular: • The integrity of the deferred revenue model and the completeness and accuracy of data used and provided to management's actuarial specialist. • Management's review process of the inputs and assumptions used in the deferred revenue model and the valuation output. In addition, we undertook the following audit procedures: • Tested controls and detailed transactions for assessments received and points earned, consumed, and expired throughout the year. • Tested the roll forward of the points balance from the prior year to 31 December 2018. In addressing this area of focus, audit procedures were performed by the component team in the United States under our supervision.	We concluded: • IFRS 15 has been appropriately applied. • The valuation of deferred revenue related to the IHGRC loyalty programme is within an acceptable range.
Allocation of revenues and costs to the System Fund *Refer to the Strategic Report (page 15); the Audit Committee Report (page 65); and the accounting policies and notes of the Group Financial Statements.* The Group operates a System Fund to collect and administer cash assessments from hotel owners for the specific purpose of use in marketing, reservation and loyalty programmes in accordance with contracts with customers and the agreement with the Owners Association. We focus on this area due to: • The changes in accounting for the System Fund revenues and expenses following the adoption of IFRS 15 – *Revenue from Contracts with Customers*. • The size of the System Fund revenues and expenses of $1,233m and $1,379m, respectively, for the year ended 31 December 2018 (2017: $1,242m and $1,276m, respectively). • The risk of misclassification in determining which revenues and expenses are chargeable to the System Fund. • The exclusion of the System Fund revenues and expenses from the underlying performance of the Group (as defined on page 36 as a non-GAAP measure).	↔	We verified management's conclusion regarding the accounting for the System Fund marketing and reservation revenues and expenses on a gross basis in the Group income statement and concurred it is consistent with IFRS 15. We tested the internal financial controls, including IT controls, over the recognition of hotel assessments in the System Fund revenues and the identification of direct and indirect costs allocated to the System Fund. For a sample of revenues and expenses recorded as System Fund related, based on our inspection of supporting documentation, we made an independent assessment of whether they relate to the System Fund activities in accordance with contracts with customers and the agreement with the Owners Association. Our testing of controls and transactions included the reorganisation costs allocated to the System Fund. We verified the appropriateness of the related disclosures provided in the notes of the Group Financial Statements. In addressing this area of focus, audit procedures were performed by the component audit team in the United States under our supervision.	We concluded: • IFRS 15 has been appropriately applied. • The System Fund revenues and expenses have been identified in accordance with contracts with customers and the agreement with the Owners Association.

Risk	Risk direction	Our response to the risk	Key observations communicated to the Audit Committee
The carrying value of the Kimpton assets and the investment in the Barclay associate *Refer to the Audit Committee Report (page 65); Critical accounting policies and the use of judgements, estimates and assumptions (page 108); and notes 13 and 14 of the Group Financial Statements (pages 134 and 136).* The Group's intangible assets and investments in associates and joint ventures are tested for impairment using valuation techniques involving judgements and estimates. We assessed the related risk of material misstatement in the current year and focused on the Kimpton assets and the investment in the Barclay associate, considering: • The potential incentive to conceal an impairment, given the assets' strategic importance. • The higher likelihood and magnitude of a potential impairment charge, considering the assets' carrying values and historic headroom. At 31 December 2018, the carrying value of the Kimpton assets were $421m (excluding key money) (note 13) (2017: $424m) and the investment in the Barclay associate was $59m (note 14) (2017: $65m).	⇔	We tested internal financial controls over management's assessment of impairment. These included controls over the underlying projections prepared through the forecasting process, the assumptions applied and the completeness and accuracy of the data provided to management's external specialist. We, assisted by our valuation specialists, verified the integrity of the impairment models and the appropriateness of the methodology and assumptions used. We inspected external valuation reports and performed our own sensitivities on the key assumptions used and determined whether adequate headroom remained. We performed detailed testing to assess the key inputs to the model including: • Assessing the historical accuracy of management's budgets and forecasts through comparison with actual performance. • Corroborating management's assumptions with reference to historical data and, where applicable, external benchmarks to assess if the assumptions used are within an acceptable range. The main assumptions include discount rates, fee margins, average daily room rates, comparable room key sales data and occupancy. We verified the appropriateness of the disclosures provided in the Group Financial Statements. In addressing this area of focus, audit procedures were performed mainly by the Primary Team, with the support of our valuation specialists.	We concluded: • The carrying value of the Kimpton assets and the investment in the Barclay associate are supported at 31 December 2018. • Appropriate disclosures have been provided.

"Capitalisation of software assets and carrying value" was included last year as a key audit matter due to the amount capitalised in the year and the technology being in its development phase. In 2018, following the go live of the Guest Reservation System and the start of amortisation, the risk of a material misstatement in the capitalisation of software assets was no longer considered to be at a higher level.

In addition to the risks identified as part of our audit planning, the Group undertook the following material non-routine transactions in the year which affected the allocation of resources and the direction of our audit efforts and for which our audit response was as follows:

Risk	Risk direction	Our response to the risk	Key observations communicated to the Audit Committee
Presentation of reorganisation costs in the Group income statement *Refer to the Audit Committee Report (page 65); and note 6 of the Group Financial Statements (page 124).* The incorrect classification of certain items as exceptional could present a misleading view to the financial statement users about the overall performance of the underlying business. At 31 December 2018, the Group incurred reorganisation costs of $103m (2017: $45m), of which $56m (2017: $36m) was classified as exceptional and $47m (2017: $9m) was allocated to the System Fund.	⇔	We tested the internal financial controls, including IT controls, over the identification, measurement, monitoring and recording of the reorganisation costs. We challenged the classification as exceptional items to ensure compliance with accounting standards, the Group's accounting policies and the consistency of application against prior years. In particular, we tested on a sample basis that the costs were directly related to the 'Transform for Growth' initiative and incremental to the normal course of business. We performed detailed testing on the allocation to the System Fund to confirm consistency with the communication to the Owners Association. We considered the appropriateness of the disclosure and transparency within the Group Financial Statements.	The disclosure of reorganisation costs as exceptional items is in accordance with the Group's disclosed accounting policy for exceptional items and consistent with the requirements of IAS 1 – *Presentation of Financial Statements.*
Acquisition accounting for the Regent and UK portfolio transactions *Refer to the Audit Committee Report (page 65); and note 11 of the Group Financial Statements (page 131).* We focused on this area given the judgements and estimates involved in assessing the fair value of assets and liabilities acquired. In addition, the transactions contain complexity in determining how to account for the acquisitions in accordance with IFRS 3 – *Business Combinations* and IFRS 10 – *Consolidated Financial Statements.*	↑	We tested internal financial controls over the acquisition accounting, fair valuation of assets and liabilities acquired, and the migration of legacy data into the Group's systems. We verified management's accounting treatment for the acquisitions in accordance with IFRS 3 and IFRS 10. In particular: • Assessing whether the Group has a present ownership interest over the 49% shareholding in Regent Hotels & Resorts not yet acquired and the recognition of contingent consideration in respect of the put and call options over the remaining shares. • Assessing the substance of the lease agreement entered into at the same time as the UK portfolio acquisition and the fair value of the contingent consideration embedded in the lease. In addition, we verified the classification as an operating lease agreement and the disclosure in the Group Financial Statements. Assisted by our valuation specialists, we challenged management's key assumptions underpinning the valuations in the purchase price allocation. We assessed the fair value of the identified assets and liabilities, and evaluated the adequacy of the acquisition disclosures in note 11 of the Group Financial Statements.	The fair values of the assets and liabilities recognised on the Regent and UK portfolio acquisitions have been measured on a reasonable basis. The acquisition accounting is consistent with IFRS 3 and IFRS 10.

"Impact of the US tax reform" was included as an area of audit focus last year in view of the complexity of the changes in the US tax law, the proximity of the announcement to the year-end and the materiality to the Group, which affected the allocation of resources and the direction of our audit efforts. This year, our procedures on the US tax reform have been more routine in nature.

Independent Auditor's UK Report continued

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the Group Financial Statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as Global Internal Audit's results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts in the Group Financial Statements, we selected 50 components covering entities within India, the United States, the United Kingdom, Germany and China, which represent the principal business units within the Group.

Of the 50 components selected, we performed an audit of the complete financial information of 22 components (full scope components) which were selected based on their size or risk characteristics. For full scope components, procedures were performed by a combination of the Primary Team and one or more component teams.

For the remaining 28 components (specific scope components), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the Group Financial Statements either because of the size of these accounts or their risk profile.

The table below illustrates the coverage obtained from the work performed by our audit teams.

	2018			2017		
	Number	% profit before tax adjusted for pre-tax exceptional items and the System Fund	% revenue	Number	% profit before tax adjusted for pre-tax exceptional items	% revenue
Full scope[1]	22	79	63	22	81	69
Specific scope[2]	28	15	29	22	11	8
Full and specific scope coverage	50	94	92	44	92	77
Remaining components[3]		6	8		8	23
Total		100	100		100	100

Notes

1 The Group audit risks included in the tables on pages 90 to 91 were subject to full audit procedures.

2 The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

3 Of the remaining components that together represent 6% of the Group's profit before tax adjusted for pre-tax exceptional items and the System Fund; none are individually greater than 2% of the Group's profit before tax adjusted for pre-tax exceptional items and the System Fund. We performed specified procedures over System Fund revenue for two components (2017: two) in addition to performing specified procedures over the components acquired in the year. For two (2017: three) components, we performed review scope procedures. For the remaining components, we performed other procedures, including analytical review at both regional levels and at owned hotels, inquiry of management, and testing of journals across the Group to respond to any potential risks of material misstatement to the Group Financial Statements.

Changes from the prior year

In 2017, the audit scope for components was determined using an overall Group materiality assessed using profit before tax adjusted for pre-tax exceptional items. In 2018, the audit scope for components was determined using an overall Group materiality assessed using profit before tax adjusted for pre-tax exceptional items and the System Fund.

Following the adoption of IFRS 15 – *Revenue from Contracts with Customers* (IFRS 15), System Fund revenues and expenses are now included in the Group income statement. As the System Fund continues to be managed on a break-even basis, the System Fund result for the year was adjusted from our materiality to remove the timing difference arising from revenues received and costs incurred in the year.

The 2017 coverage analysis provided in the table above has not been restated to reflect the impact of the adoption of IFRS 15 on the 2017 Group Financial Statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the Primary Team, or by component auditors from other EY global network firms operating under our instruction. Of the 22 full scope components, audit procedures were performed on two of these directly by the Primary Team and 20 by a combination of the primary and component audit teams. For the 28 specific scope components, audit procedures were performed on three of these directly by the Primary Team and 25 by component audit teams. We determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Primary Team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor, or her delegate, visits each of the key locations at both the interim and year-end stages of the audit process. During the current year's audit cycle, visits were undertaken, at least twice, by the Primary Team to the component teams at key locations in the United States and India.

These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, and reviewing key audit working papers on the Group's risk areas. The Primary Team interacted regularly with the component teams, during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group Financial Statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the Group Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be $35m (2017: $32m), which is 5% of profit before tax adjusted for pre-tax exceptional items and the System Fund (2017: 5% of profit before tax adjusted for pre-tax exceptional items). We believe profit before tax adjusted for pre-tax exceptional items and the System Fund is the most relevant performance measure to the stakeholders of the entity, as IHG's management and investors monitor performance with this as a key metric. Detailed audit procedures are performed on material exceptional items and the System Fund.

Starting basis	• Profit before tax of $485m
Adjustments	• Adjust for pre-tax exceptional items of $104m and the System Fund result of $146m to determine adjusted profit before tax
Materiality	• Totals $735m (materiality basis) • Materiality maintained at planning level at $35m (versus $37m based on 5% of final reported results)

During the course of our audit, we reassessed initial materiality and the actual profit before tax adjusted for pre-tax exceptional items and the System Fund was higher than the Group's initial estimates used in planning. However, due to the status of our procedures we did not change our materiality assessment to reflect this.

We determined materiality for the Parent Company to be £19m (2017: £11m), which is 1% (2017: 1%) of equity.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely $27m (2017: $24m). We have set performance materiality at this percentage to ensure the total uncorrected and undetected audit differences in all accounts did not exceed our materiality.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $2m to $27m (2017: $1m to $24m).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $1.8m (2017: $1.6m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 2 to 85 and pages 172 to 208, other than the Financial Statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 88** – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on pages 64-67** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on pages 70-71** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Financial Statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

Independent Auditor's UK Report continued

- The Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 88, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the Financial Statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the Financial Statements are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the Financial Statements, being the Listing Rules of the UK Listing Authority and those laws and regulations relating to health and safety and employee matters.
- We understood how the Group is complying with those frameworks by making enquiries of management, Internal Audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group Financial Statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where management considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the Financial Statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, Group management, Internal Audit, divisional management and all full and specific scope management; and focused testing, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company on 4 May 2018 to audit the Financial Statements for the year ending 31 December 2018 and subsequent financial periods.
- We have served as auditors since the Company's listing in April 2003 and the period of total uninterrupted engagement, including previous renewals and reappointments with the Group's predecessor businesses, is at least 31 years since 1988.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sarah Kokot (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor, London
18 February 2019

The maintenance and integrity of the InterContinental Hotels Group Plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's US Report

Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Shareholders of InterContinental Hotels Group PLC.

Opinion on Internal Control over Financial Reporting

We have audited InterContinental Hotels Group PLC's internal control over financial reporting as of 31 December 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, InterContinental Hotels Group PLC (the Company) maintained, in all material respects, effective internal control over financial reporting as of 31 December 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Group statement of financial position of the Company as of 31 December 2018 and 2017, and the related Group statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended 31 December 2018, and the related notes, and our report dated 18 February 2019 expressed an unqualified opinion thereon.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ERNST & YOUNG LLP

London, England
18 February 2019

Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Shareholders of InterContinental Hotels Group PLC.

Opinion on the Financial Statements

We have audited the accompanying Group statement of financial position of InterContinental Hotels Group PLC (the Company) as of 31 December 2018 and 2017, and the related Group statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended 31 December 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended 31 December 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of 31 December 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated 18 February 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

ERNST & YOUNG LLP

We have served as auditors since IHG's listing in April 2003 and of the Company's predecessor businesses since 1988.
London, England
18 February 2019

The maintenance and integrity of the InterContinental Hotels Group Plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group Financial Statements
Group income statement

For the year ended 31 December 2018	Note	2018 $m	2017 Restated[a] $m	2016 Restated[a] $m
Revenue from fee business	3	**1,486**	1,379	1,329
Revenue from owned, leased and managed lease hotels	3	**447**	351	338
System Fund revenues		**1,233**	1,242	1,199
Reimbursement of costs		**1,171**	1,103	1,046
Total revenue	2	**4,337**	4,075	3,912
Cost of sales		**(706)**	(571)	(548)
System Fund expenses		**(1,379)**	(1,276)	(1,164)
Reimbursed costs		**(1,171)**	(1,103)	(1,046)
Administrative expenses before exceptional items		**(344)**	(337)	(345)
Share of (losses)/gains of associates and joint ventures	2	**(1)**	3	(2)
Other operating income		**14**	11	9
Depreciation and amortisation	2	**(80)**	(78)	(75)
Operating profit before exceptional items		**670**	724	741
Impairment charges	6	**–**	(18)	(16)
Other exceptional items	6	**(104)**	22	(13)
Operating profit	2	**566**	728	712
Financial income	7	**5**	4	6
Financial expenses	7	**(86)**	(76)	(86)
Profit before tax		**485**	656	632
Tax	8	**(133)**	(115)	(173)
Profit for the year from continuing operations		**352**	541	459
Attributable to:				
Equity holders of the parent		**351**	540	456
Non-controlling interest		**1**	1	3
		352	541	459
Earnings per ordinary share:	10			
Continuing and total operations:				
Basic		**184.7**	279.8	215.1
Diluted		**182.8**	278.4	213.1

[a] Restated for the adoption of IFRS 15 and other presentational changes (see pages 109 to 114).

Notes on pages 103 to 161 form an integral part of these Financial Statements.

Group statement of comprehensive income

For the year ended 31 December 2018	2018 $m	2017 Restated[a] $m	2016 Restated[a] $m
Profit for the year	**352**	541	459
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Gains on valuation of available-for-sale financial assets[b], net of related tax charge of $nil (2017: $3m, 2016: $nil)	**–**	41	5
Fair value gains reclassified to profit on disposal of available-for-sale financial assets[b]	**–**	(73)	(7)
Gains on cash flow hedges, including related tax credit of $1m (2017: $nil, 2016: $nil)	**5**	–	–
Costs of hedging	**(1)**	–	–
Hedging gains reclassified to financial expenses	**(8)**	–	–
Exchange gains/(losses) on retranslation of foreign operations, including related tax credit of $2m (2017: net of related tax credit of $1m, 2016: net of related tax charge of $3m)	**43**	(88)	190
	39	(120)	188
Items that will not be reclassified to profit or loss:			
Losses on equity instruments classified as fair value through other comprehensive income, including related tax charge of $2m (2017: $nil, 2016: $nil)	**(14)**	–	–
Re-measurement gains/(losses) on defined benefit plans, net of related tax charge of $4m (2017: $nil, 2016: credit of $4m)	**8**	(4)	–
Deferred tax charge on defined benefit plans arising from significant US tax reform	**–**	(11)	–
	(6)	(15)	–
Total other comprehensive income/(loss) for the year	**33**	(135)	188
Total comprehensive income for the year	**385**	406	647
Attributable to:			
Equity holders of the parent	**383**	404	644
Non-controlling interest	**2**	2	3
	385	406	647

[a] Restated for the adoption of IFRS 15 (see pages 109 to 113).

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

Notes on pages 103 to 161 form an integral part of these Financial Statements.

Group Financial Statements continued
Group statement of changes in equity

	Equity share capital $m	Capital redemption reserve $m	Shares held by employee share trusts $m	Other reserves $m	Fair value reserve $m	Cash flow hedging reserve $m	Currency translation reserve $m	Retained earnings $m	IHG share-holders' equity $m	Non-controlling interest $m	Total equity $m
At 1 January 2018 (restated for IFRS 15)	154	10	(5)	(2,874)	79	–	377	951	(1,308)	7	(1,301)
Impact of adopting IFRS 9 (page 113)	–	–	–	–	(18)	–	–	18	–	–	–
At 1 January 2018	154	10	(5)	(2,874)	61	–	377	969	(1,308)	7	(1,301)
Profit for the year	–	–	–	–	–	–	–	351	351	1	352
Other comprehensive income											
Items that may be subsequently reclassified to profit or loss:											
Gains on cash flow hedges	–	–	–	–	–	5	–	–	5	–	5
Costs of hedging	–	–	–	–	–	(1)	–	–	(1)	–	(1)
Hedging gains reclassified to financial expenses	–	–	–	–	–	(8)	–	–	(8)	–	(8)
Exchange gains on retranslation of foreign operations	–	–	–	–	–	–	42	–	42	1	43
	–	–	–	–	–	(4)	42	–	38	1	39
Items that will not be reclassified to profit or loss:											
Losses on equity instruments classified as fair value through other comprehensive income	–	–	–	–	(14)	–	–	–	(14)	–	(14)
Re-measurement gains on defined benefit plans	–	–	–	–	–	–	–	8	8	–	8
	–	–	–	–	(14)	–	–	8	(6)	–	(6)
Total other comprehensive (loss)/income for the year	–	–	–	–	(14)	(4)	42	8	32	1	33
Total comprehensive income for the year	–	–	–	–	(14)	(4)	42	359	383	2	385
Transfer of treasury shares to employee share trusts	–	–	(19)	–	–	–	–	19	–	–	–
Purchase of own shares by employee share trusts	–	–	(3)	–	–	–	–	–	(3)	–	(3)
Release of own shares by employee share trusts	–	–	24	–	–	–	–	(24)	–	–	–
Equity-settled share-based cost	–	–	–	–	–	–	–	39	39	–	39
Tax related to share schemes	–	–	–	–	–	–	–	3	3	–	3
Equity dividends paid	–	–	–	–	–	–	–	(199)	(199)	(1)	(200)
Exchange adjustments	(8)	–	(1)	9	–	–	–	–	–	–	–
At 31 December 2018	146	10	(4)	(2,865)	47	(4)	419	1,166	(1,085)	8	(1,077)

All items above are shown net of tax.

Notes on pages 103 to 161 form an integral part of these Financial Statements.

	Equity share capital $m	Capital redemption reserve $m	Shares held by employee share trusts $m	Other reserves $m	Fair value reserve $m	Currency translation reserve $m	Retained earnings $m	IHG share-holders' equity $m	Non-controlling interest $m	Total equity $m
At 1 January 2017 (restated for IFRS 15)	141	9	(11)	(2,860)	111	466	990	(1,154)	8	(1,146)
Profit for the year	–	–	–	–	–	–	540	540	1	541
Other comprehensive income										
Items that may be subsequently reclassified to profit or loss:										
Gains on valuation of available-for-sale financial assets	–	–	–	–	41	–	–	41	–	41
Fair value gain reclassified to profit on disposal of available-for-sale financial asset	–	–	–	–	(73)	–	–	(73)	–	(73)
Exchange losses on retranslation of foreign operations	–	–	–	–	–	(89)	–	(89)	1	(88)
	–	–	–	–	(32)	(89)	–	(121)	1	(120)
Items that will not be reclassified to profit or loss:										
Re-measurement losses on defined benefit plans	–	–	–	–	–	–	(4)	(4)	–	(4)
Deferred tax charge on defined benefit plans arising from significant US tax reform	–	–	–	–	–	–	(11)	(11)	–	(11)
	–	–	–	–	–	–	(15)	(15)	–	(15)
Total other comprehensive (loss)/income for the year	–	–	–	–	(32)	(89)	(15)	(136)	1	(135)
Total comprehensive income for the year	–	–	–	–	(32)	(89)	525	404	2	406
Transfer of treasury shares to employee share trusts	–	–	(20)	–	–	–	20	–	–	–
Purchase of own shares by employee share trusts	–	–	(3)	–	–	–	–	(3)	–	(3)
Release of own shares by employee share trusts	–	–	29	–	–	–	(29)	–	–	–
Equity-settled share-based cost	–	–	–	–	–	–	29	29	–	29
Tax related to share schemes	–	–	–	–	–	–	9	9	–	9
Equity dividends paid	–	–	–	–	–	–	(593)	(593)	(3)	(596)
Exchange adjustments	13	1	–	(14)	–	–	–	–	–	–
At 31 December 2017	154	10	(5)	(2,874)	79	377	951	(1,308)	7	(1,301)

All items above are shown net of tax.

Notes on pages 103 to 161 form an integral part of these Financial Statements.

Group Financial Statements continued
Group statement of changes in equity continued

	Equity share capital $m	Capital redemption reserve $m	Shares held by employee share trusts $m	Other reserves $m	Fair value reserve $m	Currency translation reserve $m	Retained earnings $m	IHG share-holders' equity $m	Non-controlling interest $m	Total equity $m
At 1 January 2016 (as previously reported)	169	11	(18)	(2,888)	113	269	2,653	309	10	319
Impact of adopting IFRS 15 (pages 109-113)	–	–	–	–	–	7	(444)	(437)	–	(437)
At 1 January 2016	169	11	(18)	(2,888)	113	276	2,209	(128)	10	(118)
Profit for the year	–	–	–	–	–	–	456	456	3	459
Other comprehensive income										
Items that may be subsequently reclassified to profit or loss:										
Gains on valuation of available-for-sale financial assets	–	–	–	–	5	–	–	5	–	5
Fair value gain reclassified to profit on disposal of available-for-sale financial assets	–	–	–	–	(7)	–	–	(7)	–	(7)
Exchange gains on retranslation of foreign operations	–	–	–	–	–	190	–	190	–	190
Total other comprehensive (loss)/income for the year	–	–	–	–	(2)	190	–	188	–	188
Total comprehensive income for the year	–	–	–	–	(2)	190	456	644	3	647
Transfer of treasury shares to employee share trusts	–	–	(24)	–	–	–	24	–	–	–
Purchase of own shares by employee share trusts	–	–	(10)	–	–	–	–	(10)	–	(10)
Release of own shares by employee share trusts	–	–	39	–	–	–	(39)	–	–	–
Equity-settled share-based cost	–	–	–	–	–	–	23	23	–	23
Tax related to share schemes	–	–	–	–	–	–	11	11	–	11
Equity dividends paid	–	–	–	–	–	–	(1,693)	(1,693)	(5)	(1,698)
Transaction costs relating to shareholder returns	–	–	–	–	–	–	(1)	(1)	–	(1)
Exchange adjustments	(28)	(2)	2	28	–	–	–	–	–	–
At 31 December 2016	141	9	(11)	(2,860)	111	466	990	(1,154)	8	(1,146)

All items above are shown net of tax.

Notes on pages 103 to 161 form an integral part of these Financial Statements.

Group statement of financial position

31 December 2018	Note	2018 $m	2017 Restated[a] $m	2016 Restated[a] $m
ASSETS				
Property, plant and equipment	12	**447**	425	419
Goodwill and other intangible assets	13	**1,143**	967	858
Investment in associates and joint ventures	14	**104**	141	111
Trade and other receivables		**–**	–	8
Retirement benefit assets	25	**–**	3	–
Other financial assets	15	**260**	228	248
Derivative financial instruments	22	**7**	–	–
Non-current tax receivable		**31**	16	23
Deferred tax assets	8	**60**	75	69
Contract costs	3	**55**	51	45
Contract assets	3	**270**	241	185
Total non-current assets		**2,377**	2,147	1,966
Inventories		**5**	3	3
Trade and other receivables	16	**613**	551	469
Current tax receivable		**27**	101	77
Other financial assets	15	**1**	16	20
Derivative financial instruments	22	**1**	–	–
Cash and cash equivalents	17	**704**	168	206
Contract costs	3	**5**	7	8
Contract assets	3	**20**	17	13
Total current assets		**1,376**	863	796
Total assets	2	**3,753**	3,010	2,762
LIABILITIES				
Loans and other borrowings	20	**(120)**	(126)	(106)
Derivative financial instruments		**–**	–	(3)
Trade and other payables	18	**(618)**	(597)	(526)
Deferred revenue	3	**(572)**	(490)	(462)
Provisions	19	**(10)**	(3)	(3)
Current tax payable		**(50)**	(64)	(50)
Total current liabilities		**(1,370)**	(1,280)	(1,150)
Loans and other borrowings	20	**(2,129)**	(1,893)	(1,606)
Retirement benefit obligations	25	**(91)**	(104)	(96)
Trade and other payables	18	**(158)**	(36)	(29)
Deferred revenue	3	**(934)**	(867)	(852)
Provisions	19	**(17)**	(5)	(5)
Non-current tax payable		**–**	(25)	–
Deferred tax liabilities	8	**(131)**	(101)	(170)
Total non-current liabilities		**(3,460)**	(3,031)	(2,758)
Total liabilities	2	**(4,830)**	(4,311)	(3,908)
Net liabilities		**(1,077)**	(1,301)	(1,146)
EQUITY				
Equity share capital	27	**146**	154	141
Capital redemption reserve	27	**10**	10	9
Shares held by employee share trusts	27	**(4)**	(5)	(11)
Other reserves	27	**(2,865)**	(2,874)	(2,860)
Fair value reserve	27	**47**	79	111
Cash flow hedging reserve	27	**(4)**	–	–
Currency translation reserve	27	**419**	377	466
Retained earnings		**1,166**	951	990
IHG shareholders' equity		**(1,085)**	(1,308)	(1,154)
Non-controlling interest	27	**8**	7	8
Total equity		**(1,077)**	(1,301)	(1,146)

[a] Restated for the adoption of IFRS 15 (see pages 109 to 113).

Signed on behalf of the Board,

Paul Edgecliffe-Johnson
18 February 2019

Notes on pages 103 to 161 form an integral part of these Financial Statements.

Group Financial Statements continued
Group statement of cash flows

For the year ended 31 December 2018	Note	2018 $m	2017 Restated[a] $m	2016 Restated[a] $m
Profit for the year		**352**	541	459
Adjustments reconciling profit for the year to cash flow from operations before contract acquisition costs	24	**502**	308	491
Cash flow from operations before contract acquisition costs	24	**854**	849	950
Contract acquisition costs, net of repayments		**(54)**	(57)	(42)
Cash flow from operations		**800**	792	908
Interest paid		**(70)**	(69)	(72)
Interest received		**2**	1	4
Tax paid on operating activities	8	**(66)**	(147)	(130)
Net cash from operating activities		**666**	577	710
Cash flow from investing activities				
Purchase of property, plant and equipment		**(46)**	(44)	(32)
Purchase of intangible assets		**(112)**	(172)	(130)
Investment in associates and joint ventures		**(1)**	(47)	(14)
Loan advances to associates and joint ventures		**–**	–	(2)
Investment in other financial assets		**(33)**	(30)	(13)
Acquisition of businesses, net of cash acquired	11	**(38)**	–	–
Capitalised interest paid	7	**(5)**	(6)	(5)
Landlord contributions to property, plant and equipment		**8**	14	–
Disposal of hotel assets, net of costs and cash disposed		**–**	–	(5)
Loan repayments by associates and joint ventures		**–**	9	–
Distributions from associates and joint ventures		**32**	–	2
Repayments of other financial assets		**8**	20	25
Disposal of equity securities	15	**–**	75	–
Tax paid on disposals	8	**(2)**	(25)	–
Net cash from investing activities		**(189)**	(206)	(174)
Cash flow from financing activities				
Purchase of own shares by employee share trusts		**(3)**	(3)	(10)
Dividends paid to shareholders	9	**(199)**	(593)	(1,693)
Dividend paid to non-controlling interest		**(1)**	(3)	(5)
Transaction costs relating to shareholder returns		**–**	–	(1)
Issue of long-term bonds, including effect of currency swaps	20	**554**	–	459
Long-term bonds repaid		**–**	–	(315)
(Decrease)/increase in other borrowings	20	**(268)**	153	109
Proceeds from currency swaps		**3**	–	–
Net cash from financing activities		**86**	(446)	(1,456)
Net movement in cash and cash equivalents in the year		**563**	(75)	(920)
Cash and cash equivalents at beginning of the year	17	**58**	117	1,098
Exchange rate effects		**(21)**	16	(61)
Cash and cash equivalents at end of the year	17	**600**	58	117

[a] Restated for the adoption of IFRS 15 (see pages 109 to 113).

Notes on pages 103 to 161 form an integral part of these Financial Statements.

Accounting policies

General information

This document constitutes the Annual Report and Financial Statements in accordance with UK Listing Rules requirements and the Annual Report on Form 20-F in accordance with the US Securities Exchange Act of 1934.

The Consolidated Financial Statements of InterContinental Hotels Group PLC (the Group or IHG) for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 18 February 2019. InterContinental Hotels Group PLC (the Company) is incorporated and domiciled in Great Britain and registered in England and Wales.

Significant accounting policies

Basis of preparation

The Consolidated Financial Statements of IHG have been prepared on a going concern basis and under the historical cost convention, except for assets classified as fair value through other comprehensive income (FVOCI) and liabilities and derivatives measured at fair value through profit or loss. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB and in accordance with IFRS as adopted by the European Union (EU) and as applied in accordance with the provisions of the Companies Act 2006. IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB. However, the differences have no impact on the Consolidated Financial Statements for the years presented.

The impact of adopting new accounting standards is disclosed on pages 109 to 114.

Presentational currency

The Consolidated Financial Statements are presented in millions of US dollars reflecting the profile of the Group's revenue and operating profit which are primarily generated in US dollars or US dollar-linked currencies.

In the Consolidated Financial Statements, equity share capital, the capital redemption reserve and shares held by employee share trusts are translated into US dollars at the rates of exchange on the last day of the period; the resultant exchange differences are recorded in other reserves.

The functional currency of the Parent Company is sterling since this is a non-trading holding company located in the United Kingdom that has sterling denominated share capital and whose primary activity is the payment and receipt of sterling dividends and of interest on sterling denominated external borrowings and inter-company balances.

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Parent Company and entities controlled by the Group. Control exists when the Group has:

- power over an investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

All intra-group balances and transactions are eliminated on consolidation.

The assets, liabilities and results of those businesses acquired or disposed of are consolidated for the period during which they were under the Group's control.

The Group operates a deferred compensation plan in the US which allows certain employees to make additional provision for retirement, through the deferral of salary with matching company contributions. Employees can draw down on the plan in certain limited circumstances during employment. The assets of the plan are held in a company-owned trust which is not consolidated as the relevant activity of the trust, being the investment of the funds in the trust, is directed by the participating employees of the plan and the company has no exposure to the gains and losses resulting from those investment decisions. The assets of the trust are held solely for the benefit of the participating employees and to pay plan expenses, other than in the case of a company insolvency in which case they can be claimed by the general creditors of the company. At 31 December 2018, the trust had assets with a fair value of $193m (2017: $197m).

Foreign currencies

Transactions in foreign currencies are translated to functional currency at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the relevant rates of exchange ruling on the last day of the period. Foreign exchange differences arising on translation are recognised in the income statement except on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to the currency translation reserve until the disposal of the net investment, at which time they are recycled against the gain or loss on disposal.

The assets and liabilities of foreign operations, including goodwill, are translated into US dollars at the relevant rates of exchange ruling on the last day of the period. The revenues and expenses of foreign operations are translated into US dollars at average rates of exchange for the period. The exchange differences arising on retranslation are taken directly to the currency translation reserve. On disposal of a foreign operation, the cumulative amount recognised in the currency translation reserve relating to that particular foreign operation is recycled against the gain or loss on disposal.

Property, plant and equipment

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

Repairs and maintenance costs are expensed as incurred.

Land is not depreciated. All other property, plant and equipment are depreciated to a residual value over their estimated useful lives, namely:

- Buildings – lesser of 50 years and unexpired term of lease; and
- Fixtures, fittings and equipment – three to 25 years.

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

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Assets that do not generate independent cash flows are combined into cash-generating units. If carrying values exceed their estimated recoverable amount, the assets or cash-generating units are written down to the recoverable amount. Recoverable amount is the greater of fair value less costs of disposal and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses, and any subsequent reversals, are recognised in the income statement.

On adoption of IFRS, the Group retained previous revaluations of property, plant and equipment which are included at deemed cost as permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

Business combinations and goodwill

On the acquisition of a business, identifiable assets and liabilities acquired are measured at their fair value. Contingent liabilities

Accounting policies continued

assumed are measured at fair value unless this cannot be measured reliably, in which case they are not recognised but are disclosed in the same manner as other contingent liabilities. The measurement of deferred tax assets and liabilities arising on acquisition is as described in the general principles detailed within the 'Taxes' accounting policy note on page 106 with the exception that no deferred tax is provided on taxable temporary differences in connection with the initial recognition of goodwill.

The cost of an acquisition is measured as the aggregate of the fair value of the consideration transferred. Contingent and deferred consideration is remeasured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is recorded at cost, being the difference between the fair value of the consideration and the fair value of net assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised.

Goodwill is tested for impairment at least annually by comparing carrying values of cash-generating units with their recoverable amounts. Impairment losses relating to goodwill cannot be subsequently reversed.

Transaction costs are expensed and are not included in the cost of acquisition.

Intangible assets

Brands

Externally acquired brands are initially recorded at cost if separately acquired or fair value if acquired as part of a business combination, provided the brands are controlled through contractual or other legal rights, or are separable from the rest of the business, and the fair value can be reliably measured. Brands are amortised over their estimated useful lives (and tested for impairment if there are indicators of impairment) or tested for impairment at least annually if determined to have indefinite lives.

The costs of developing internally generated brands are expensed as incurred.

Management contracts

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

The value of management contracts is amortised on a straight-line basis over the life of the contract including any extension periods at IHG's option, up to a maximum of 50 years.

Software

Acquired and internally developed software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs are generally amortised over estimated useful lives of three to five years on a straight-line basis.

Internally generated development costs are expensed unless forecast revenues exceed attributable forecast development costs, in which case they are capitalised and amortised over the estimated useful life of the asset.

Associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is not control or joint control over those policies.

A joint venture exists when two or more parties have joint control over, and rights to the net assets of, the venture. Joint control is the contractually agreed sharing of control which only exists when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Associates and joint ventures are accounted for using the equity method unless the associate or joint venture is classified as held for sale. Under the equity method, the Group's investment is recorded at cost adjusted by the Group's share of post-acquisition profits and losses and other movements in the investee's reserves. When the Group's share of losses exceeds its interest in an associate or joint venture, the Group's carrying amount is reduced to $nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate or joint venture.

If there is objective evidence that an associate or joint venture is impaired, an impairment charge is recognised if the carrying amount of the investment exceeds its recoverable amount.

Upon loss of significant influence over an associate or joint control of a joint venture, any retained investment is measured at fair value with any difference to carrying value recognised in the income statement.

Financial assets

Policy from 1 January 2018

On initial recognition, the Group classifies its financial assets as being subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss.

Financial assets which are held to collect contractual cash flows and give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding are subsequently measured at amortised cost. Interest on these assets is calculated using the effective interest rate method and is recognised in the income statement as interest income. The Group recognises a provision for expected credit losses for all debt instruments held at amortised cost. Where there has not been a significant increase in credit risk since initial recognition, provision is made for defaults that are possible within the next 12 months. Where there has been a significant increase in credit risk since initial recognition, provision is made for credit losses expected over the remaining life of the asset.

The Group has elected to irrevocably designate equity investments as FVOCI when they meet the definition of equity under IAS 32 'Financial Instruments: Presentation' and are not held for trading. Changes in the value of equity investments classified as FVOCI are recorded directly in equity within the fair value reserve and are never recycled to the income statement. Dividends from equity investments classified as FVOCI are recognised in the income statement as other operating income and expenses. Equity instruments classified as FVOCI are not subject to impairment assessment.

The Group does not currently hold any financial assets, other than derivatives, which are measured at fair value through profit or loss.

Policy prior to 1 January 2018

Management determines the classification of financial assets on initial recognition and they are subsequently held at amortised cost (loans and receivables) or fair value (available-for-sale equity investments). Interest on loans and receivables is calculated using the effective interest rate method and is recognised in the income statement as interest income. Changes in fair values of equity investments are recorded directly in equity within the fair value reserve. On disposal, the accumulated fair value adjustments recognised in equity are recycled to the income statement. Dividends from equity investments are recognised in the income statement as other operating income and expenses.

Financial assets are assessed for impairment at each period-end date. In the case of an equity investment measured at fair value, a significant or prolonged decline in fair value below cost is evidence that the asset is impaired. If an available-for-sale equity investment is impaired, the difference between original cost and fair value is transferred from equity to the income statement to the extent of any cumulative loss recorded in equity, with any excess charged directly to the income statement. Subsequent impairment reversals relating to previously impaired equity instruments are recorded in equity.

Trade receivables

Policy from 1 January 2018

Trade receivables are recorded at their original amount less provision for expected credit losses. The Group has elected to apply the simplified version of the expected credit loss model permitted by IFRS 9 in respect of trade receivables, which involves assessing lifetime expected credit losses on all balances. The Group has established a provision matrix that is based on its historical credit loss experience by region and may be adjusted for specific forward-looking factors. The carrying amount of the receivable is reduced through the use of a provision account and movements in the provision are recognised in the income statement within cost of sales.

When a previously provided trade receivable is uncollectable, it is written off against the provision. Balances which are more than 180 days past due are considered to be in default and are written off the ledgers but continue to be actively pursued. Adjustments to this policy may be made in specific circumstances.

At each reporting date, the Group assesses whether trade receivables are credit-impaired, for example if the customer is in significant financial difficulty.

Policy prior to 1 January 2018

Trade receivables are recorded at their original amount less provision for impairment. It is the Group's policy to provide for 100% of the previous month's aged receivables balances which are more than 180 days past due. Adjustments to the policy may be made due to specific or exceptional circumstances. The carrying amount of the receivable is reduced through the use of a provision account and movements in the provision are recognised in the income statement within cost of sales. When a previously provided trade receivable is uncollectable, it is written off against the provision.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

In the statement of cash flows, cash and cash equivalents are shown net of short-term overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Assets held for sale

Assets and liabilities are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is highly probable and expected to complete within one year. For a sale to be highly probable, management need to be committed to a plan to sell the asset and the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

Assets designated as held for sale are held at the lower of carrying amount at designation and fair value less costs to sell.

Depreciation is not charged against property, plant and equipment classified as held for sale.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Group statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. To meet these criteria, the right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances: the normal course of business, the event of default and the event of insolvency or bankruptcy of the Group and all of the counterparties.

Bank and other borrowings

Bank and other borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. They are subsequently measured at amortised cost. Finance charges, including the transaction costs and any discount or premium on issue, are recognised in the income statement using the effective interest rate method.

Borrowings are classified as non-current when the repayment date is more than 12 months from the period-end date or where they are drawn on a facility with more than 12 months to expiry.

Derivative financial instruments and hedging

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

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

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

Interest arising from currency derivatives and interest rate swaps is recorded in either financial income or expenses over the term of the agreement, unless the accounting treatment for the hedging relationship requires the interest to be taken to reserves.

Cash flow hedges

Financial instruments are classified as cash flow hedges when hedging exposure to variability in cash flows that are attributable to either a highly probable forecast transaction or a particular risk associated with a recognised asset or liability.

Changes in the fair value are recorded in other comprehensive income and the cash flow hedging reserve to the extent that the hedges are effective. When the hedged item is recognised, the cumulative gains and losses on the related hedging instrument are reclassified to the income statement.

Net investment hedges

Financial instruments are classified as net investment hedges when they hedge the Group's net investment in foreign operations.

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

Self insurance

Liabilities in respect of self insured risks include projected settlements for known and incurred but not reported claims. Projected settlements are estimated based on historical trends and actuarial data.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that a payment will be made and a reliable estimate of the amount payable can be made. If the effect of the time value of money is material, the provision is discounted using a current pre-tax discount rate that reflects the risks specific to the liability.

An onerous contract provision is recognised when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it.

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

Accounting policies continued

Taxes

Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the tax authorities, including interest. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

Deferred tax

Deferred tax assets and liabilities are recognised in respect of temporary differences between the tax base and carrying value of assets and liabilities including on fixed assets, software, application fees, contract costs, unrelieved tax losses, unremitted profits from subsidiaries, gains rolled over into replacement assets, and other short-term temporary differences.

Judgement is used when assessing the extent to which deferred tax assets, particularly in respect of tax losses, should be recognised. Deferred tax assets are therefore recognised to the extent that it is regarded as probable that there will be sufficient and suitable taxable profits (including the future release of deferred tax liabilities) in the relevant legal entity or tax group against which such assets can be utilised in the future. For this purpose, forecasts of future taxable profits are considered by assessing the Group's forecast revenue and profit models, taking into account future growth predictions and operating cost assumptions. Accordingly, changes in assumptions to the Group's forecasts may have an impact on the amount of future taxable profits and therefore the period over which any deferred tax assets might be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the asset or liability will be settled, based on rates enacted or substantively enacted at the end of the reporting period.

Where deferred tax assets and liabilities arise in the same entity or group of entities and there would be a legal right to offset the assets and liabilities were they to reverse, the assets and liabilities are also offset on the Group statement of financial position. Similarly, if there is no legal right to offset assets against liabilities, the assets and liabilities are not offset.

Retirement benefits

Defined contribution plans

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

Defined benefit plans

Plan assets are measured at fair value and plan liabilities are measured on an actuarial basis using the projected unit credit method, discounted at an interest rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the plan liabilities. The difference between the value of plan assets and liabilities at the period-end date is the amount of surplus or deficit recorded in the statement of financial position as an asset or liability. An asset is recognised when the employer has an unconditional right to use the surplus at some point during the life of the plan or on its wind-up.

The service cost of providing pension benefits to employees, together with the net interest expense or income for the year, is charged to the income statement within 'administrative expenses'. Net interest is calculated by applying the discount rate to the net defined benefit asset or liability, after any asset restriction. Past service costs and gains, which are the change in the present value of the defined benefit obligation for employee service in prior periods resulting from plan amendments, are recognised immediately the plan amendment occurs. Settlement gains and losses, being the difference between the settlement cost and the present value of the defined benefit obligations being settled, are recognised when the settlement occurs.

Re-measurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest) and changes in the amount of any asset restrictions. Actuarial gains and losses may result from: differences between the actuarial assumptions underlying the plan liabilities and actual experience during the year or changes in the actuarial assumptions used in the valuation of the plan liabilities. Re-measurement gains and losses, and taxation thereon, are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods.

Actuarial valuations are carried out on a regular basis and are updated for material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

Revenue recognition

Revenue is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer.

Fee business revenue

Under franchise agreements, the Group's performance obligation is to provide a licence to use IHG's trademarks and other intellectual property. Franchise royalty fees are typically charged as a percentage of hotel gross rooms revenues and are treated as variable consideration, recognised as the underlying hotel revenues occur.

Under management agreements, the Group's performance obligation is to provide hotel management services and a licence to use IHG's trademarks and other intellectual property. Base and incentive management fees are typically charged. Base management fees are typically a percentage of total hotel revenues and incentive management fees are generally based on the hotel's profitability or cash flows. Both are treated as variable consideration. Like franchise fees, base management fees are recognised as the underlying hotel revenues occur. Incentive management fees are recognised over time when it is considered highly probable that the related performance criteria will be met, provided there is no expectation of a subsequent reversal of the revenue.

Application and re-licensing fees are not considered to be distinct from the franchise performance obligation and are recognised over the life of the related contract.

Contract assets

Amounts paid to hotel owners to secure management contracts and franchise agreements ('key money') are treated as consideration payable to a customer. A contract asset is initially recorded which is recognised as a deduction to revenue over the initial term of the contract.

Revenue from owned and leased hotels

At its owned, leased and managed lease hotels, the Group's performance obligation is to provide accommodation and other goods and services to guests. Revenue includes rooms revenue and food and beverage sales, which is recognised when the rooms are occupied and food and beverages are sold.

Cost reimbursements

In a managed property, the Group acts as employer of the general manager and other employees at the hotel and is entitled to reimbursement of these costs. The performance obligation is satisfied over time as the employees perform their duties, consistent with when reimbursement is received. Reimbursements for these services are shown as revenue with an equal matching employee cost, with no profit impact. Certain other costs relating to both managed and franchised hotels are also contractually reimbursable to IHG and, where IHG is deemed to be acting as principal in the provision of the related services, the revenue and cost are shown on a gross basis.

System Fund revenues

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

Under both franchise and management agreements, the Group is required to provide marketing and reservations services, as well as other centrally managed programmes. These services are provided by the Fund and are funded by assessment fees. Costs are incurred and allocated to the Fund in accordance with the principles agreed with the IHG Owners Association. The Group acts as principal in the provision of the services as the related expenses primarily comprise payroll and marketing expenses under contracts entered into by the Group. The assessment fees from hotel owners are generally levied as a percentage of hotel revenues and are recognised as those hotel revenues occur.

Certain travel agency commission revenues within the Fund are recognised on a net basis, where it has been determined that IHG is acting as agent.

In respect of the loyalty programme (IHG Rewards Club), the related performance obligation is to arrange for the provision of future benefits to members on consumption of previously earned reward points. Members have a choice of benefits: reward nights at an IHG hotel or other goods or services provided by third parties. Under its franchise and management contracts, IHG receives assessment fees based on total qualifying hotel revenue from IHG Rewards Club members' hotel stays.

The Group's performance obligation is not satisfied in full until the member has consumed the points at a participating hotel or selected a reward from a third-party. Accordingly, loyalty assessments are deferred in an amount that reflects the stand-alone selling price of the future benefit to the member. The amount of revenue ultimately recognised is impacted by a "breakage" estimate of the number of points that will never be consumed. On an annual basis, the Group engages an external actuary who uses statistical formulae to assist in formulating this estimate.

As materially all of the points will be either consumed at IHG managed or franchised hotels owned by third parties, or exchanged for awards provided by third parties, IHG is deemed to be acting as agent on consumption and therefore recognises the related revenue net of the cost of reimbursing the hotel or third-party that is providing the benefit.

Performance obligations under the Group's co-branding arrangements comprise:

- arranging for the provision of future benefits to members who have earned points or free night certificates;
- marketing services; and
- providing the co-brand partner with the right to access the loyalty programme.

Fees from these agreements comprise fixed amounts normally payable at the beginning of the contract, and variable amounts paid on a monthly basis. Variable amounts are typically based on the number of points and free night certificates issued to members and the marketing services performed by the Group. Total fees are allocated to the performance obligations based on their estimated stand-alone selling prices. Revenue allocated to marketing and licensing obligations is recognised on a monthly basis as the obligation is satisfied. Revenue relating to points and free night certificates is recognised when the member has consumed the points or certificates at a participating hotel or has selected a reward from a third party, net of the cost of reimbursing the hotel or third-party that is providing the benefit.

Judgement is required in estimating the stand-alone selling prices which are based upon generally accepted valuation methodologies regarding the value of the licence provided, and the number of points and certificates expected to be issued. However the value of revenue recognised and the deferred revenue balance at the end of the year is not materially sensitive to changes in these assumptions.

Contract costs

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

Contract assets and contract costs are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Share-based payments

The cost of equity-settled transactions with employees is measured by reference to fair value at the date at which the right to the shares is granted. Fair value is determined by an external valuer using option pricing models.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which any performance or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The income statement charge for a period represents the movement in cumulative expense recognised at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Leases

Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease.

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Disposal of non-current assets

The Group recognises sales proceeds and any related gain or loss on disposal on completion of the sales process. In determining whether the gain or loss should be recorded, the Group considers whether it:

- has a continuing managerial involvement to the degree associated with asset ownership;
- has transferred the significant risks and rewards associated with asset ownership; and
- can reliably measure and will actually receive the proceeds.

Accounting policies continued

Fair value measurement
The Group measures financial liabilities at fair value through profit or loss, financial assets measured at FVOCI, and derivatives at fair value on a recurring basis and other assets when impaired by reference to fair value less costs of disposal. Additionally, the fair value of other financial assets and liabilities requires disclosure.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is measured by reference to the principal market for the asset or liability assuming that market participants act in their economic best interests.

The fair value of a non-financial asset assumes the asset is used in its highest and best use, either through continuing ownership or by selling it.

The Group uses valuation techniques that maximise the use of relevant observable inputs using the following valuation hierarchy:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities measured at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Further disclosures on the particular valuation techniques used by the Group are provided in note 23.

Where significant assets (such as property) are valued by reference to fair value less costs of disposal, an external valuation will normally be obtained using professional valuers who have appropriate market knowledge, reputation and independence.

Exceptional items
The Group discloses certain financial information both including and excluding exceptional items. The presentation of information excluding exceptional items allows a better understanding of the underlying trading performance of the Group and provides consistency with the Group's internal management reporting. Exceptional items are identified by virtue of either their size or nature so as to facilitate comparison with prior periods and to assess underlying trends in the financial performance of the Group and its regional operating segments. Exceptional items can include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals and restructuring costs.

Critical accounting policies and the use of judgements, estimates and assumptions
In determining and applying the Group's accounting policies, management are required to make judgements, estimates and assumptions. An accounting policy is considered to be critical if its selection or application could materially affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Management consider that critical estimates and assumptions are used in impairment testing and for measuring the loyalty programme liability, as discussed in further detail below. Estimates and assumptions are evaluated by management using historical experience and other factors believed to be reasonable based on current circumstances. Actual results could differ under different policies, judgements, estimates and assumptions or due to unforeseen circumstances.

Loyalty programme – the hotel loyalty programme, IHG Rewards Club, enables members to earn points, funded through hotel assessments, during each qualifying stay at an IHG branded hotel and consume points at a later date for free accommodation or other benefits. The Group recognises deferred revenue in an amount that reflects IHG's unsatisfied performance obligations, valued at the stand-alone selling price of the future benefit to the member. The amount of revenue recognised and deferred is impacted by 'breakage'. On an annual basis the Group engages an external actuary who uses statistical formulae to assist in the estimate of the number of points that will never be consumed 'breakage'.

Following the introduction of a points expiration policy in 2015, breakage has become more judgemental due to there being limited historical data on the impact of such a change. Actuarial gains and losses would correspondingly adjust the amount of System Fund revenues recognised and deferred revenue in the Group statement of financial position.

At 31 December 2018, deferred revenue relating to the loyalty programme was $1,181m (2017: $1,057m). Based on the conditions existing at the balance sheet date, a one percentage point decrease in the breakage estimate relating to outstanding points would increase this liability by approximately $14m.

Impairment testing – intangible assets with definite useful lives, property, plant and equipment, contract assets and contract costs are tested for impairment when events or circumstances indicate that their carrying value may not be recoverable. Goodwill and intangible assets with indefinite useful lives are subject to an impairment test on an annual basis or more frequently if there are indicators of impairment. Assets that do not generate independent cash flows are combined into cash-generating units. Associates and joint ventures are tested for impairment when there is objective evidence that they might be impaired.

The impairment testing of individual assets or cash-generating units requires an assessment of the recoverable amount of the asset or cash-generating unit. If the carrying value of the asset or cash-generating unit exceeds its estimated recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs of disposal and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that is based on the Group's weighted average cost of capital adjusted to reflect the risks specific to the business model and territory of the cash-generating unit or asset being tested. The outcome of such an assessment is subjective, and the result sensitive to the assumed future cash flows to be generated by the cash-generating units or assets and discount rates applied in calculating the value in use.

At 31 December 2018, the Group had goodwill of $313m (2017: $237m) and brands of $250m (2017: $193m), both of which are subject to annual impairment testing. Information on the impairment tests performed is included in note 13.

At 31 December 2018, the Group also had property, plant and equipment, intangible assets (excluding goodwill and brands) and investments in associates and joint ventures with a net book value of $447m, $580m and $104m (2017: $425m, $537m and $141m) respectively. No impairment was recognised during the year. In respect of those assets requiring an impairment test and depending on how recoverable amount was assessed, a 10% reduction in fair value or estimated future cash flows would have resulted in an impairment charge of $10m.

New accounting standards and presentational changes

IFRS 15 'Revenue from Contracts with Customers'
With effect from 1 January 2018, the Group has adopted IFRS 15 'Revenue from Contracts with Customers' which introduces a new five-step approach to measuring and recognising revenue from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has elected to apply the full retrospective method in adopting IFRS 15 and has applied the following practical expedients:

- the transaction price at the date of contract completion was used for contracts that had variable consideration and were completed before 1 January 2018;
- for contracts modified before 1 January 2016, the aggregate effect of all modifications has been reflected when (i) identifying satisfied and unsatisfied performance obligations, (ii) determining the transaction price and (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.

Prior to adoption of IFRS 15, the Group's revenue was primarily comprised of fee-based revenue from franchise and management contracts, and hotel revenue in owned, leased and managed lease properties. The recognition of these revenue streams is largely unchanged by IFRS 15 (see accounting policy on page 106).

The key changes resulting from the adoption of IFRS 15 are as follows:

Managed and franchised hotel cost reimbursements
Under IFRS 15, the provision of employees to managed hotels is not considered to be a service that is distinct from the general hotel management service. Reimbursements for the cost of IHG employees working in managed hotels are therefore shown as revenue with an equal matching cost, with no profit impact. Certain other costs relating to both managed and franchised hotels are also contractually reimbursable to IHG and where IHG is deemed to be acting as principal in the provision of the related services, the revenue and cost are shown on a gross basis under IFRS 15 in the lines 'Reimbursement of costs' and 'Reimbursed costs'. Under previous accounting policies, no revenue or matching cost was recognised. This change increased 2017 revenue and expense by $1,103m, with no profit impact.

Initial application and re-licensing fees
Under previous accounting, application and re-licensing fees were recognised as revenue when billed as the monies received are not refundable and IHG has no further obligations to satisfy. Under IFRS 15, there is a requirement to consider whether the payment of these fees transfers a distinct good or service to the customer that is separate from the promise to provide franchise services. As this is not the case, IFRS 15 requires initial application and re-licensing fees to be recognised as services are provided, over the life of the related contract. The spreading of these fees results in an initial reduction to revenue and operating profit, and the recognition of deferred revenue on the statement of financial position, reflecting the profile of increased amounts received in recent years. This change reduced 2017 revenue from fee business by $14m and increased 2017 deferred revenue by $163m, comprising $24m current and $139m non-current. There was also a $40m decrease in deferred tax liabilities related to this adjustment.

Contract costs
Contract costs related to securing management and franchise contracts were previously charged to the income statement as incurred. Under IFRS 15, certain costs qualify to be capitalised as the cost of obtaining a contract and are amortised over the initial term of the related contract. This change increased 2017 operating profit by $5m and the capitalisation of contract costs on the statement of financial position at 31 December 2017 by $58m, comprising $7m current and $51m non-current. There was also a $15m increase in deferred tax liabilities related to this adjustment.

Amortisation of amounts paid to hotel owners to secure management contracts and franchise agreements ('key money')
Under previous accounting, key money payments were capitalised as intangible assets and amortised over the life of the related contracts. Under IFRS 15, these payments are treated as 'consideration payable to a customer' and therefore recorded as a contract asset and recognised as a deduction to revenue over the contract term. This change results in a reduction to revenue and depreciation and amortisation for the year ended 31 December 2017 of $17m, with no change to operating profit, and the reclassification of key money on the statement of financial position from intangible assets to contract assets at 31 December 2017 of $257m, of which $17m was classified as current and $240m was classified as non-current.

In the Group statement of cash flows, these contract acquisition costs are reclassified from investing activities to cash flow from operations.

Owned hotel disposals subject to a management contract
Under previous accounting, when hotels were sold and the Group retained management of the hotel, the consideration recognised included both the cash received and the fair value of the management contract which was capitalised as an intangible asset and subsequently amortised to the income statement. This accounting was governed by the 'exchange of assets' criteria included in IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets'. IFRS 15 specifically includes property sales in its scope and results in the sales consideration being recorded at the fair value of the encumbered hotel, which generally will be equivalent to the cash received. This change resulted in the derecognition of historic intangible asset balances at 31 December 2017 of $243m and a lower amortisation charge in the income statement for the year ended 31 December 2017 of $8m. This change also resulted in an increase in deferred tax assets and reduction in deferred tax liabilities of $19m and $32m respectively at 31 December 2017.

Other adjustments
Other adjustments, which are immaterial, include re-assessments of IHG's role as principal in other revenue transactions and the treatment of payments under performance guarantees as a reduction to the transaction price within management contracts.

System Fund adjustments
The Group operates a System Fund (the Fund) to collect and administer cash assessments from hotel owners for the specific purpose of use in marketing, the Guest Reservation Systems and hotel loyalty programme. The Fund also receives proceeds from the sale of loyalty points under third-party co-branding arrangements. The Fund is not managed to generate a profit or loss for IHG, but is managed for the benefit of hotels in the System with the objective of driving revenues for the hotels. Consequently, under previous accounting these revenues and expenses were not recorded in the Group income statement.

Under IFRS 15, an entity is regarded as a principal if it controls a service prior to transfer to the customer. As marketing and reservations expenses primarily comprise payroll and marketing expenses under contracts entered into by the Group, management has determined that the Group controls these services. Fund revenues and expenses are therefore recognised on a gross basis in the Group income statement. Assessment fees from hotel owners are generally levied as a percentage of hotel revenues and are recognised as those hotel revenues occur.

In respect of the loyalty programme (IHG Rewards Club), the Group has determined that the related performance obligation is not satisfied in full until the member has consumed the points at a participating hotel. Accordingly, revenue related to loyalty points earned by members or sold under co-branding arrangements is

New accounting standards and presentational changes continued

deferred in an amount that reflects the stand-alone selling price of the future benefit to the member. As materially all of the points will be consumed at IHG managed or franchised hotels owned by third parties, IHG is deemed to be acting as agent on redemption and therefore recognises the related revenue net of the cost of reimbursing the hotel that is providing the hotel stay. The deferred revenue balance under IFRS 15 (31 December 2017: $1,057m) is higher than the points redemption cost liability that was recognised under previous accounting (31 December 2017: $760m) resulting in an increase in the Group's net liabilities.

Management has also determined that in addition to the performance obligation for the redemption of points, co-branding arrangements contain other performance obligations including marketing services and the right to access the loyalty programme. Revenue attributable to the stand-alone selling price of these additional services is recognised as the Group performs its obligations over the term of the co-branding arrangement.

Certain travel agency commission revenues within the Fund will be recognised on a net basis, where it has been determined that IHG acts as agent under IFRS 15.

Under previous accounting, any short-term timing surplus or deficit in the Fund was carried in the Group statement of financial position within working capital. Under IFRS 15, the in-year Fund surplus or deficit is recognised in the Group income statement. Both the previous accounting treatment and the change on applying IFRS 15, (and the equivalent US GAAP standard), are consistent with other companies in the hotel industry. The Fund surplus of $158m at 31 December 2017 was derecognised resulting in a reduction in the Group's net liabilities.

IHG also records an interest charge on the accumulated balance of cash in advance of the consumption of IHG Rewards Club points. In 2017 these interest payments totalled $7m, and were recognised as interest income for the Fund and interest expense for IHG. The System Fund also benefits from the capitalisation of interest related to the development of the next-generation Guest Reservation System, which totalled $6m in 2017. As the Fund is now included on the Group income statement, these amounts are included in the reported net Group financial expenses.

The System Fund accounting changes result in an increase in recorded revenue and expenses for the year ended 31 December 2017 of $1,217m and $1,251m respectively. However, since the Group has an agreement with the IHG Owners Association that the Fund is not managed to a gain or loss for IHG, any in-year profit or loss resulting from Fund activity is excluded from the calculation of underlying operating profit and adjusted earnings per share as the agreement is to spend these funds for the benefit of hotels in the System.

Opening total equity at 1 January 2016 decreases from $319m to $(118)m (see page 100).

The impact of adopting IFRS 15 and other presentational changes on previously reported line items in the Group Financial Statements is set out on the following pages.

Impact of IFRS 15 and other presentational changes on the Group income statement

Year ended 31 December 2017	As previously reported $m	IFRS 15 – Core IHG $m	IFRS 15 – System Fund $m	Other changes (page 114) $m	As restated $m
Revenue from fee business	1,600	(33)	–	(188)	1,379
Revenue from owned, leased and managed lease hotels	184	4	–	163	351
System Fund revenues	–	–	1,217	25	1,242
Reimbursement of costs	–	1,103	–	–	1,103
Total revenue	1,784	1,074	1,217	–	4,075
Cost of sales	(608)	12	–	25	(571)
System Fund expenses	–	–	(1,251)	(25)	(1,276)
Reimbursed costs	–	(1,103)	–	–	(1,103)
Administrative expenses	(328)	(9)	–	–	(337)
Share of gains/(losses) of associates and joint ventures	3	–	–	–	3
Other operating income	11	–	–	–	11
Depreciation and amortisation	(103)	25	–	–	(78)
Operating profit before exceptional items	759	(1)	(34)	–	724
Impairment charges	(18)	–	–	–	(18)
Other exceptional items	22	–	–	–	22
Operating profit	763	(1)	(34)	–	728
Financial income	4	–	–	–	4
Financial expenses	(89)	–	13	–	(76)
Tax	(85)	(28)	(2)	–	(115)
Profit after tax	593	(29)	(23)	–	541

Impact of IFRS 15 on the Group statement of comprehensive income

Year ended 31 December 2017	As previously reported $m	IFRS 15 adoption $m	As restated $m
Profit for the year	593	(52)	541
Exchange losses on retranslation of foreign operations, net of related tax credit of $1m	(77)	(11)	(88)
Other items	(47)	–	(47)
Total comprehensive income for the year	469	(63)	406

New accounting standards and presentational changes continued

Impact of IFRS 15 on the Group statement of financial position

	31 December 2017		
	As previously reported $m	IFRS 15 adoption $m	As restated $m
Goodwill and other intangible assets	1,467	(500)	967
Deferred tax assets	56	19	75
Contract costs	–	51	51
Contract assets	–	241	241
Other non-current assets	813	–	813
Total non-current assets	2,336	(189)	2,147
Contract costs	–	7	7
Contract assets	–	17	17
Other current assets	839	–	839
Total current assets	839	24	863
Total assets	3,175	(165)	3,010
Loyalty programme liability	(343)	343	–
Trade and other payables	(768)	171	(597)
Deferred revenue	–	(490)	(490)
Other current liabilities	(193)	–	(193)
Total current liabilities	(1,304)	24	(1,280)
Loyalty programme liability	(417)	417	–
Trade and other payables	(121)	85	(36)
Deferred revenue	–	(867)	(867)
Deferred tax liabilities	(157)	56	(101)
Other non-current liabilities	(2,027)	–	(2,027)
Total non-current liabilities	(2,722)	(309)	(3,031)
Total liabilities	(4,026)	(285)	(4,311)
Net liabilities	(851)	(450)	(1,301)
Equity share capital	154	–	154
Capital redemption reserve	10	–	10
Shares held by employee share trusts	(5)	–	(5)
Other reserves	(2,874)	–	(2,874)
Fair value reserve	79	–	79
Currency translation reserve	373	4	377
Retained earnings	1,405	(454)	951
IHG shareholders' equity	(858)	(450)	(1,308)
Non-controlling interest	7	–	7
Total equity	(851)	(450)	(1,301)

Impact of IFRS 15 on the Group statement of cash flows

Year ended 31 December 2017	As previously reported $m	IFRS 15 adoption $m	As restated $m
Profit for the year	593	(52)	541
Adjustments reconciling profit for the year to cash flow from operations before contract acquisition costs	263	45	308
Cash flow from operations before contract acquisition costs	856	(7)	849
Contract acquisition costs, net of repayments	–	(57)	(57)
Cash flow from operations	856	(64)	792
Interest paid	(76)	7	(69)
Interest received	1	–	1
Tax paid on operating activities	(147)	–	(147)
Net cash from operating activities	634	(57)	577
Purchase of intangible assets	(229)	57	(172)
Other cash flows from investing activities	(34)	–	(34)
Net cash from investing activities	(263)	57	(206)
Net cash from financing activities	(446)	–	(446)
Net movement in cash and cash equivalents in the year	(75)	–	(75)
Cash and cash equivalents at beginning of the year	117	–	117
Exchange rate effects	16	–	16
Cash and cash equivalents at end of the year	58	–	58

Impact of IFRS 15 on basic and diluted earnings per ordinary share

Year ended 31 December 2017	As previously reported cents	IFRS 15 adoption cents	As restated cents
Basic earnings per ordinary share	306.7	(26.9)	279.8
Diluted earnings per ordinary share	305.2	(26.8)	278.4

IFRS 9 'Financial Instruments'

With effect from 1 January 2018, the Group has adopted IFRS 9 'Financial Instruments'. IFRS 9 introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment and hedge accounting.

The Group has applied the requirements of IFRS 9 retrospectively, except for hedge accounting. The new rules for hedge accounting will be applied prospectively in line with the requirements of the standard. The Group has not applied any practical expedients available under IFRS 9. The Group has not restated prior periods as allowed by the transition provisions of IFRS 9 as restatement is impracticable without the use of hindsight. Accordingly, the information presented for 2017 reflects the classification of assets under IAS 39, not IFRS 9.

The only impact of IFRS 9 on the Group Financial Statements is to reclassify the impact of historic impairments on equity instruments measured at fair value through other comprehensive income (FVOCI). These impairments were originally recorded in the Group income statement, but under IFRS 9 they would have been recorded in the fair value reserve and only transferred to retained earnings when the equity investments are derecognised. An adjustment of $18m has been made to the Group statement of changes in equity at 1 January 2018 to reflect this reclassification.

Changes to the Group's accounting policies resulting from the adoption of IFRS 9 are detailed on pages 104 and 105.

New accounting standards and presentational changes continued

Amendments to IFRS 2

From 1 January 2018 the Group has applied Amendments to IFRS 2 'Classification and Measurement of Share-Based Payment Transactions'. The amendments address the effects of vesting conditions on the measurement of cash-settled share-based payment transactions; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Adoption of this amendment has had no impact on the Financial Statements.

Other changes

In addition to the adoption of IFRS 15 and IFRS 9, these Financial Statements have been restated to reflect several other changes to the presentation of the Group's financial results.

Exceptional items

Exceptional items, which were previously shown in a separate column of the Group income statement, are now presented as a separate line item, with detailed disclosure in note 6.

New operating segments

See note 2.

Reporting of fee business results

Revenue and operating profit from management and franchise agreements, together with regional and Central overheads, have been combined into one category, 'fee business', to more closely reflect the way the business is now reported as a result of the ongoing reorganisation (see note 2).

Reporting of managed lease hotels

The revenue and operating profit of managed lease hotels, previously reported as part of the Group's managed operations, are now reported with owned and leased hotels. As the full results of these hotels are consolidated into IHG's income statement, this gives a clearer view of the reported fee business revenues and profits.

Overhead allocations

Minor changes have been made to the basis for allocating overheads to the regional and central operating segments.

InterContinental reservation fees and costs

Reservation fees and costs associated with the InterContinental brand have previously been recognised in IHG's income statement. These fees and costs have now been moved to the System Fund to align with the treatment of IHG's other brand programmes. As this programme is not managed to make a profit or loss for IHG, there is no operating profit impact.

Prior year comparatives have been restated to reflect these presentational changes and the impact on the Group income statement for the years ended 31 December 2017 and 31 December 2016 is as follows:

	Year ended 31 December 2017			Year ended 31 December 2016		
	Managed leases $m	InterContinental reservations $m	Total $m	Managed leases $m	InterContinental reservations $m	Total $m
Revenue from fee business	(163)	(25)	(188)	(162)	(23)	(185)
Revenue from owned, leased and managed lease hotels	163	–	163	162	–	162
System Fund revenues	–	25	25	–	23	23
Total revenue	–	–	–	–	–	–
Cost of sales	–	25	25	–	23	23
System Fund expenses	–	(25)	(25)	–	(23)	(23)
Operating profit	–	–	–	–	–	–

New standards issued but not yet effective

IFRS 16 'Leases'

The Group will adopt IFRS 16 'Leases' with effect from 1 January 2019. IFRS 16 eliminates the classification of leases as either operating or finance leases for lessees and introduces a single accounting model which is similar to the current accounting model for finance leases under IAS 17.

Lessees will be required to recognise on the balance sheet 'right-of-use' assets which represent the right to use underlying assets during the lease term and a lease liability representing the minimum lease payment for all leases. Depreciation of 'right-of-use' assets and interest on lease liabilities will be charged to the income statement, replacing the corresponding operating lease rentals.

Management's assessment of the impact of IFRS 16 is substantially complete; 90% of the Group's lease liability relates to nine leases; 62% relating to hotels and 28% relating to offices.

The Group will take the elections available under IFRS 16 not to apply the lease accounting model to intangible assets, leases which are considered low value or which have a term of less than 12 months. The Group will apply the full retrospective method of application.

In respect of accounting for variable leases with guaranteed amounts, the guaranteed amount has been judged to be 'in-substance fixed' and will be included in the lease liability under IFRS 16.

If the results for the year ended 31 December 2018 had been reported under IFRS 16, the estimated impacts would have been as follows:

	$m
Cost of sales	18
Administrative expenses	33
Depreciation and amortisation	(34)
Interest expense	(19)
Tax	1
Total profit impact	**(1)**
Leased assets	323
Deferred tax assets	3
Other assets	(2)
Lease liabilities	(431)
Deferred tax liabilities	7
Other liabilities	31
Net assets impact	**(69)**

These estimates are subject to further refinement as the implementation project is finalised.

Other standards

From 1 January 2019, the Group will also apply the amendments to:

- IAS 28 'Investments in Associates and Joint Ventures' relating to long-term interests to which the equity method is not applied;
- IFRS 9 'Financial Instruments' relating to prepayment features with negative compensation;
- IFRIC 23 'Uncertainty over Income Tax Treatments';
- IAS 19 'Plan Amendment, Curtailment or Settlement'; and
- Other existing standards arising from the Annual Improvements to IFRSs 2015–2017 cycle.

These amendments are not expected to have a material impact on the Group's reported financial performance or position.

The effective date for IFRS 17 'Insurance Contracts' has been delayed to 1 January 2022. The Group has not yet determined the impact of this standard on the Group's reported financial performance or position.

Notes to the Group Financial Statements

1. Exchange rates

The results of operations have been translated into US dollars at the average rates of exchange for the year. In the case of sterling, the translation rate is $1=£0.75 (2017: $1=£0.78, 2016: $1=£0.74). In the case of the euro, the translation rate is $1=€0.85 (2017: $1=€0.89, 2016: $1=€0.90).

Assets and liabilities have been translated into US dollars at the rates of exchange on the last day of the year. In the case of sterling, the translation rate is $1=£0.78 (2017: $1=£0.74, 2016: $1=£0.81). In the case of the euro, the translation rate is $1=€0.87 (2017: $1=€0.83, 2016: $1=€0.95).

2. Segmental information

With effect from 1 January 2018, an internal reorganisation resulted in the formation of a new operating segment, Europe, Middle East, Asia and Africa (EMEAA), bringing together the former segments of Europe and Asia, Middle East and Africa (AMEA). By bringing together two strong, established regions, there will be an increased focus on growth through increased agility and effectiveness.

Following this reorganisation, the management of the Group's operations, excluding Central functions, is organised within three geographical regions:

- Americas;
- EMEAA; and
- Greater China.

These, together with Central functions, comprise the Group's four reportable segments. Each of the geographical regions is led by its own Chief Executive Officer who reports to the Group Chief Executive Officer. No operating segments have been aggregated to form these reportable segments.

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

Management monitors the operating results of the geographical regions and Central functions separately for the purpose of making decisions about resource allocation and performance assessment. The System Fund is not viewed as being part of the Group's core operations as IHG is unable to profit from its activities. As such, its results are not regularly reviewed by the Chief Operating Decision Maker (CODM) and it does not constitute an operating segment under IFRS 8. Similarly, reimbursements of costs are not reported to the CODM and so are not included within the reportable segments.

Segmental performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the Consolidated Financial Statements, excluding System Fund and exceptional items. Group financing activities and income taxes are managed on a Group basis and are not allocated to reportable segments.

Comparatives have been restated for IFRS 15 and presentational changes (see pages 109 to 114) to show segmental information on a consistent basis.

Revenue

Year ended 31 December	2018 $m	2017 Restated $m	2016 Restated $m
Americas	**1,051**	999	969
EMEAA	**569**	457	439
Greater China	**143**	117	112
Central	**170**	157	147
Revenue from reportable segments	**1,933**	1,730	1,667
System Fund revenues	**1,233**	1,242	1,199
Reimbursement of costs	**1,171**	1,103	1,046
Total revenue	**4,337**	4,075	3,912

2. Segmental information continued

Profit

Year ended 31 December	2018 $m	2017 Restated $m	2016 Restated $m
Americas	662	637	626
EMEAA	202	171	157
Greater China	69	52	46
Central	(117)	(102)	(123)
Operating profit from reportable segments	816	758	706
System Fund	(146)	(34)	35
Exceptional items (note 6)	(104)	4	(29)
Operating profit	566	728	712
Net finance costs	(81)	(72)	(80)
Profit before tax	485	656	632
Tax	(133)	(115)	(173)
Profit for the year	352	541	459

All items above relate to continuing operations.

Assets

31 December	2018 $m	2017 Restated $m
Americas	1,568	1,500
EMEAA	666	504
Greater China	110	105
Central	579	541
Segment assets	2,923	2,650
Unallocated assets:		
Derivative financial instruments	8	–
Tax receivable	58	117
Deferred tax assets	60	75
Cash and cash equivalents	704	168
Total assets	3,753	3,010

Liabilities

31 December	2018 $m	2017 Restated $m
Americas	(676)	(620)
EMEAA	(241)	(232)
Greater China	(61)	(64)
Segment liabilities	(978)	(916)
Unallocated liabilities:		
Loyalty and co-brand deferred revenue and other payables	(1,291)	(1,186)
Loans and other borrowings	(2,249)	(2,019)
Tax payable	(50)	(89)
Deferred tax liabilities	(131)	(101)
Deferred and contingent purchase consideration	(131)	–
Total liabilities	(4,830)	(4,311)

Notes to the Group Financial Statements continued

2. Segmental information continued

Other segmental information

Year ended 31 December 2018	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Capital expenditure (page 119)	**74**	**33**	**2**	**134**	**243**
Non-cash items:					
Depreciation and amortisation[a]	**27**	**8**	**3**	**42**	**80**
Share-based payments cost	**8**	**4**	**3**	**12**	**27**
Share of losses/(gains) of associates and joint ventures	**6**	**(5)**	**–**	**–**	**1**

Year ended 31 December 2017 (Restated)	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Capital expenditure (page 119)	120	26	2	188	336
Non-cash items:					
Depreciation and amortisation[a]	23	7	1	47	78
Share-based payments cost	6	4	3	8	21
Share of losses/(gains) of associates and joint ventures	1	(4)	–	–	(3)
Impairment charges	18	–	–	–	18

Year ended 31 December 2016 (Restated)	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Capital expenditure	67	22	1	148	238
Non-cash items:					
Depreciation and amortisation[a]	21	7	1	46	75
Share-based payments cost	6	4	3	4	17
Share of losses/(gains) of associates and joint ventures	7	(5)	–	–	2
Impairment charges	16	–	–	–	16

[a] Included in the $80m (2017: $78m, 2016: $75m) of depreciation and amortisation is $61m (2017: $53m, 2016: $54m) relating to administrative expenses and $19m (2017: $25m, 2016: $21m) relating to cost of sales. A further $45m of depreciation and amortisation was recorded within System Fund expenses (2017: $36m, 2016: $31m).

2. Segmental information continued

Reconciliation of capital expenditure

Year ended 31 December 2018	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Capital expenditure per management reporting	74	33	2	134	243
Contract acquisition costs	(32)	(26)	–	–	(58)
Landlord contributions to property, plant and equipment	–	–	–	8	8
Timing differences and other adjustments	1	–	–	–	1
Additions per the Financial Statements	43	7	2	142	194
Comprising additions to:					
Property, plant and equipment	13	2	2	30	47
Intangible assets	–	–	–	112	112
Investment in associates and joint ventures	3	–	–	–	3
Other financial assets	27	5	–	–	32
	43	7	2	142	194

Year ended 31 December 2017 (Restated)	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Capital expenditure per management reporting	120	26	2	188	336
Contract acquisition costs	(36)	(21)	–	–	(57)
Landlord contributions to property, plant and equipment	–	–	–	14	14
Timing differences and other adjustments	(12)	–	–	(1)	(13)
Additions per the Financial Statements	72	5	2	201	280
Comprising additions to:					
Property, plant and equipment	10	–	2	32	44
Intangible assets	3	–	–	169	172
Investment in associates and joint ventures	47	–	–	–	47
Other financial assets	12	5	–	–	17
	72	5	2	201	280

Geographical information

Year ended 31 December	2018 $m	2017 Restated $m	2016 Restated $m
Revenue			
United Kingdom	151	74	72
United States	1,950	1,845	1,750
China	222	201	192
Rest of World	781	713	699
	3,104	2,833	2,713
System Fund (note 32)	1,233	1,242	1,199
	4,337	4,075	3,912

For the purposes of the above table, hotel revenue is determined according to the location of the hotel and other revenue is attributed to the country of origin. In addition to the United Kingdom, revenue relating to an individual country is separately disclosed when it represents 10% or more of total revenue. System Fund revenues are not included in the geographical analysis as the Group does not monitor the Fund's revenue by location of the hotel, or in the case of the loyalty programme, according to the location where members consume their rewards.

Notes to the Group Financial Statements continued

2. Segmental information continued

31 December	2018 $m	2017 Restated $m
Non-current assets		
United Kingdom	148	52
United States	1,510	1,476
Rest of World	361	297
	2,019	1,825

For the purposes of the above table, non-current assets comprise property, plant and equipment, goodwill and other intangible assets, investments in associates and joint ventures, non-current trade and other receivables, non-current contract costs and non-current contract assets. In addition to the United Kingdom, non-current assets relating to an individual country are separately disclosed when they represent 10% or more of total non-current assets, as defined above.

3. Revenue

A description of the Group's contracts with customers and its performance obligations under those contracts is contained on pages 106-107 and 109-110.

Disaggregation of revenue

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

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 32)					1,233
Reimbursement of costs					1,171
Total revenue					4,337

Year ended 31 December 2017	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Franchise and base management fees	795	204	73	–	1,072
Incentive management fees	16	90	44	–	150
Central revenue	–	–	–	157	157
Revenue from fee business	811	294	117	157	1,379
Revenue from owned, leased and managed lease hotels	188	163	–	–	351
	999	457	117	157	1,730
System Fund revenues (note 32)					1,242
Reimbursement of costs					1,103
Total revenue					4,075

Year ended 31 December 2016	Americas $m	EMEAA $m	Greater China $m	Central $m	Group $m
Franchise and base management fees	781	194	71	–	1,046
Incentive management fees	15	80	41	–	136
Central revenue	–	–	–	147	147
Revenue from fee business	796	274	112	147	1,329
Revenue from owned, leased and managed lease hotels	173	165	–	–	338
	969	439	112	147	1,667
System Fund revenues (note 32)					1,199
Reimbursement of costs					1,046
Total revenue					3,912

3. Revenue continued

Contract balances

The following tables present information about trade receivables, contract assets, and deferred revenue:

	2018 $m	2017 Restated $m
Trade receivables (note 16)	**474**	452
Contract assets	**290**	258
Deferred revenue	**1,506**	1,357

A trade receivable is recorded when the Group has issued an invoice and has an unconditional right to receive payment. In respect of franchise fees, base and incentive management fees, Central revenue and revenues from owned, leased and managed lease hotels, the invoice is typically issued as the related performance obligations are satisfied, as described on page 106.

Contract assets

Contract assets are recorded in respect of key money payments made to customers, normally at the beginning of the contract term, and payments under performance guarantees. These payments are recognised in the Group income statement as a deduction to revenue over the contract term and, in the Group statement of cash flows, key money payments are described as 'contract acquisition costs'.

	2018 $m	2017 $m
At 1 January	**258**	198
Costs paid	**58**	73
Recognised as a deduction to revenue	**(19)**	(17)
Repayments	**(2)**	–
Exchange and other adjustments	**(5)**	4
At 31 December	**290**	258
Analysed as:		
Current	**20**	17
Non-current	**270**	241
	290	258

Deferred revenue

Deferred revenue is recognised when payment is received before the related performance obligation is satisfied. The main categories of deferred revenue relate to the Loyalty programme, co-branding agreements, and franchise application and re-licensing fees.

	Loyalty programme $m	Other co-brand fees $m	Application & re-licensing fees $m	Other $m	Total $m
At 1 January 2018	**1,057**	**88**	**163**	**49**	**1,357**
Acquisition of businesses	**–**	**–**	**–**	**8**	**8**
Increase in deferred revenue	**540**	**–**	**36**	**67**	**643**
Recognised as revenue	**(416)**	**(11)**	**(23)**	**(47)**	**(497)**
Exchange and other adjustments	**–**	**–**	**(1)**	**(4)**	**(5)**
At 31 December 2018	**1,181**	**77**	**175**	**73**	**1,506**
Analysed as:					
Current	**491**	**11**	**23**	**47**	**572**
Non-current	**690**	**66**	**152**	**26**	**934**
	1,181	**77**	**175**	**73**	**1,506**

	Loyalty programme $m	Other co-brand fees $m	Application & re-licensing fees $m	Other $m	Total $m
At 1 January 2017	1,033	100	148	33	1,314
Increase in deferred revenue	480	–	39	34	553
Recognised as revenue	(456)	(12)	(24)	(18)	(510)
At 31 December 2017	1,057	88	163	49	1,357
Analysed as:					
Current	422	11	24	33	490
Non-current	635	77	139	16	867
	1,057	88	163	49	1,357

Notes to the Group Financial Statements continued

3. Revenue continued

The table on the previous page does not include amounts which were received and recognised as revenue in the year. Amounts recognised as revenue were included in deferred revenue at the beginning of the year.

Loyalty programme revenues, shown gross in the table on the previous page, are presented net of the corresponding redemption cost in the Group income statement.

Other deferred revenue includes guest deposits received by owned, leased and managed lease hotels.

Transaction price allocated to remaining performance obligations

The Group has applied the practical expedient in IFRS 15 not to disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied as at the end of the reporting period for all amounts where the Group has a right to consideration in an amount that corresponds directly with the value to the customer of the Group's performance completed to date (including franchise and management fees).

Amounts received and not yet recognised related to performance obligations that were unsatisfied at 31 December 2018 are as follows:

	2018			2017		
Expected to be recognised in:	Loyalty and co-brand $m	Other $m	Total $m	Loyalty and co-brand $m	Other $m	Total $m
Less than one year	502	70	572	433	57	490
Between one and two years	257	31	288	221	29	250
Between two and three years	158	26	184	137	24	161
Between three and four years	106	22	128	95	22	117
Between four and five years	75	20	95	69	20	89
More than five years	160	79	239	190	60	250
	1,258	248	1,506	1,145	212	1,357

Contract costs

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

	2018 $m	2017 $m
At 1 January	58	53
Costs incurred	9	12
Amortisation	(7)	(7)
At 31 December	60	58
Analysed as:		
Current	5	7
Non-current	55	51
	60	58

4. Staff costs and Directors' emoluments

	2018 $m	2017 $m	2016 $m
Staff costs			
Wages and salaries	**1,956**	1,868	1,738
Social security costs	**127**	106	106
Pension and other post-retirement benefits:			
Defined benefit plans (note 25)	**19**	5	5
Defined contribution plans	**63**	61	58
	2,165	2,040	1,907
Analysed as:			
Costs borne by IHG[a]	**708**	645	594
Costs borne by the System Fund[b]	**347**	339	311
Costs reimbursed	**1,110**	1,056	1,002
	2,165	2,040	1,907

	2018	2017	2016
Average number of employees, including part-time employees			
Employees whose costs are borne by IHG:			
Americas	**2,225**	2,149	2,121
EMEAA	**3,255**	2,267	2,380
Greater China	**324**	294	299
Central	**1,794**	1,948	1,787
	7,598	6,658	6,587
Employees whose costs are borne by the System Fund	**5,214**	5,555	5,434
Employees whose costs are reimbursed	**22,518**	22,577	22,002
	35,330	34,790	34,023

[a] Includes $36m (2017: $13m, 2016: $1m) classified as exceptional relating to the comprehensive efficiency programme.

[b] Includes $21m (2017: $9m, 2016: $nil) relating to the comprehensive efficiency programme.

	2018 $m	2017 $m	2016 $m
Directors' emoluments			
Base salaries, fees, performance payments and benefits	**7.1**	4.9	6.1

More detailed information on the emoluments, pensions, share awards and shareholdings for each Director is shown in the Directors' Remuneration Report on pages 72 to 85.

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

	2018 $m	2017 $m	2016 $m
Audit of the Financial Statements[a]	**3.3**	3.0	2.4
Audit of subsidiaries	**2.9**	2.2	2.2
Audit-related assurance services	**0.2**	0.2	0.2
Other assurance services	**1.3**	1.0	1.2
Tax compliance	**–**	0.1	0.4
Tax advisory	**–**	–	0.1
Other non-audit services not covered by the above	**0.1**	0.2	0.1
	7.8	6.7	6.6

[a] Includes $0.4m (2017: $0.5m, 2016: $nil) of additional fees for specific procedures performed in relation to the implementation of new accounting standards.

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

Notes to the Group Financial Statements continued

6. Exceptional items

	2018 $m	2017 Restated $m	2016 $m
Exceptional items before tax			
Administrative expenses:			
Acquisition and integration costs[a]	(15)	(15)	(13)
Litigation[b]	(18)	–	–
Reorganisation costs[c]	(56)	(36)	–
Pension settlement cost[d]	(15)	–	–
	(104)	(51)	(13)
Other operating income and expenses:			
Gain on disposal of equity securities measured at fair value (note 15)	–	73	–
	–	73	–
Impairment charges:			
Associates (note 14)	–	(18)	(16)
	–	(18)	(16)
	(104)	4	(29)
Tax			
Tax on exceptional items[e]	22	(2)	12
Exceptional tax[f]	5	90	–
	27	88	12
Exceptional items before tax analysed as:			
Americas	(36)	37	(29)
EMEAA	(12)	(4)	–
Greater China	(1)	–	–
Central	(55)	(29)	–
	(104)	4	(29)

[a] In 2018, relates to the acquisitions of Regent (see note 11), the UK portfolio (see note 11) and Six Senses (see note 33) and, in 2017 and 2016, related to the cost of integrating Kimpton into the operations of the Group. Kimpton was acquired on 16 January 2015 and the integration programme was completed in 2017.

[b] Primarily relates to a material settlement agreed in respect of a lawsuit filed against the Group in the Americas region, together with associated legal fees.

[c] In September 2017, the Group launched a comprehensive efficiency programme funding a series of new strategic initiatives to drive an acceleration in IHG's future growth. The programme is centred around strengthening the Group's organisational structure to redeploy resources to leverage scale in the highest opportunity markets and segments. The programme is expected to be completed in 2019. The cost includes consultancy fees of $25m (2017: $24m) and severance costs of $18m (2017: $8m). An additional $47m (2017: $9m) has been charged to the System Fund.

[d] Arises from the termination of the US funded Inter-Continental Hotels Pension Plan (see note 25).

[e] In 2018, comprises a current tax credit of $11m on reorganisation costs (2017: $13m), a $5m current tax credit in respect of litigation costs, a $6m tax credit ($5m current tax and $1m deferred tax) arising from the US pension settlement, a $2m current tax credit in respect of acquisition costs and a $2m prior year current tax charge on the sale of a minority investment in 2017 (2017: $28m). In 2017 there was also a $7m (2016: $6m) deferred tax credit in respect of the impairment charge relating to the InterContinental Barclay associate, and a $6m (2016: $5m) deferred tax credit on Kimpton integration costs. In 2016 there was also a $1m credit in respect of other items.

[f] In 2018, $5m (2017: $32m current tax charge) relates to a prior year current tax credit in respect of the "transition tax" introduced in December 2017 as a result of significant US tax reform. 2017 has been restated to reflect the re-measurement arising from the significant US tax reform on the deferred taxes created or eliminated by IFRS 15. The 2017 restated amounts include a $112m deferred tax credit as a result of the US tax reform and a $10m deferred tax credit representing a reduction in the Group's unremitted earnings provision.

All items above relate to continuing operations.

The above items are treated as exceptional by reason of their size or nature, as further described on page 108.

7. Finance costs

	2018 $m	2017 Restated $m	2016 Restated $m
Financial income			
Interest income on deposits	2	1	3
Interest income on loans and receivables	3	3	3
	5	4	6
Financial expenses			
Interest expense on borrowings	66	62	71
Finance charge payable under finance leases	20	20	20
Capitalised interest	(5)	(6)	(5)
Change in fair value of deferred and contingent purchase consideration	5	–	–
	86	76	86

Interest income and expense relate to financial assets and liabilities held at amortised cost, calculated using the effective interest rate method.

During the year, $14m (2017: $7m, 2016: $3m) was payable to the IHG Rewards Club loyalty programme relating to interest on the accumulated balance of cash received in advance of the consumption of points awarded. The expense and corresponding System Fund interest income are eliminated within financial expenses.

Included within capitalised interest is $5m (2017: $6m, 2016: $4m) relating to the System Fund. The rate used for capitalisation of interest was 3.0% (2017: 3.0%, 2016: 3.8%).

The change in fair value relating to deferred and contingent purchase consideration relates to the acquisitions of Regent and the UK portfolio (see note 11).

8. Tax

Tax on profit

	2018 $m	2017 Restated $m	2016 Restated $m
Income tax			
UK corporation tax at 19.00% (2017: 19.25%, 2016: 20.00%):			
Current period	10	10	10
Benefit of tax reliefs on which no deferred tax previously recognised	–	–	(7)
Adjustments in respect of prior periods	4	(2)	(1)
	14	8	2
Foreign tax:			
Current period	95	210	151
Benefit of tax reliefs on which no deferred tax previously recognised	(1)	(13)	–
Adjustments in respect of prior periods[a]	(13)	2	(97)
	81	199	54
Total current tax	95	207	56
Deferred tax:			
Origination and reversal of temporary differences	40	(8)	54
Changes in tax rates and tax laws[b]	1	(59)	(2)
Adjustments to estimated recoverable deferred tax assets[c]	(2)	(9)	(25)
Adjustments in respect of prior periods[a]	(1)	(16)	90
Total deferred tax	38	(92)	117
Total income tax charge for the year	133	115	173
Further analysed as tax relating to:			
Profit before exceptional items[d]	160	203	185
Exceptional items:			
Tax on exceptional items (note 6)	(22)	2	(12)
Exceptional tax (note 6)	(5)	(90)	–
	133	115	173

[a] In 2016, included $83m in respect of a change in tax treatment being approved by the US tax authority.

[b] In 2017, predominantly reflects a change in US tax rates following significant US tax reforms.

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

[d] Includes $94m (2017: $157m, 2016: $160m) in respect of US taxes.

All items above relate to continuing operations.

Notes to the Group Financial Statements continued

8. Tax continued

	Total[a]			Before exceptional items and System Fund[b]		
	2018 %	2017 Restated %	2016 Restated %	**2018 %**	2017 Restated %	2016 Restated %
Reconciliation of tax charge						
UK corporation tax at standard rate	**19.0**	19.3	20.0	**19.0**	19.3	20.0
Tax credits	**(0.5)**	(0.5)	(2.2)	**(0.3)**	(0.5)	(2.2)
System Fund results[c]	**5.0**	0.9	(1.2)	**(0.5)**	(0.4)	(0.2)
Other permanent differences	**0.6**	0.8	3.5	**0.3**	0.6	3.6
Non-recoverable withholding taxes[d]	**0.7**	0.3	0.7	**0.5**	0.3	0.7
Net effect of different rates of tax in overseas businesses[e]	**4.6**	14.6	12.6	**3.8**	13.7	13.4
Effects of changes in tax rates resulting from significant US tax reform	**–**	(9.3)	–	**–**	–	–
Release of provision for taxation on unremitted earnings following significant US tax reform	**–**	(7.8)	–	**–**	–	–
Transition tax liability arising from significant US tax reform	**–**	4.8	–	**–**	–	–
Effect of other changes in tax rates and tax laws	**0.3**	0.3	0.3	**0.2**	0.3	0.3
Benefit of tax reliefs on which no deferred tax previously recognised	**(0.4)**	(1.9)	(1.1)	**(0.3)**	(1.8)	(1.1)
Effect of adjustments to estimated recoverable deferred tax assets	**0.1**	(1.4)	(4.0)	**0.1**	(1.3)	(4.0)
Adjustment to tax charge in respect of prior periods	**(2.0)**	(2.6)	(1.2)	**(1.0)**	(1.1)	(1.1)
	27.4	17.5	27.4	**21.8**	29.1	29.4

[a] Calculated in relation to total profits including exceptional items.

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

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

[d] In 2018, IHG recognised a benefit in respect of the offset of foreign taxes arising in 2018 against its 2017 tax. The Group does not anticipate such benefit in future periods, leading to an increase in irrecoverable tax by up to 2%ppts on to the underlying rate before exceptional items and System Fund.

[e] Before exceptional items and System Fund includes 4.2%ppts (2017: 13.3%ppts, 2016: 12.2%ppts) driven by the relatively high US federal tax rate.

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

	2018			2017 Restated			2016 Restated		
	Profit $m	**Tax $m**	**Rate %**	Profit $m	Tax $m	Rate %	Profit $m	Tax $m	Rate %
Group income statement	**485**	**133**	**27.4**	656	115	17.5	632	173	27.4
Adjust for:									
Exceptional items and tax (note 6)	**104**	**27**		(4)	88		29	12	
System Fund revenues	**(1,233)**	**–**		(1,242)	–		(1,199)	–	
System Fund expenses	**1,379**	**–**		1,276	–		1,164	–	
Other	**–**	**–**		–	(3)		–	(1)	
	735	**160**	**21.8**	686	200	29.1	626	184	29.4

Tax paid

Total net tax paid during the year of $68m (2017: $172m, 2016: $130m) comprises $66m (2017: $147m, 2016: $130m) paid in respect of operating activities and $2m (2017: $25m, 2016: $nil) paid in respect of investing activities. A reconciliation of tax paid to the total tax charge in the income statement is as follows:

	2018 $m	2017 $m	2016 $m
Current tax charge in the income statement	**95**	207	56
Current tax credit in the statement of comprehensive income	**(1)**	–	(12)
Current tax credit taken directly to equity	**(8)**	(12)	(8)
Total current tax charge	**86**	195	36
Movements to tax contingencies within the income statement[a]	**4**	3	11
Timing differences of cash tax paid and foreign exchange differences[b]	**(22)**	(26)	83
Tax paid per cash flow	**68**	172	130

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

[b] The timing difference in 2016 was predominantly in respect of the US where the payment regulations resulted in a large overpayment in the year.

8. Tax continued

Current tax

Within current tax payable is $29m (2017: $42m) in respect of uncertain tax positions.

The calculation of the Group's total tax charge involves consideration of applicable tax laws and regulations in many jurisdictions throughout the world. From time to time, the Group is subject to tax audits and uncertainties in these jurisdictions. The issues involved can be complex and disputes may take a number of years to resolve.

Where the interpretation of local tax law is not clear, management relies on judgement and accounting estimates to ensure all uncertain tax positions are adequately provided for in the Group Financial Statements. This may involve consideration of some or all of the following factors:

- Strength of technical argument, impact of case law and clarity of legislation;
- Professional advice;
- Experience of interactions, and precedents set, with the particular taxing authority; and
- Agreements previously reached in other jurisdictions on comparable issues.

The largest single contingency item within the current tax payable balance does not exceed $8m (2017: $8m).

Deferred tax

	Property, plant, equipment and software $m	Other intangible assets[a] $m	Application fees and contract costs[a] $m	Deferred gains on loan notes $m	Deferred gains on investments $m	Losses $m	Employee benefits $m	Undistributed earnings of subsidiaries[b] $m	Other short-term temporary differences[a,c] $m	Total[a] $m
At 1 January 2017	120	(5)	(36)	52	78	(44)	(27)	59	(96)	101
Income statement[d]	(22)	13	11	(18)	(24)	1	(4)	(61)	12	(92)
Statement of comprehensive income	–	–	–	–	–	–	10	(1)	4	13
Statement of changes in equity	–	–	–	–	–	–	–	–	3	3
Exchange and other adjustments	–	(1)	–	–	–	3	1	3	(5)	1
At 31 December 2017	98	7	(25)	34	54	(40)	(20)	–	(82)	26
Income statement	**26**	**9**	**(4)**	**1**	**2**	**4**	**–**	**2**	**(2)**	**38**
Assets of businesses acquired	**(4)**	**11**	**–**	**–**	**–**	**–**	**–**	**–**	**(10)**	**(3)**
Statement of comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**–**	**2**	**4**
Statement of changes in equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**5**
Exchange and other adjustments	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**–**	**–**	**1**
At 31 December 2018	**120**	**27**	**(29)**	**35**	**56**	**(35)**	**(18)**	**2**	**(87)**	**71**

[a] Restated for the adoption of IFRS 15 (see pages 109 to 113).

[b] In 2017, release largely as a result of the impact of the new US transition tax charge.

[c] Primarily relates to provisions, accruals, amortisation and share-based payments and contingent purchase consideration.

[d] Movements largely reflect the impact of significant US tax reform enacted in 2017.

Deferred gains on investments represent tax which would crystallise upon a sale of a related joint venture, associate or other equity investment. Deferred gains on loan notes represent tax which is expected to fall due for payment in 2025 (2017: 2025). The deferred tax asset recognised in respect of losses of $35m (2017: $40m) is wholly in respect of revenue losses. A deferred tax asset of $nil (2017: $2m) is recognised in a legal entity which suffered a tax loss in the current or preceding period in 2017; this asset was recognised based on the profit forecast of the entity in question. Offset against deferred tax assets is $nil (2017: $5m) in respect of uncertain tax positions.

Notes to the Group Financial Statements continued

8. Tax continued

The closing balance is further analysed by key territory as follows:

	Property, plant, equipment and software $m	Other intangible assets $m	Application fees and contract costs $m	Deferred gains on loan notes $m	Deferred gains on investments $m	Losses $m	Employee benefits $m	Undistributed earnings of subsidiaries $m	Other short-term temporary differences $m	Total $m
UK	(7)	(4)	1	–	–	(15)	(4)	–	(24)	(53)
US	127	27	(34)	35	56	(16)	(14)	2	(59)	124
Other	–	4	4	–	–	(4)	–	–	(4)	–
	120	27	(29)	35	56	(35)	(18)	2	(87)	71

The analysis of the deferred tax balance after considering the offset of assets and liabilities within entities where there is a legal right to do so is as follows:

	2018 $m	2017 Restated $m
Analysed as:		
Deferred tax assets	(60)	(75)
Deferred tax liabilities	131	101
	71	26

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

The total unrecognised deferred tax position is as follows:

	Gross		Unrecognised deferred tax	
	2018 $m	2017 $m	2018 $m	2017 $m
Revenue losses	448	452	67	76
Capital losses	516	515	90	99
Total losses	964	967	157	175
Other[a]	25	35	6	9
	989	1,002	163	184

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

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

	Gross		Unrecognised deferred tax	
	2018 $m	2017 $m	2018 $m	2017 $m
Expiry date:				
2021	28	21	6	5
2022	10	11	2	3
2023	1	1	–	–
2024	4	20	–	1
2025	92	92	21	23
After 2025	46	26	3	3

No deferred tax liability has been recognised in respect of $0.8bn (2017: $0.5bn) of taxable temporary differences relating to subsidiaries (comprising undistributed earnings and net inherent gains) because the Group is in a position to control the timing of the reversal of these temporary differences and it is probable that such differences will not reverse in the foreseeable future.

8. Tax continued

Tax risks, policies and governance

Information concerning the Group's tax governance can be found in the Taxation section of the Strategic Report on page 50.

Factors that may affect the future tax charge

Many factors will affect the Group's future tax rate, the key ones being future legislative developments, future profitability of underlying subsidiaries and tax uncertainties.

There are many potential future changes to worldwide taxation systems as a result of the potential adoption by individual territories of recommendations of the OECD's Base Erosion and Profit Shifting project, and other similar initiatives being driven by governments and tax authorities. The Group continues to monitor activity in this area.

At the current time, the exact detail of the United Kingdom's exit from the European Union is unknown. Based upon the Group's profile and areas that have been publicly discussed, the Group does not anticipate the exit to cause a material impact on its future effective base tax rate.

9. Dividends

	2018 cents per share	2017 cents per share	2016 cents per share	**2018 $m**	2017 $m	2016 $m
Paid during the year:						
Final (declared for previous year)	**71.0**	64.0	57.5	**130**	127	137
Interim	**36.3**	33.0	30.0	**69**	62	56
Special (note 27)	**–**	202.5	632.9	**–**	404	1,500
	107.3	299.5	720.4	**199**	593	1,693
Proposed (not recognised as a liability at 31 December):						
Final	**78.1**	71.0	64.0	**141**	135	126

The final dividend of 78.1¢ per ordinary share is proposed for approval at the Annual General Meeting (AGM) on 3 May 2019 and is payable on the shares in issue at 29 March 2019.

In October 2018, the Board announced a $500m return of funds to shareholders by way of a special dividend of $2.621 per ordinary share, together with a share consolidation. On 11 January 2019, shareholders approved the share consolidation on the basis of 19 new ordinary shares of $20^{340}/_{399}$ pence per share for every 20 existing ordinary shares of $19\ ^{17}/_{21}$ pence, which became effective on 14 January 2019 and resulted in the consolidation of 10m shares. The special dividend was paid on 29 January 2019 at a cost of $510m. The dividend and share consolidation had the same economic effect as a share repurchase at fair value, therefore reported earnings per share has not been restated.

Notes to the Group Financial Statements continued

10. Earnings per ordinary share

Basic earnings per ordinary share is calculated by dividing the profit for the year available for IHG equity holders by the weighted average number of ordinary shares, excluding investment in own shares, in issue during the year.

Diluted earnings per ordinary share is calculated by adjusting basic earnings per ordinary share to reflect the notional exercise of the weighted average number of dilutive ordinary share awards outstanding during the year.

Adjusted earnings per ordinary share is disclosed in order to show performance undistorted by exceptional items, to give a more meaningful comparison of the Group's performance.

Additionally, following the adoption of IFRS 15 (see pages 109 to 113), earnings attributable to the System Fund are excluded from the calculation of adjusted earnings per ordinary share, as IHG has an agreement with the IHG Owners Association to spend Fund income for the benefit of hotels in the IHG System such that the Group does not make a gain or loss from operating the Fund.

IHG also records an interest charge on the outstanding cash balance relating to the IHG Rewards Club programme. These interest payments are recognised as interest income for the Fund and interest expense for IHG. The Fund also benefits from the capitalisation of interest related to the development of the next-generation Guest Reservation System. As the Fund is included in the Group income statement, these amounts are included in reported Group net financial expenses. Given that all results related to the Fund are excluded from the calculation of adjusted earnings per ordinary share, these interest amounts are deducted from profit available for equity holders.

Information concerning Non-GAAP measures can be found in the Strategic Report on page 36.

Continuing and total operations	2018	2017 Restated	2016 Restated
Basic earnings per ordinary share			
Profit available for equity holders ($m)	**351**	540	456
Basic weighted average number of ordinary shares (millions)	**190**	193	212
Basic earnings per ordinary share (cents)	**184.7**	279.8	215.1
Diluted earnings per ordinary share			
Profit available for equity holders ($m)	**351**	540	456
Diluted weighted average number of ordinary shares (millions)	**192**	194	214
Diluted earnings per ordinary share (cents)	**182.8**	278.4	213.1
Adjusted earnings per ordinary share			
Profit available for equity holders ($m)	**351**	540	456
Adjusting items:			
System Fund revenues and expenses ($m)	**146**	34	(35)
Interest attributable to the System Fund ($m) (note 7)	**(19)**	(13)	(7)
Tax attributable to the System Fund ($m)	**–**	3	1
Exceptional items before tax ($m) (note 6)	**104**	(4)	29
Tax on exceptional items ($m) (note 6)	**(22)**	2	(12)
Exceptional tax ($m) (note 6)	**(5)**	(90)	–
Adjusted earnings ($m)	**555**	472	432
Basic weighted average number of ordinary shares (millions)	**190**	193	212
Adjusted earnings per ordinary share (cents)	**292.1**	244.6	203.8
Adjusted diluted earnings per ordinary share			
Adjusted earnings ($m)	**555**	472	432
Diluted weighted average number of ordinary shares (millions)	**192**	194	214
Adjusted diluted earnings per ordinary share (cents)	**289.1**	243.3	201.9

	2018 millions	2017 millions	2016 millions
Diluted weighted average number of ordinary shares is calculated as:			
Basic weighted average number of ordinary shares	**190**	193	212
Dilutive potential ordinary shares	**2**	1	2
	192	194	214

11. Acquisition of businesses

Regent

On 1 July 2018, the Group completed the acquisition of a 51% controlling interest in an agreement with Formosa International Hotels Corporation (FIH) to acquire the Regent Hotels and Resorts brand and associated management contracts (Regent). The Group acquired 51% of the issued share capital of Regent Hospitality Worldwide, Inc (RHW), 100% of the issued share capital of Regent International Hotels Limited and 100% of the issued share capital of Regent Berlin GmbH.

Regent is a leading luxury hotel brand which adds to IHG's brand portfolio at the top end of the luxury segment.

Put and call options exist over the remaining 49% shareholding in RHW which are exercisable in a phased manner from 2026. As the decision-making powers related to the remaining shares are not substantive in driving RHW's returns and FIH do not share in any costs associated with the future development of the Regent brand, it has been determined that the Group has a present ownership interest in the remaining shares. As such, RHW has been accounted for as 100% owned with no non-controlling interest recognised.

Regent contributed revenue of $10m and operating profit of $nil for the period between the date of acquisition and the balance sheet date. The results of Regent are included in the EMEAA and Greater China business segments.

If the acquisition had taken place at 1 January 2018, reported Group revenue would have been $9m higher, with no material difference to operating profit for the year ended 31 December 2018.

Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred:

	$m
Cash paid on acquisition	13
Deferred consideration[a]	22
Contingent consideration[b]	53
Total purchase consideration	**88**

[a] Comprises the present value of $13m payable in 2021 and $13m payable in 2024.

[b] Comprises the present value of the expected amounts payable on exercise of the put and call options, assuming $39m is paid in 2026 to acquire an additional 25% of RHW with the remaining 24% acquired in 2028 for $42m. The amount payable on exercise of the options is based on the annual trailing revenue of RHW, with a floor applied. The range of possible outcomes is $81m to $261m (undiscounted). The final put and call options are exercisable in 2033. The value of the contingent consideration is subject to periodic re-assessment as interest rates and RHW revenue expectations change.

Identifiable assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Regent at the date of acquisition were as follows:

	$m
Identifiable intangible assets:	
Brands	57
Management contracts	6
Property, plant and equipment	1
Deferred tax liability	(11)
Net identifiable assets acquired	**53**
Goodwill	35
Total purchase consideration	**88**

The goodwill is mainly attributable to the global growth opportunities identified for the acquired business. Goodwill is not expected to be deductible for income tax purposes. No contingent liabilities were recognised as a result of the acquisition.

If new information obtained within one year of the date of acquisition about the facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, then the accounting for the acquisition will be revised.

Notes to the Group Financial Statements continued

11. Acquisition of businesses continued

UK portfolio

On 25 July 2018, the Group completed a deal to operate nine hotels under long-term leases from Covivio (formerly Foncière des Régions), which operated under the Principal and De Vere Hotels brands. An additional leased hotel was added to the portfolio on 13 November 2018, bringing the total to 10 (UK portfolio) at 31 December 2018. Two further leased hotels were added on 14 February 2019.

The deal establishes IHG as the leading luxury hotel operator in the UK. Over the next one to two years, the hotels will be rebranded to other brands in IHG's luxury and upscale portfolio.

The hotels contributed revenue of $75m and an operating loss of $1m for the period between the date of acquisition and the balance sheet date. The results are included in the EMEAA business segment.

If the acquisition had taken place at 1 January 2018, reported Group revenue would have been $90m higher, with no material difference to operating profit for the year ended 31 December 2018.

Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred:

	$m
Cash paid on acquisition	9
Working capital settlement due[a]	(3)
Contingent consideration[b]	56
Total purchase consideration	**62**

[a] Subject to final agreement and receivable in early 2019.

[b] Comprises the present value of the above-market element of the expected lease payments over the 25 year lives of the hotel lease agreements. The undiscounted amount is $217m. The value of the contingent consideration has been assessed with the assistance of professional third party advisors and is subject to periodic re-assessment as interest rates and expected lease payments change. The above-market assessment has been determined by comparing the expected lease payments as a percentage of forecast hotel operating profit (before depreciation and rent) with market metrics, on a lease by lease basis. There is no floor to the amount payable and no maximum amount.

Identifiable assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of the UK portfolio at the date of acquisition were as follows:

	$m
Identifiable intangible assets: Brands	1
Property, plant and equipment	25
Inventories	1
Trade and other receivables	11
Cash and cash equivalents	2
Trade and other payables	(18)
Deferred revenue	(8)
Stamp duty liability[a]	(14)
Deferred tax asset	14
Net identifiable assets acquired	**14**
Goodwill	48
Total purchase consideration	**62**

[a] The stamp duty liability was settled post-acquisition.

The goodwill is attributable to the trading potential of the acquired hotel operations and growth opportunities. Goodwill is not expected to be deductible for income tax purposes. No contingent liabilities were recognised as a result of the acquisition.

Included in trade and other receivables are trade receivables with a gross contractual value of $5m, which are expected to be collectable in full. The fair value of trade receivables approximates the book value of $5m.

If new information obtained within one year of the date of acquisition about the facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, then the accounting for the acquisition will be revised.

11. Acquisition of businesses continued

Cash flows relating to acquisitions

	$m
Regent	
Cash paid on acquisition	13
UK portfolio	
Cash paid on acquisition	9
Contingent consideration paid	4
Settlement of stamp duty liability	14
Less: cash and cash equivalents acquired	(2)
	25
Net cash outflow arising on acquisitions	38

12. Property, plant and equipment

	Land and buildings $m	Fixtures, fittings and equipment $m	Total $m
Cost			
At 1 January 2017	378	429	807
Additions	9	35	44
Fully depreciated assets written off	–	(19)	(19)
Disposals	–	(4)	(4)
Exchange and other adjustments	1	8	9
At 31 December 2017	388	449	837
Acquisition of businesses (note 11)	–	26	26
Additions	8	39	47
Fully depreciated assets written off	(11)	(167)	(178)
Disposals	–	(29)	(29)
Exchange and other adjustments	(3)	(4)	(7)
At 31 December 2018	**382**	**314**	**696**
Depreciation and impairment			
At 1 January 2017	(78)	(310)	(388)
Provided	(7)	(28)	(35)
System Fund expense	–	(6)	(6)
Fully depreciated assets written off	–	19	19
Disposals	–	3	3
Exchange and other adjustments	(1)	(4)	(5)
At 31 December 2017	(86)	(326)	(412)
Provided	(6)	(34)	(40)
System Fund expense	–	(8)	(8)
Fully depreciated assets written off	11	167	178
Disposals	–	25	25
Exchange and other adjustments	–	8	8
At 31 December 2018	**(81)**	**(168)**	**(249)**
Net book value			
At 31 December 2018	**301**	**146**	**447**
At 31 December 2017	302	123	425
At 1 January 2017	300	119	419

The Group's property, plant and equipment mainly comprises hotels, but also offices and computer hardware, throughout the world. 41% (2017: 43%) of the net book value relates to the largest owned and leased hotel, of a total of 23 open hotels (2017: 12 open hotels). At 31 December 2018 and 31 December 2017, there were no hotels under construction.

The carrying value of property, plant and equipment held under finance leases at 31 December 2018 was $174m (2017: $181m).

25% (2017: 26%) of hotel properties by net book value were directly owned, with 53% (2017: 57%) held under leases having a term of 50 years or longer.

Notes to the Group Financial Statements continued

12. Property, plant and equipment continued

The table below analyses the net book value of the Group's property, plant and equipment by operating segment at 31 December 2018:

	Americas $m	EMEAA $m	Greater China $m	Central $m	Total $m
Land and buildings	289	–	–	12	301
Fixtures, fittings and equipment	40	34	–	72	146
	329	34	–	84	447

13. Goodwill and other intangible assets

	Goodwill $m	Brands $m	Software $m	Management contracts Restated[a] $m	Other intangibles Restated[a] $m	Total $m
Cost						
At 1 January 2017	370	193	583	71	10	1,227
Additions	–	–	168	–	4	172
Capitalised interest	–	–	6	–	–	6
Disposals	–	–	(14)	–	–	(14)
Exchange and other adjustments	7	–	2	–	(1)	8
At 31 December 2017	377	193	745	71	13	1,399
Acquisition of businesses (note 11)	83	58	–	6	–	147
Additions	–	–	107	–	5	112
Capitalised interest	–	–	5	–	–	5
Disposals	–	–	(72)	–	–	(72)
Exchange and other adjustments	(5)	(1)	(4)	–	–	(10)
At 31 December 2018	455	250	781	77	18	1,581
Amortisation and impairment						
At 1 January 2017	(138)	–	(223)	(5)	(3)	(369)
Provided	–	–	(40)	(2)	(1)	(43)
System Fund expense	–	–	(30)	–	–	(30)
Disposals	–	–	14	–	–	14
Exchange and other adjustments	(2)	–	(2)	–	–	(4)
At 31 December 2017	(140)	–	(281)	(7)	(4)	(432)
Provided	–	–	(36)	(3)	(1)	(40)
System Fund expense	–	–	(37)	–	–	(37)
Disposals	–	–	67	–	–	67
Exchange and other adjustments	(2)	–	6	–	–	4
At 31 December 2018	(142)	–	(281)	(10)	(5)	(438)
Net book value						
At 31 December 2018	313	250	500	67	13	1,143
At 31 December 2017	237	193	464	64	9	967
At 1 January 2017	232	193	360	66	7	858

[a] Restated for the adoption of IFRS 15 (see pages 109 to 113).

Goodwill and brands

During the year, the Group acquired Regent and the UK portfolio (see note 11) resulting in the recognition of goodwill of $83m and brands of $58m, together with management contracts of $6m. The Kimpton acquisition in 2015 resulted in the recognition of goodwill of $167m, brands of $193m and management contracts of $71m.

The Regent and Kimpton brands are both considered to have an indefinite life given their strong brand awareness and reputation, and management's commitment to continued investment in their growth. The brands are protected by trademarks and there are not believed to be any legal, regulatory or contractual provisions that limit the useful lives of the brands. In the hotel industry there are a number of brands that have existed for many years and IHG has brands that are over 60 years old.

The Group tests goodwill and indefinite life intangible assets for impairment annually, or more frequently if there are any indicators that an impairment may have arisen.

13. Goodwill and other intangible assets continued

The year-end carrying value of goodwill and indefinite life brands have been allocated to cash-generating units (CGUs) for impairment testing purposes as follows:

	2018		2017	
	Goodwill $m	Brands $m	Goodwill $m	Brands $m
CGU				
Americas Managed	**69**	**203**	63	193
Americas Franchised	**37**	**–**	37	–
EMEAA – Europe Managed	**29**	**13**	21	–
EMEAA – Europe Franchised	**10**	**–**	10	–
EMEAA – rest of region	**113**	**23**	106	–
Greater China	**7**	**11**	–	–
Allocated to CGUs (including Regent)	**265**	**250**	237	193
UK portfolio	**48**	**–**	–	–
	313	**250**	237	193

The UK portfolio goodwill remained unallocated at 31 December 2018 pending completion of the portfolio acquisition in early 2019.

The goodwill relating to the Regent and UK portfolio acquisitions are included in the Group statement of financial position at their acquisition date fair value. Otherwise, the recoverable amounts of the CGUs have been determined from value in use calculations. These calculations include a three-year period using pre-tax cash flow forecasts derived from the most recent financial budgets approved by management, incorporating growth rates based on management's past experience and industry growth forecasts. The key assumptions that underpin the financial budgets are RevPAR growth and net System size growth. RevPAR is based on market forecasts provided by Oxford Economics adjusted for historical experience of how the Group has performed compared to these expectations. Cash flows beyond the three-year period are extrapolated using terminal growth rates that do not exceed the average long-term growth rates for the relevant markets. A 10% contingency factor is applied to reduce all cash flow projections before being discounted using pre-tax rates that are based on the Group's weighted average cost of capital adjusted to reflect the risks specific to the business model and territory of the CGU being tested.

The terminal growth rates and discount rates used, which are considered to be key assumptions, are as follows:

	2018		2017	
	Terminal growth rate %	Discount rate %	Terminal growth rate %	Discount rate %
Americas Managed	**2.0**	**10.5**	2.0	10.4
Americas Franchised	**2.0**	**9.6**	2.0	9.4
EMEAA – Europe Managed	**2.0**	**11.4**	2.0	10.8
EMEAA – Europe Franchised	**2.0**	**10.5**	2.0	9.8
EMEAA – rest of region	**3.5**	**13.4**	3.5	14.1
Greater China	**2.5**	**12.3**	2.5	13.6

Impairment was not required at either 31 December 2018 or 31 December 2017.

Given the contingency factor applied to the cash flow projections and the significant amounts by which the recoverable amounts of the CGUs exceed their carrying amounts, management have determined that impairment charges would not arise from reasonably possible changes in the key assumptions.

Software

Software includes $273m relating to the development of the next-generation Guest Reservation System with Amadeus. Of this amount $109m relating to Phase 2 of the project was not amortised during the year as it has not been completed and rolled out to hotels.

Substantially all software additions are internally developed.

Management contracts

Management contracts comprise $61m (2017: $64m) in respect of Kimpton and $6m (2017: $nil) in respect of Regent.

The weighted average remaining amortisation period for all management contracts is 25 years (2017 restated: 27 years).

Notes to the Group Financial Statements continued

14. Investment in associates and joint ventures

	Associates $m	Joint ventures $m	Total $m
Cost			
At 1 January 2017	113	26	139
Additions	47	–	47
Share of profits/(losses)	2	1	3
Disposals	(9)	–	(9)
Distributions	(4)	–	(4)
Exchange and other adjustments	2	–	2
At 31 December 2017	151	27	178
Additions	**3**	**–**	**3**
Share of (losses)/profits	**(6)**	**5**	**(1)**
Distributions	**(5)**	**(32)**	**(37)**
Exchange	**(3)**	**–**	**(3)**
At 31 December 2018	**140**	**–**	**140**
Impairment			
At 1 January 2017	(28)	–	(28)
Charge for the year	(18)	–	(18)
Disposals	9	–	9
At 31 December 2017	(37)	–	(37)
Exchange	**1**	**–**	**1**
At 31 December 2018	**(36)**	**–**	**(36)**
Net book value			
At 31 December 2018	**104**	**–**	**104**
At 31 December 2017	114	27	141
At 1 January 2017	85	26	111

All associates and joint ventures are accounted for using the equity method.

During the year, the Group received a distribution of $32m from a joint venture following the sale of the hotel owned by the joint venture.

Impairment charges of $18m and $16m in 2017 and 2016 respectively, related to the Barclay associate (see below), resulted from the depressed trading outlook for the New York hotel market and the high costs of renovating the hotel. The recoverable amount of the investment was measured at its fair value less costs of disposal, based on the Group's share of the market value of the hotel less debt in the associate. The hotel was appraised by a professional external valuer using an income capitalisation approach which is a discounted cash flow technique that measures the present value of projected income flows (over a 10-year period) and the reversion of the property sale. Within the fair value hierarchy, this is categorised as a Level 3 fair value measurement. In addition to the projected income flows, the key assumptions used were a discount rate of 7.3% (2016: 7.3%) and a terminal capitalisation rate of 6.3% (2016: 6.0%).

Barclay associate

The Group held one material associate investment at 31 December 2018, a 19.9% interest in 111 East 48th Street Holdings, LLC (the Barclay associate) which owns InterContinental New York Barclay (the hotel), a hotel managed by the Group. The hotel reopened for trading in April 2016 following a major renovation. The investment is classified as an associate and equity accounted. Whilst the Group has the ability to exercise significant influence through certain decision rights, approval rights relating to the hotel's operating and capital budgets rest solely with the 80.1% majority member. The Group's ability to receive cash dividends is dependent on the hotel generating sufficient income to satisfy specified owner returns.

In March 2017, the Group invested $43m in the Barclay associate in conjunction with a refinancing of the hotel. The cash was used to repay a $43m supplemental bank loan for which the Group had previously provided an indemnity for 100% of the related obligations. As a consequence, the indemnity has been extinguished.

14. Investment in associates and joint ventures continued

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

	31 December 2018 $m	31 December 2017 $m
Non-current assets	**529**	540
Current assets	**70**	41
Current liabilities	**(17)**	(19)
Non-current liabilities	**(319)**	(287)
Net assets	**263**	275
Group share of reported net assets at 19.9%	**52**	55
Adjustments to reflect capitalised costs, and additional rights and obligations under the shareholder agreement	**7**	10
Carrying amount	**59**	65

	12 months to 31 December 2018 $m	12 months to 31 December 2017 $m
Revenue	**103**	90
Loss for the period	**(13)**	(16)
Group's share of loss for the period, including the cost of funding owner returns	**(8)**	(4)

Other associates and joint ventures

The summarised aggregated financial information for individually immaterial associates and joint ventures is set out below. These are mainly investments in entities that own hotels which the Group manages.

	Associates			Joint ventures			Total		
	2018 $m	2017 $m	2016 $m	2018 $m	2017 $m	2016 $m	2018 $m	2017 $m	2016 $m
Share of profits/(losses)									
Operating profits before exceptional items	**2**	6	5	**5**	1	1	**7**	7	6

15. Other financial assets

	2018 $m	2017 $m
Equity securities measured at fair value		
Quoted equity shares	**8**	10
Unquoted equity shares	**108**	117
	116	127
Financial assets measured at amortised cost		
Trade deposits and loans	**50**	43
Restricted funds	**55**	32
Bank accounts pledged as security	**40**	42
	145	117
Total other financial assets	**261**	244

	2018 $m	2017 $m
Analysed as:		
Current	**1**	16
Non-current	**260**	228
	261	244

Equity securities are measured at fair value through other comprehensive income and mainly comprise strategic investments in entities that own hotels which the Group manages. The fair value of the most significant investments at 31 December 2018 together with the dividend income received in 2018 is as follows:

	Fair value 2018 $m	Dividend income[a] 2018 $m
Investment in entity which owns:		
InterContinental The Willard Washington DC	**31**	**–**
InterContinental San Francisco	**31**	**6**
InterContinental Grand Stanford Hong Kong	**16**	**2**
Other	**38**	**1**
	116	**9**

[a] Reported as 'other operating income and expenses' in the Group income statement.

Equity securities were denominated in the following currencies: US dollars $91m (2017: $93m), Hong Kong dollars $16m (2017: $25m) and other currencies $9m (2017: $9m).

On 13 December 2017, the sale of Avendra, LLC (Avendra) to Aramark Services, Inc., resulted in the Group receiving cash proceeds of $75m from its 6.29% interest in Avendra and the recording of a $73m exceptional gain in the Group income statement (see note 6). Prior to the sale, the Group's investment in Avendra was included in unquoted equity shares. Avendra is a North American hospitality procurement services provider.

Trade deposits and loans include deposits of $66m made to a hotel owner in connection with a portfolio of management contracts. The deposits are non-interest-bearing and repayable at the end of the management contract terms, and are therefore held at a discounted value of $30m (2017: $28m); the discount unwinds to the income statement within 'financial income' over the period to repayment.

Restricted funds include $25m placed in a shortfall reserve deposit which is held for the specific purpose of funding shortfalls in owner returns relating to the Barclay associate. No amounts required release from the deposit during the year. Other restricted funds largely comprise cash ring-fenced to satisfy insurance claims.

The bank accounts pledged as security (£31m) are subject to a charge in favour of the members of the UK unfunded pension arrangement (see note 25).

The movement in the provision for impairment of equity securities during the year is as follows:

	2018 $m	2017 $m
At 1 January	**(18)**	(22)
Elimination of provision on adoption of IFRS 9	**18**	–
Disposals	**–**	4
At 31 December	**–**	(18)

16. Trade and other receivables

	2018 $m	2017 $m
Current		
Trade receivables	**474**	452
Other receivables	**27**	23
Prepayments	**111**	74
Loans to and receivables from associates	**1**	2
	613	551

Trade and other receivables are held at amortised cost.

Trade receivables are non-interest-bearing and are generally on payment terms of up to 30 days. The fair value of trade and other receivables approximates their carrying value.

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

	2018 $m	2017 $m
Americas	**325**	305
EMEAA	**125**	122
Greater China	**52**	50
	502	477

The ageing of trade and other receivables, excluding prepayments, at the end of the reporting period is:

		2018			2017	
	Gross $m	**Credit loss allowance $m**	**Net $m**	Gross $m	Credit loss allowance $m	Net $m
Not past due	**356**	**(1)**	**355**	333	(1)	332
Past due 1 to 30 days	**71**	**(1)**	**70**	68	(2)	66
Past due 31 to 180 days	**86**	**(9)**	**77**	82	(7)	75
Past due more than 180 days	**–**	**–**	**–**	71	(67)	4
	513	**(11)**	**502**	554	(77)	477

Trade and other receivables over 180 days past due are written off, but continue to be actively pursued. The credit risk relating to balances not past due is not deemed to be significant.

The movement in the allowance for expected lifetime credit losses of trade and other receivables during the year is as follows:

	2018 $m	2017 $m	2016 $m
At 1 January	**(77)**	(69)	(56)
Adjustment arising on adoption of IFRS 9	**67**	–	–
Provided	**(28)**	(15)	(25)
Amounts written back	**–**	2	5
Amounts written off	**26**	6	5
Exchange adjustments	**1**	(1)	2
At 31 December	**(11)**	(77)	(69)

Notes to the Group Financial Statements continued

17. Cash and cash equivalents

	2018 $m	2017 $m
Cash at bank and in hand	**202**	164
Short-term deposits	**234**	4
Repurchase agreements	**268**	–
	704	168

Cash at bank and in hand includes bank balances of $106m (2017: $116m) which are matched by bank overdrafts of $104m (2017: $110m) under the Group's cash pooling arrangements. Under these arrangements, each pool contains a number of bank accounts with the same financial institution and the Group pays interest on net overdraft balances within each pool. The cash pools are used for day-to-day cash management purposes and are managed as closely as possible to a zero balance on a net basis for each pool. Overseas subsidiaries are typically in a cash-positive position with the matching overdrafts held by the Group's central treasury company in the UK.

For the purposes of the Group statement of cash flows, cash and cash equivalents comprise the following:

	2018 $m	2017 $m
Cash at bank and in hand	**202**	164
Short-term deposits	**234**	4
Repurchase agreements	**268**	–
	704	168
Bank overdrafts (note 20)	**(104)**	(110)
	600	58

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

18. Trade and other payables

	2018 $m	2017 Restated $m
Current		
Trade payables	**132**	81
Other tax and social security payable	**44**	48
Other payables	**95**	108
Contingent purchase consideration	**7**	–
Accruals	**340**	360
	618	597
Non-current		
Other payables	**34**	36
Deferred and contingent purchase consideration	**124**	–
	158	36

19. Provisions

	Security Incidents $m	Litigation $m	Insurance reserves $m	Total $m
At 1 January 2017 and 31 December 2017	5	3	–	8
Reclassification from other trade and other payables	**–**	**–**	**25**	**25**
(Released)/provided	**(2)**	**(1)**	**7**	**4**
Utilised	**(3)**	**–**	**(7)**	**(10)**
At 31 December 2018	**–**	**2**	**25**	**27**

	2018 $m	2017 $m
Analysed as:		
Current	**10**	3
Non-current	**17**	5
	27	8

See note 30 for a description of and further information on the Security Incidents provision.

19. Provisions continued

Provisions for insurance claims are mainly in respect of the Group's workers compensation, employment practices liability and third-party general liability insurances. The amounts are based on reserves held in the Group's captive insurance company, SCH Insurance Company, and are established using independent actuarial assessments wherever possible, or a reasonable assessment based on past claims experience.

20. Loans and other borrowings

			2018			2017
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Unsecured bank loans	–	–	–	–	262	262
Finance lease obligations	16	219	235	16	215	231
£400m 3.875% bonds 2022	–	509	509	–	538	538
£300m 3.75% bonds 2025	–	385	385	–	406	406
£350m 2.125% bonds 2026	–	447	447	–	472	472
€500m 2.125% bonds 2027	–	569	569	–	–	–
	16	2,129	2,145	16	1,893	1,909
Bank overdrafts	104	–	104	110	–	110
Total loans and other borrowings	120	2,129	2,249	126	1,893	2,019
Denominated in the following currencies:						
Sterling	–	1,341	1,341	–	1,416	1,416
US dollars	110	219	329	124	477	601
Euros	8	569	577	2	–	2
Other	2	–	2	–	–	–
	120	2,129	2,249	126	1,893	2,019

Loans and other borrowings (excluding bank overdrafts) and currency swaps comprise the liabilities included in the financing activities section of the Group statement of cash flows and their movements are analysed as follows:

	At 1 January 2018 $m	Cash flows $m	Exchange adjustments $m	Other $m	At 31 December 2018 $m
Unsecured bank loans	262	(268)	3	3	–
Finance lease obligations	231	–	–	4	235
£400m 3.875% bonds 2022	538	–	(30)	1	509
£300m 3.75% bonds 2025	406	–	(23)	2	385
£350m 2.125% bonds 2026	472	–	(26)	1	447
€500m 2.125% bonds 2027	–	559	9	1	569
	1,909	291	(67)	12	2,145
Currency swaps:					
Exchange of principal	–	(5)	–	(2)	(7)
Initial fee received	–	3	–	(3)	–
	–	(2)	–	(5)	(7)
	1,909	289	(67)	7	2,138

	At 1 January 2017 $m	Cash flows $m	Exchange adjustments $m	Other $m	At 31 December 2017 $m
Unsecured bank loans	107	153	1	1	262
Finance lease obligations	227	–	–	4	231
£400m 3.875% bonds 2022	489	–	48	1	538
£300m 3.75% bonds 2025	370	–	36	–	406
£350m 2.125% bonds 2026	430	–	42	–	472
	1,623	153	127	6	1,909

Notes to the Group Financial Statements continued

20. Loans and other borrowings continued

Unsecured bank loans

Unsecured bank loans are borrowings under the Group's Syndicated and Bilateral Facilities. Amounts are classified as non-current when the facilities have more than 12 months to expiry.

The Syndicated Facility comprises a $1,275m five-year revolving credit facility maturing in March 2022.

The Bilateral Facility comprises a $75m revolving credit facility maturing in March 2022. The Bilateral Facility contains the same terms and covenants as the Syndicated Facility (see note 22).

A variable rate of interest is payable on amounts drawn under both facilities, which were undrawn at 31 December 2018.

Finance lease obligations

Finance lease obligations, which relate primarily to the 99-year lease (of which 87 years remain) on the InterContinental Boston hotel, are payable as follows:

	2018		2017	
	Minimum lease payments $m	Present value of payments $m	Minimum lease payments $m	Present value of payments $m
Less than one year	16	16	16	16
Between one and five years	72	53	67	49
More than five years	3,212	166	3,234	166
	3,300	235	3,317	231
Less: amount representing finance charges	(3,065)	–	(3,086)	–
	235	235	231	231

The Group has the option to extend the term of the InterContinental Boston lease for two additional 20-year terms. Payments under the lease step up at regular intervals over the lease term. Interest is payable on the obligation at a fixed rate of 9.7%.

£400m 3.875% bonds 2022

The 3.875% fixed interest sterling bonds were issued on 28 November 2012 and are repayable in full on 28 November 2022. Interest is payable annually on 28 November. The bonds were initially priced at 98.787% of face value and are unsecured.

£300m 3.75% bonds 2025

The 3.75% fixed interest sterling bonds were issued on 14 August 2015 and are repayable in full on 14 August 2025. Interest is payable annually on 14 August. The bonds were initially priced at 99.014% of face value and are unsecured.

£350m 2.125% bonds 2026

The 2.125% fixed interest sterling bonds were issued on 24 August 2016 and are repayable in full on 24 August 2026. Interest is payable annually on 24 August. The bonds were initially priced at 99.45% of face value and are unsecured.

€500m 2.125% bonds 2027

The 2.125% fixed interest euro bonds were issued on 15 November 2018 and are repayable in full on 15 May 2027. Interest is payable annually on 15 May. The bonds were initially priced at 99.53% of face value and are unsecured. Currency swaps were transacted at the same time the bonds were issued in order to swap the proceeds and interest flows into sterling (see note 22).

Bank overdrafts

Bank overdrafts are matched by equivalent amounts of cash and cash equivalents under the Group's cash pooling arrangements (see note 17).

Facilities provided by banks

	2018			2017		
	Utilised $m	Unutilised $m	Total $m	Utilised $m	Unutilised $m	Total $m
Committed	–	1,350	1,350	264	1,086	1,350
Uncommitted	–	53	53	1	69	70
	–	1,403	1,403	265	1,155	1,420

	2018 $m	2017 $m
Unutilised facilities expire:		
Within one year	53	69
After two but before five years	1,350	1,086
	1,403	1,155

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

21. Net debt

	2018 $m	2017 $m
Cash and cash equivalents	**704**	168
Loans and other borrowings – current	**(120)**	(126)
– non-current	**(2,129)**	(1,893)
Derivatives hedging debt values (note 22)	**15**	–
Net debt	**(1,530)**	(1,851)

Movement in net debt		
Net increase/(decrease) in cash and cash equivalents, net of overdrafts	**563**	(75)
Add back cash flows in respect of other components of net debt:		
Issue of long-term bonds, including effect of currency swaps	**(554)**	–
Decrease/(increase) in other borrowings	**268**	(153)
Decrease/(increase) in net debt arising from cash flows	**277**	(228)
Non-cash movements:		
Finance lease obligations	**(4)**	(4)
(Increase)/decrease in accrued interest	**(3)**	1
Exchange and other adjustments	**51**	(114)
Decrease/(increase) in net debt	**321**	(345)
Net debt at beginning of the year	**(1,851)**	(1,506)
Net debt at end of the year	**(1,530)**	(1,851)

Information concerning Non-GAAP measures can be found in the Strategic Report on page 36.

Notes to the Group Financial Statements continued

22. Financial risk management and derivatives

Overview

The Group is exposed to financial risks that arise in relation to underlying business activities. These risks include: foreign exchange risk, interest rate risk, liquidity risk, credit risk and capital risk. There are Board approved policies in place to manage these risks. Treasury activities to manage these risks may include money market investments, repurchase agreements, spot and forward foreign exchange instruments, currency swaps, interest rate swaps and forward rate agreements.

Market risk

Foreign exchange risk

The US dollar is the predominant currency of the Group's revenue and cash flows. Movements in foreign exchange rates can affect the Group's reported profit, net liabilities and its interest cover. The most significant exposures of the Group are in currencies that are freely convertible. The Group's reported debt has an exposure to borrowings held in pounds sterling and euros.

Foreign exchange hedging

The Group uses short-dated foreign exchange swaps to manage sterling surplus cash and reduce US dollar borrowings whilst maintaining operational flexibility. At 31 December 2018, the Group held short-dated foreign exchange swaps with principals of $100m (2017: $30m).

From time to time, the Group hedges a portion of forecast foreign currency income by taking out forward exchange contracts. The designated risk is the spot foreign exchange risk. There were no such contracts in place at either 31 December 2018 or 31 December 2017.

At 31 December 2018, the Group held currency swaps with a principal of £436m. These swaps were transacted at the same time as the €500m 2.125% bonds were issued in November 2018 in order to swap the bonds' proceeds and interest flows into sterling. Under the terms of the swaps, £436m was borrowed and €500m deposited for eight and a half years at a fixed exchange rate of £1 = €1.15. The fair value of the currency swap comprises two components: $15m gain relating to exchange movements on the underlying principal and $8m loss relating to other fair value movements. The fair value movement has been recorded in the cash flow hedging reserve and there was no material hedge ineffectiveness. The element relating to the underlying principal is disclosed as a component of net debt (see note 21).

These derivative financial instruments are recorded in the Group statement of financial position at their fair values (see note 23) as follows:

	2018 $m	2017 $m
Currency swaps[a]	7	–
Forward foreign exchange contracts[b]	1	–
	8	–
Analysed as:		
Non-current assets	7	–
Current assets	1	–
	8	–

[a] Designated as a cash flow hedge.

[b] Designated as net investment hedges.

Hedge of net investment in foreign operations

Wherever possible, the Group matches the currency of its debt (either directly or via derivatives) to the currency of its net assets, whilst maximising the amount of US dollars borrowed to reflect the predominant trading currency. However US dollars are only borrowed to the extent that hedge accounting can be achieved.

The Group designates certain foreign currency bank borrowings and currency derivatives as net investment hedges of foreign operations. The designated risk is the spot foreign exchange risk for loans and short-dated derivatives. The interest on these financial instruments is taken through financial income or expense.

The maximum amount of foreign exchange derivatives held during the year as net investment hedges and measured at calendar quarter ends were short-dated foreign exchange swaps with principals of $100m (2017: $160m).

Hedge effectiveness is measured at calendar quarter ends. No ineffectiveness arose in respect of the Group's net investment hedges during the current or prior year.

Cash flow hedging

The currency swaps are designated as hedging instruments in cash flow hedges of the exposure to foreign exchange risk on the €500m 2.125% bonds. The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period was $9m. Amounts recognised in the cash flow hedging reserve are analysed in note 27.

Interest rate risk

The Group is exposed to interest rate risk in relation to its fixed and floating rate borrowings. The Group's policy requires a minimum of 50% fixed rate debt over the next 12 months. With the exception of overdrafts, 100% of borrowings were fixed rate debt at 31 December 2018 (2017: 86%).

Interest rate hedging

If required, the Group uses interest rate swaps to manage the exposure. The Group designates interest rate swaps as cash flow hedges. No interest rate swaps were used to manage interest rate exposure during 2018, 2017 or 2016.

22. Financial risk management and derivatives continued

Interest and foreign exchange risk sensitivities

The following table shows the impact of a general strengthening in the US dollar against sterling and euro on the Group's profit before tax and net liabilities, and the impact of a rise in US dollar, euro and sterling interest rates on the Group's profit before tax.

The impact of the strengthening in the euro against sterling on net liabilities is also shown, as this impacts the fair value of the currency swaps.

		2018 $m	2017 $m	2016 $m
Increase/(decrease) in profit before tax				
Sterling: US dollar exchange rate	5¢ fall	**4.1**	4.0	5.2
Euro: US dollar exchange rate	5¢ fall	**(2.4)**	(2.1)	(2.2)
US dollar interest rates	1% increase	**(0.9)**	(2.9)	(1.8)
Sterling interest rates	1% increase	**5.5**	0.3	1.3
Decrease/(increase) in net liabilities				
Sterling: US dollar exchange rate	5¢ fall	**25.8**	44.1	47.2
Euro: US dollar exchange rate	5¢ fall	**23.1**	(4.1)	(5.5)
Sterling: euro exchange rate	5¢ fall	**31.9**	–	–

The impact of a weakening in the US dollar or a fall in interest rates would be the reverse of the above values.

Interest rate sensitivities are calculated based on the year-end net debt position.

Liquidity risk

The Group policy ensures sufficient liquidity is maintained to meet all foreseeable medium-term cash requirements and provide headroom against unforeseen obligations.

Cash and cash equivalents is held in short-term deposits, repurchase agreements, and cash funds which allow daily withdrawals of cash. Most of the Group's funds are held in the UK or US, although $2m (2017: $3m) is held in countries where repatriation is restricted as a result of foreign exchange regulations.

Medium and long-term borrowing requirements are met through committed bank facilities and bonds as detailed in note 20. Short-term borrowing requirements may be met from drawings under uncommitted overdrafts and facilities.

The Syndicated and Bilateral Facilities contain two financial covenants: interest cover and net debt divided by operating profit before exceptional items, depreciation and amortisation and System Fund revenues and expenses. The Group has been in compliance with all of the financial covenants in its loan documents throughout the year and expects to continue to have significant headroom for the foreseeable future.

The following are the undiscounted contractual cash flows of financial liabilities, including interest payments. The payment profile of contingent consideration has been based on management's forecasts and could in reality be different from expectations.

	Less than 1 year $m	Between 1 and 2 years $m	Between 2 and 5 years $m	More than 5 years $m	Total $m
31 December 2018					
Non-derivative financial liabilities:					
Deferred and contingent consideration	**7**	**8**	**37**	**262**	**314**
Bank overdrafts	**104**	**–**	**–**	**–**	**104**
£400m 3.875% bonds 2022	**20**	**20**	**550**	**–**	**590**
£300m 3.75% bonds 2025	**14**	**14**	**43**	**412**	**483**
£350m 2.125% bonds 2026	**10**	**10**	**28**	**475**	**523**
€500m 2.125% bonds 2027	**6**	**12**	**37**	**621**	**676**
Finance lease obligations	**16**	**16**	**56**	**3,212**	**3,300**
Trade and other payables	**611**	**5**	**9**	**20**	**645**
Derivative financial liabilities:					
Forward foreign exchange contracts	**(1)**	**–**	**–**	**–**	**(1)**
Currency swaps hedging €500m 2.125% bonds 2027 outflows	**20**	**20**	**58**	**625**	**723**
Currency swaps hedging €500m 2.125% bonds 2027 inflows	**(6)**	**(12)**	**(37)**	**(621)**	**(676)**

	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 2017					
Non-derivative financial liabilities:					
Bank overdrafts	110	–	–	–	110
Unsecured bank loans	264	–	–	–	264
£400m 3.875% bonds 2022	21	21	601	–	643
£300m 3.75% bonds 2025	15	15	46	445	521
£350m 2.125% bonds 2026	10	10	30	510	560
Finance lease obligations	16	16	51	3,234	3,317
Trade and other payables	597	5	11	20	633

Notes to the Group Financial Statements continued

22. Financial risk management continued

Credit risk

Credit risk on treasury transactions is minimised by operating a policy on the investment of surplus cash that generally restricts counterparties to those with a BBB credit rating or better or those providing adequate security. The Group uses long-term credit ratings from Standard and Poor's, Moody's and Fitch Ratings as a basis for setting its counterparty limits.

Short-term deposits

The table below analyses the Group's short-term deposits at 31 December 2018 by counterparty credit rating:

	AAA	AA-	A	Total
Short-term deposits	76	70	88	234

Repurchase agreements

The Group invests in repurchase agreements, which are fully collateralised investments, with a maturity of three months or less. The Group accepts only government or supranational bonds where the lowest credit rating is AA- or better as collateral. In the event of default, ownership of these securities would revert to the Group. The securities held as collateral are to protect against default by the counterparty. The table below contains information about the collateral held as security at 31 December 2018:

Collateral by type	2018
Government bonds	**60**
Supranational bonds	**208**
	268

Collateral by credit rating	2018
AAA	**207**
AA	**34**
AA-	**27**
	268

In order to manage the Group's credit risk exposure, the treasury function sets counterparty exposure limits using metrics including credit ratings, the relative placing of credit default swap pricings, tier 1 capital and share price volatility of the relevant counterparty.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In respect of credit risk arising from financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The carrying amount of financial assets represents the maximum exposure to credit risk.

	Note	2018 $m	2017 $m
Cash and cash equivalents	17	**704**	168
Derivative financial instruments	22	**8**	–
Financial assets measured at amortised cost:			
Other financial assets	15	**145**	117
Trade and other receivables, excluding prepayments	16	**502**	477
		1,359	762

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern. The capital structure consists of net debt, issued share capital and reserves totalling $445m at 31 December 2018 (2017: $543m restated). The structure is managed to maintain an investment grade credit rating, to provide ongoing returns to shareholders and to service debt obligations, whilst maintaining maximum operational flexibility. A key characteristic of IHG's managed and franchised business model is that it is highly cash generative, with a high return on capital employed. Surplus cash is either reinvested in the business, used to repay debt or returned to shareholders. The Group's debt is monitored on the basis of a cash flow leverage ratio, being net debt divided by EBITDA, with the objective of maintaining an investment grade credit rating.

23. Fair value measurement

Fair values

The following table compares carrying amounts and fair values of the Group's financial assets and liabilities:

	Note	2018 Carrying value $m	2018 Fair value $m	2017 Carrying value $m	2017 Fair value $m
Financial assets					
Financial assets measured at fair value:					
Equity securities	15	**116**	**116**	127	127
Derivatives	22	**8**	**8**	–	–
		124	**124**	127	127
Financial assets measured at amortised cost:					
Cash and cash equivalents	17	**704**	**704**	168	168
Loans and other receivables:					
Other financial assets	15	**145**	**145**	117	117
Trade and other receivables, excluding prepayments	16	**502**	**502**	477	477
		1,351	**1,351**	762	762
		1,475	**1,475**	889	889
Financial liabilities					
Financial liabilities measured at fair value:					
Deferred and contingent purchase consideration	18	**(131)**	**(131)**	–	–
Financial liabilities measured at amortised cost:					
£400m 3.875% bonds 2022	20	**(509)**	**(543)**	(538)	(593)
£300m 3.75% bonds 2025	20	**(385)**	**(399)**	(406)	(441)
£350m 2.125% bonds 2026	20	**(447)**	**(417)**	(472)	(454)
€500m 2.125% bonds 2027	20	**(569)**	**(566)**	–	–
Finance lease obligations	20	**(235)**	**(313)**	(231)	(318)
Unsecured bank loans	20	**–**	**–**	(262)	(262)
Bank overdrafts	20	**(104)**	**(104)**	(110)	(110)
Trade and other payables	18	**(645)**	**(645)**	(633)	(633)
Provisions	19	**(27)**	**(27)**	(8)	(8)
		(2,921)	**(3,014)**	(2,660)	(2,819)
		(3,052)	**(3,145)**	(2,660)	(2,819)

There are no other assets or liabilities measured at fair value on a recurring or non-recurring basis, or for which fair value is disclosed, other than as described in note 14.

The fair value of cash and cash equivalents and bank overdrafts approximates book value due to the short maturity of the investments and deposits, and the fair value of other financial assets approximates book value based on prevailing market rates. The fair value of the unsecured bank loans approximates book value as interest rates reset to market rates on a frequent basis. The fair value of trade and other receivables, trade and other payables and current provisions approximates to their carrying value.

Fair value hierarchy

The following table provides the fair value measurement hierarchy of the above assets and liabilities, other than those with carrying amounts which are reasonable approximations of their fair values:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Notes to the Group Financial Statements continued

23. Fair value measurement continued

	2018 Level 1 $m	2018 Level 2 $m	2018 Level 3 $m	2018 Total $m	2017 Level 1 $m	2017 Level 2 $m	2017 Level 3 $m	2017 Total $m
Assets								
Equity securities measured at fair value:								
Quoted equity shares	8	–	–	8	10	–	–	10
Unquoted equity shares	–	–	108	108	–	–	117	117
Derivatives	–	8	–	8	–	–	–	–
Liabilities								
Deferred and contingent purchase consideration	–	–	(131)	(131)	–	–	–	–
£400m 3.875% bonds 2022	(543)	–	–	(543)	(593)	–	–	(593)
£300m 3.75% bonds 2025	(399)	–	–	(399)	(441)	–	–	(441)
£350m 2.125% bonds 2026	(417)	–	–	(417)	(454)	–	–	(454)
€500m 2.125% bonds 2027	(566)	–	–	(566)	–	–	–	–
Finance lease obligations	–	(313)	–	(313)	–	(318)	–	(318)

There were no transfers between Level 1 and Level 2 fair value measurements during the year and no transfers into and out of Level 3.

The fair value of quoted equity shares and the bonds is based on their quoted market price.

Derivatives are fair valued using discounted future cash flows, taking into consideration exchange rates prevailing on the last day of the reporting period and interest rates from observable swap curves. Currency swaps are measured at the present value of future cash flows estimated and discounted back based on quoted forward exchange rates and the applicable yield curves derived from quoted interest rates. Adjustments for credit risk use observable credit default swap spreads.

Finance lease obligations relate primarily to the lease of InterContinental Boston, which is fair valued by discounting the future cash flows payable under the loan, which are fixed, at a risk adjusted long-term interest rate. The interest rate used to discount the cash flows at 31 December 2018 was 7.1% (2017: 6.9%).

Unquoted equity shares are fair valued using the International Private Equity and Venture Capital Valuation Guidelines either by applying an average price-earnings (P/E) ratio for a competitor group to the earnings generated by the investment or by reference to share of net assets if the investment is currently loss-making or a recent property valuation is available. The average P/E ratio for the year was 19.9 (2017: 30.7) and a non-marketability factor of 30% (2017: 30%) is applied. A 10% increase in the average P/E ratio would result in a $2m increase (2017: $2m) in the fair value of the investments and a 10% decrease in the average P/E ratio would result in a $2m decrease (2017: $2m) in the fair value of the investments. A 10% increase in net assets would result in a $8m increase (2017: $7m) in the fair value of the investments and a 10% decrease in net assets would result in a $8m decrease (2017: $7m) in the fair value of the investments.

Deferred and contingent purchase consideration are fair valued using the present value of the expected future payments, discounted using a risk adjusted discount rate. A 10% decrease in the discount rate would result in a $8m increase in the fair value of the consideration payable.

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

	Equity securities $m	Deferred and contingent purchase consideration $m
At 1 January 2017	142	–
Additions	2	–
Disposals	(3)	–
Valuation gains recognised in other comprehensive income	48	–
Valuation gains reclassified to the income statement on disposal	(73)	–
Exchange and other adjustments	1	–
At 31 December 2017	117	–
Additions	4	–
Acquisition of businesses (note 11)	–	131
Disposals	(1)	–
Valuation losses recognised in other comprehensive income	(10)	–
Contingent consideration paid	–	(4)
Change in fair value recorded in finance costs	–	5
Exchange and other adjustments	(2)	(1)
At 31 December 2018	**108**	**131**

Other than in relation to cash pooling arrangements (see note 17), there are no financial instruments subject to enforceable master netting arrangements and other similar agreements that are not offset in the Group statement of financial position.

24. Reconciliation of profit for the year to cash flow from operations before contract acquisition costs

For the year ended 31 December 2018	Note	2018 $m	2017 Restated $m	2016 Restated $m
Profit for the year		**352**	541	459
Adjustments for:				
Net financial expenses		**81**	72	80
Income tax charge	8	**133**	115	173
Depreciation and amortisation		**80**	78	75
System Fund depreciation and amortisation		**45**	36	31
Impairment	6	**–**	18	16
Other exceptional items (including System Fund)	6	**151**	(13)	13
Equity-settled share-based cost	26	**38**	27	23
Dividends from associates and joint ventures	14	**5**	4	5
Increase in trade and other receivables		**(44)**	(71)	(27)
Increase in contract costs		**(3)**	(5)	(4)
Increase in deferred revenue		**141**	43	109
Increase in other trade and other payables		**7**	35	39
Utilisation of provisions, net of charge (2016: net of insurance recovery)	19	**(6)**	–	(4)
Retirement benefit contributions, net of costs		**(12)**	(1)	(32)
Cash flows relating to exceptional items		**(137)**	(44)	(19)
Contract assets deduction in revenue		**19**	17	13
Other items		**4**	(3)	–
Total adjustments		**502**	308	491
Cash flow from operations before contract acquisition costs		**854**	849	950

25. Retirement benefits

UK

Since 6 August 2014, UK retirement and death in service benefits are provided for eligible employees by the IHG UK Defined Contribution Pension Plan. Members, including those who have been auto-enrolled since 1 September 2013, are provided with defined contribution arrangements under this plan; benefits are based on each individual member's personal account. The plan is HM Revenue and Customs registered and governed by an independent trustee, assisted by professional advisers as and when required. The overall operation of the plan is subject to the oversight of The Pensions Regulator.

The former defined benefit plan, the InterContinental Hotels UK Pension Plan, was wound up on 21 July 2015 following the completion of the buy-out and transfer of the defined benefit obligations to Rothesay Life on 31 October 2014.

Residual defined benefit obligations remain in respect of additional benefits provided to members of an unfunded pension arrangement who were affected by lifetime or annual allowances under the former defined benefit arrangements. Accrual under this arrangement ceased with effect from 1 July 2013 and a cash-out offer in 2014 resulted in the extinguishment of approximately 70% of the unfunded pension obligations. The Company meets the benefit payment obligations of the remaining members as they fall due. A charge over certain ring-fenced bank accounts totalling £31m at 31 December 2018 (see note 15) is currently held as security on behalf of the remaining members.

US

During the year, the Group completed a termination of the US funded Inter-Continental Hotels Pension Plan (the Plan), which involved certain qualifying members receiving lump-sum cash-out payments of $20m with the remaining pension obligations subject to a buy-out by Banner Life Insurance Company (Banner), a subsidiary of Legal & General America, through the purchase of a group annuity contract for $124m. Banner assumed responsibility for the payment of the Plan's pension obligations on 12 June 2018. A further amount of $6m was transferred to the Pension Benefit Guaranty Corporation in respect of members who it had not been possible to trace. The transactions were funded using the assets of the Plan and a final Company contribution of $12m, $1.5m of which was subsequently returned to the Company as a 'mistake-in-fact' contribution refund.

The Group continues to maintain the unfunded Inter-Continental Hotels Non-qualified Pension Plans and unfunded Inter-Continental Hotels Corporation Postretirement Medical, Dental, Vision and Death Benefit Plan, both of which are defined benefit plans. Both plans are closed to new members. A Retirement Committee, comprising senior Company employees and assisted by professional advisors as and when required, has responsibility for oversight of the plans.

Other

The Group also operates a number of smaller pension schemes outside the UK, the most significant of which is a defined contribution scheme in the US; there is no material difference between the pension costs of, and contributions to, these schemes.

Notes to the Group Financial Statements continued

25. Retirement benefits continued

In respect of the defined benefit plans, the amounts recognised in the Group income statement, in 'administrative expenses', are:

	Pension plans						US Post-employment benefits			Total		
	UK			US								
	2018 $m	2017 $m	2016 $m	2018 $m	2017 $m	2016 $m	2018 $m	2017 $m	2016 $m	2018 $m	2017 $m	2016 $m
Net interest expense	1	1	1	2	2	2	1	1	1	4	4	4
Administration costs	–	–	–	–	1	1	–	–	–	–	1	1
Operating profit before exceptional items	1	1	1	2	3	3	1	1	1	4	5	5
Exceptional items:												
Settlement loss including transaction costs	–	–	–	15	–	–	–	–	–	15	–	–
	1	1	1	17	3	3	1	1	1	19	5	5

The settlement loss arises from the termination of the Plan and comprises the difference between cash cost of the termination arrangements and the accounting value of the liabilities extinguished, together with related transaction costs.

Re-measurement gains and losses recognised in the Group statement of comprehensive income are:

	2018			2017			2016		
	Plan assets $m	Plan obligations $m	Total $m	Plan assets $m	Plan obligations $m	Total $m	Plan assets $m	Plan obligations $m	Total $m
Return on plan assets (excluding amounts included in interest)	(8)	–	(8)	9	–	9	–	–	–
Actuarial gains and losses arising from changes in:									
Demographic assumptions	–	–	–	–	1	1	–	6	6
Financial assumptions	–	14	14	–	(9)	(9)	–	(11)	(11)
Experience adjustments	–	3	3	–	(2)	(2)	–	1	1
Change in asset restriction (excluding amounts included in interest)	3	–	3	(3)	–	(3)	–	–	–
Other comprehensive income	(5)	17	12	6	(10)	(4)	–	(4)	(4)

The assets and liabilities of the schemes and the amounts recognised in the Group statement of financial position are:

	Pension plans				US Post-employment benefits		Total	
	UK		US					
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Retirement benefit assets								
Fair value of plan assets	–	–	–	152	–	–	–	152
Present value of benefit obligations	–	–	–	(146)	–	–	–	(146)
Surplus in schemes	–	–	–	6	–	–	–	6
Asset restriction	–	–	–	(3)	–	–	–	(3)
Total retirement benefit assets	–	–	–	3	–	–	–	3
Retirement benefit obligations								
Fair value of plan assets	–	–	–	–	–	–	–	–
Present value of benefit obligations	(24)	(29)	(45)	(51)	(22)	(24)	(91)	(104)
Total retirement benefit obligations	(24)	(29)	(45)	(51)	(22)	(24)	(91)	(104)
Total fair value of plan assets	–	–	–	152	–	–	–	152
Total present value of benefit obligations	(24)	(29)	(45)	(197)	(22)	(24)	(91)	(250)

25. Retirement benefits continued

Assumptions

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

	Pension plans UK			Pension plans US			US Post-employment benefits		
	2018 %	2017 %	2016 %	**2018 %**	2017 %	2016 %	**2018 %**	2017 %	2016 %
Pensions increases	**3.2**	3.2	3.3	**–**	–	–	**–**	–	–
Discount rate	**3.0**	2.6	2.7	**3.9**	3.3	3.7	**4.0**	3.3	3.8
Inflation rate	**3.2**	3.2	3.3	**–**	–	–	**–**	–	–
Healthcare cost trend rate assumed for next year:									
Pre-65 (ultimate rate reached in 2025)							**7.1**	7.7	7.0
Post-65 (ultimate rate reached in 2024)							**7.6**	8.7	8.3
Ultimate rate that the cost trend rate trends to							**4.5**	4.5	4.5

Mortality is the most significant demographic assumption. The current assumptions for the UK are based on the S2PA 'light' year of birth tables with projected mortality improvements using the CMI_2017 model and a 1.25% per annum long-term trend with age rated down by 0.7 and 2.3 years for pensioners and 0.5 and 2.6 years for non-pensioners, male and female respectively. In the US, the current assumptions are based on the RP-2014 Employee/Healthy Annuitant Generationally Projected with Scale MP-2018 mortality tables.

In both the UK and US, the assumptions have been revised during the year to reflect life expectancy at retirement age as follows:

		Pension plans UK			Pension plans US		
		2018 Years	2017 Years	2016 Years	**2018 Years**	2017 Years	2016 Years
Current pensioners at 65[a]	– male	**24**	24	24	**21**	21	21
	– female	**26**	26	26	**23**	23	23
Future pensioners at 65[b]	– male	**25**	25	25	**22**	22	22
	– female	**28**	28	28	**24**	24	24

[a] Relates to assumptions based on longevity (in years) following retirement at the end of the reporting period.

[b] Relates to assumptions based on longevity (in years) relating to an employee retiring in 2038.

The assumptions allow for expected increases in longevity.

Sensitivities

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

		UK Higher/(lower) pension cost $m	UK Increase/(decrease) in liabilities $m	US Higher/(lower) pension cost $m	US Increase/(decrease) in liabilities $m
Pensions increases	– 0.25% decrease	**–**	**(1.0)**	**–**	**–**
	– 0.25% increase	**0.1**	**1.0**	**–**	**–**
Discount rate	– 0.25% decrease	**–**	**1.0**	**(0.1)**	**1.6**
	– 0.25% increase	**0.1**	**(1.0)**	**0.1**	**(1.5)**
Inflation rate	– 0.25% increase	**0.1**	**1.0**	**–**	**–**
	– 0.25% decrease	**–**	**(1.0)**	–	–
Mortality rate	– One year increase	**0.1**	**0.6**	**0.1**	**3.3**

A one percentage point increase in assumed healthcare costs trend rate would increase the accumulated post-employment benefit obligations as at 31 December 2018 by $1.7m (2017: $1.9m, 2016: $1.9m) and a one percentage point decrease would decrease the obligations by $1.6m (2017: $1.8m, 2016: $1.7m).

Notes to the Group Financial Statements continued

25. Retirement benefits continued

Movement in benefit obligation

	Pension plans UK 2018 $m	UK 2017 $m	Pension plans US 2018 $m	US 2017 $m	US Post-employment benefits 2018 $m	US Post-employment benefits 2017 $m	Total 2018 $m	Total 2017 $m
Benefit obligation at 1 January	**29**	27	**197**	195	**24**	22	**250**	244
Interest expense	**1**	1	**4**	7	**1**	1	**6**	9
Benefits paid	**(1)**	(1)	**(9)**	(13)	**(1)**	(1)	**(11)**	(15)
Settlement payments	**–**	–	**(150)**	–	**–**	–	**(150)**	–
Settlement loss	**–**	–	**14**	–	**–**	–	**14**	–
Re-measurement (gains)/losses	**(4)**	–	**(11)**	8	**(2)**	2	**(17)**	10
Exchange adjustments	**(1)**	2	**–**	–	**–**	–	**(1)**	2
Benefit obligation at 31 December	**24**	29	**45**	197	**22**	24	**91**	250
Comprising:								
Funded plans	**–**	–	**–**	146	**–**	–	**–**	146
Unfunded plans	**24**	29	**45**	51	**22**	24	**91**	104
	24	29	**45**	197	**22**	24	**91**	250

Movement in plan assets

	Pension plans UK 2018 $m	UK 2017 $m	Pension plans US 2018 $m	US 2017 $m	US Post-employment benefits 2018 $m	US Post-employment benefits 2017 $m	Total 2018 $m	Total 2017 $m
Fair value of plan assets at 1 January	**–**	–	**152**	148	**–**	–	**152**	148
Company contributions	**1**	1	**14**	4	**1**	1	**16**	6
Benefits paid	**(1)**	(1)	**(9)**	(13)	**(1)**	(1)	**(11)**	(15)
Settlement payments	**–**	–	**(150)**	–	**–**	–	**(150)**	–
Interest income	**–**	–	**2**	5	**–**	–	**2**	5
Re-measurement (losses)/gains	**–**	–	**(8)**	9	**–**	–	**(8)**	9
Settlement transaction costs	**–**	–	**(1)**	(1)	**–**	–	**(1)**	(1)
Fair value of plan assets at 31 December	**–**	–	**–**	152	**–**	–	**–**	152

Company payments are expected to be $6m in 2019.

The plan assets are measured at fair value and comprise the following:

	US 2018 $m	US 2017 $m
Investments quoted in active markets		
Investment funds: fixed income securities	**–**	150
Unquoted investments		
Cash	**–**	2
	–	152

	Pension plans UK 2018 $m	UK 2017 $m	Pension plans US 2018 $m	US 2017 $m	US Post-employment benefits 2018 $m	US Post-employment benefits 2017 $m	Total 2018 $m	Total 2017 $m
Movement in asset restriction								
Balance at 1 January	**–**	–	**3**	–	**–**	–	**3**	–
Re-measurement (losses)/gains	**–**	–	**(3)**	3	**–**	–	**(3)**	3
Balance at 31 December	**–**	–	**–**	3	**–**	–	**–**	3

25. Retirement benefits continued

Estimated future benefit payments

	Pension plans UK 2018 $m	UK 2017 $m	Pension plans US 2018 $m	US 2017 $m	US Post-employment benefits 2018 $m	US Post-employment benefits 2017 $m	Total 2018 $m	Total 2017 $m
Within one year	–	–	4	14	1	1	5	15
Between one and five years	3	3	14	53	6	6	23	62
More than five years	16	17	15	62	7	7	38	86
	19	20	33	129	14	14	66	163
Average duration of obligation (years)	19.5	20.5	9.2	10.3	9.6	10.4		

The reduction in future benefit payments arises from the termination of the Plan.

26. Share-based payments

Annual Performance Plan

Under the IHG Annual Performance Plan (APP), eligible employees (including Executive Directors) can receive all or part of their bonus in the form of deferred shares and/or receive one-off awards of shares. Deferred shares are released on the third anniversary of the award date. Under the terms of awards that are referred to in this note, a fixed percentage of the award is made in the form of shares. Awards under the APP are conditional on the participants remaining in the employment of a participating company or leaving for a qualifying reason as per the plan rules. The award of deferred shares under the APP is at the discretion of the Remuneration Committee.

The number of shares is calculated by dividing a specific percentage of the participant's annual performance-related award by the middle market quoted prices on the three consecutive dealing days immediately preceding the date of grant. A number of executives participated in the APP during the year and conditional rights over 175,944 (2017: 234,918, 2016: 335,775) shares were awarded to participants. In 2018 this number included 48,771 (2017: 79,471, 2016: 103,071) shares awarded as part of recruitment terms or for one-off individual awards.

New plan rules for the APP were approved by shareholders at the AGM on 2 May 2014, and apply to awards made in respect of the 2015 and subsequent financial years. The new plan rules contain substantially the same terms as the superseded plan rules.

Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) allows Executive Directors and eligible employees to receive conditional share awards, which normally have a vesting period of three years.

Performance-related awards: Awards to the Executive Directors, and some awards to other eligible employees, are granted subject to the achievement of performance conditions set by the Remuneration Committee, which are normally measured over the vesting period.

Restricted stock units: Awards to eligible employees are granted subject to continued employment.

Awards are normally made annually and, except in exceptional circumstances, will not exceed three times salary for eligible employees. The plan provides for the grant of 'nil cost options' to participants as an alternative to conditional share awards. During the year, conditional rights over 784,119 (2017: 805,045, 2016: 1,355,721) shares were awarded to employees under the plan, comprising 257,240 (2017: 280,458, 2016: 888,518) performance-related awards and 526,879 (2017: 524,587, 2016: 467,203) restricted stock units.

New plan rules for the LTIP were approved by shareholders at the AGM on 2 May 2014, and apply to awards made in respect of the 2015-17 and subsequent LTIP cycles. The new plan rules contain substantially the same terms as the superseded plan rules.

More detailed information on the performance measures for awards to Executive Directors is shown in the Directors' Remuneration Report on pages 72 to 85.

Notes to the Group Financial Statements continued

26. Share-based payments continued

The Group recognised a cost of $27m (2017: $21m, 2016: $17m) in operating profit and $1m (2017: $2m, 2016: $nil) within exceptional administrative expenses related to equity-settled share-based payment transactions during the year, net of amounts borne by the System Fund. An additional $11m (2017: $6m, 2016: $6m) has been charged to the System Fund.

No aggregate consideration was received in respect of ordinary shares issued under option schemes during 2018, 2017 or 2016.

The Group uses separate option pricing models and assumptions depending on the plan. The following table sets out information about awards granted in 2018, 2017 and 2016:

	APP			LTIP		
	Binomial valuation model			Monte Carlo Simulation and Binomial valuation model		
	2018	2017	2016	**2018**	2017	2016
Weighted average share price	**4,645.0p**	3,781.0p	2,725.0p	**4,774.0p**	4,300.0p	2,846.0p
Expected dividend yield	**n/a**	n/a	n/a	**2.27%**	2.05%	2.55%
Risk-free interest rate				**0.84%**	0.10%	0.36%
Volatility[a]				**25%**	24%	24%
Term (years)	**3.0**	3.0	3.0	**3.0**	3.0	3.0

[a] The expected volatility was determined by calculating the historical volatility of the Company's share price corresponding to the expected life of the share award.

Movements in the awards outstanding under the schemes are as follows:

	APP	LTIP	
	Number of shares thousands	Performance-related awards Number of shares thousands	Restricted stock units Number of shares thousands
Outstanding at 1 January 2016	689	5,275	–
Granted	336	889	467
Vested	(229)	(915)	–
Share capital consolidation	(104)	–	–
Lapsed or cancelled	(7)	(1,048)	(18)
Outstanding at 31 December 2016	685	4,201	449
Granted	235	280	525
Vested	(263)	(928)	–
Share capital consolidation	(21)	–	–
Lapsed or cancelled	(20)	(1,160)	(58)
Outstanding at 31 December 2017	616	2,393	916
Granted	**176**	**257**	**527**
Vested	**(199)**	**(702)**	**–**
Lapsed or cancelled	**(2)**	**(860)**	**(142)**
Outstanding at 31 December 2018	**591**	**1,088**	**1,301**
Fair value of awards granted during the year (cents)			
2018	**6,066.2**	**4,748.7**	**5,966.0**
2017	4,959.3	4,133.2	5,251.0
2016	3,671.9	1,768.0	3,624.5
Weighted average remaining contract life (years)			
At 31 December 2018	**1.0**	**0.8**	**1.2**
At 31 December 2017	1.2	0.6	1.7
At 31 December 2016	1.2	0.9	2.2

The above awards do not vest until the performance and service conditions have been met.

The weighted average share price at the date of exercise for share awards vested during the year was 4,583.8p (2017: 3,804.7p). The closing share price on 31 December 2018 was 4,237.0p and the range during the year was 3,948.0p to 4,966.0p per share.

27. Equity

Equity share capital

	Number of shares millions	Nominal value $m	Share premium $m	Equity share capital $m
Allotted, called up and fully paid				
At 1 January 2016 (ordinary shares of 15 $^{265}/_{329}$p each)	248	58	111	169
Share capital consolidation	(42)	–	–	–
Exchange adjustments	–	(10)	(18)	(28)
At 31 December 2016 (ordinary shares of 18 $^{318}/_{329}$p each)	206	48	93	141
Share capital consolidation	(9)	–	–	–
Exchange adjustments	–	5	8	13
At 31 December 2017 (ordinary shares of 19 $^{17}/_{21}$p each)	197	53	101	154
Exchange adjustments	**–**	**(3)**	**(5)**	**(8)**
At 31 December 2018 (ordinary shares of 19 $^{17}/_{21}$p each)	**197**	**50**	**96**	**146**

The authority given to the Company at the AGM held on 4 May 2018 to purchase its own shares was still valid at 31 December 2018. A resolution to renew the authority will be put to shareholders at the AGM on 3 May 2019.

The Company no longer has an authorised share capital.

On 23 February 2016, the Group announced a $1.5bn return of funds to shareholders by way of a special dividend and share consolidation. On 6 May 2016, shareholders approved the share consolidation on the basis of 5 new ordinary shares of 18 $^{318}/_{329}$p per share for every 6 existing ordinary shares of 15 $^{265}/_{329}$p, which became effective on 9 May 2016. The special dividend was paid to shareholders on 23 May 2016. The dividend and share consolidation had the same economic effect as a share repurchase at fair value, therefore previously reported earnings per share has not been restated.

On 21 February 2017, the Group announced a $400m return of funds to shareholders by way of a special dividend and share consolidation. On 5 May 2017, shareholders approved the share consolidation on the basis of 45 new ordinary shares of 19 $^{17}/_{21}$p per share for every 47 existing ordinary shares of 18 $^{318}/_{329}$p, which became effective on 8 May 2017. The special dividend was paid to shareholders on 22 May 2017. The dividend and share consolidation had the same economic effect as a share repurchase at fair value, therefore previously reported earnings per share has not been restated.

In October 2018, the Board proposed a $500m return of funds to shareholders by way of a special dividend of $2.621 per ordinary share, together with a share consolidation. On 11 January 2019, shareholders approved the share consolidation and payment of the special dividend. The dividend of $510m was paid on 29 January 2019. The dividend and share consolidation had the same economic effect as a share repurchase at fair value, therefore reported earnings per share has not been restated.

At 31 December 2018, the balance classified as equity share capital includes the total net proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising 19 $^{17}/_{21}$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 98 to 100 of the Group Financial Statements is as follows:

Capital redemption reserve
This reserve maintains the nominal value of the equity share capital of the Company when shares are repurchased or cancelled.

Shares held by employee share trusts
Comprises $3.6m (2017: $5.4m, 2016: $10.5m) in respect of 0.2m (2017: 0.2m, 2016: 0.3m) InterContinental Hotels Group PLC ordinary shares held by employee share trusts, with a market value at 31 December 2018 of $8.3m (2017: $12.1m, 2016: $15.0m).

Other reserves
Comprises the merger and revaluation reserves previously recognised under UK GAAP, together with the reserve arising as a consequence of the Group's capital reorganisation in June 2005. Following the change in presentational currency to the US dollar in 2008, this reserve also includes exchange differences arising on retranslation to period-end exchange rates of equity share capital, the capital redemption reserve and shares held by employee share trusts.

Fair value reserve
This reserve records movements in the value of financial assets measured at fair value. This reserve was previously called the unrealised gains and losses reserve. The change in name reflects that gains and losses will no longer be reflected in the income statement following adoption of IFRS 9.

Notes to the Group Financial Statements continued

27. Equity continued

Cash flow hedging reserve

The cash flow hedging reserve is analysed as follows:

	Cash flow hedging reserve		
	Value of currency swaps $m	Costs of hedging $m	Total $m
At 1 January 2018	–	–	–
Costs of hedging deferred and recognised in other comprehensive income	–	(1)	(1)
Change in fair value of currency swaps recognised in other comprehensive income	4	–	4
Reclassified from other comprehensive income to profit or loss – included in financial expenses	(8)	–	(8)
Deferred tax	1	–	1
At 31 December 2018	**(3)**	**(1)**	**(4)**

The value of currency swaps comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss.

The costs of hedging reflects the gain or loss on the portion excluded from the designated hedging instrument that relates to the value of the foreign currency basis spread of currency swaps. It is initally recognised in other comprehensive income and accounted for similarly to changes in value of currency swaps.

Amounts reclassified from other comprehensive income to financial expenses comprise $1m net interest payable on the currency swaps and an exchange gain of $9m which has been offset with a corresponding loss on the €500m 2.125% bonds.

Currency translation reserve

This reserve records the movement in exchange differences arising from the translation of foreign operations and exchange differences on foreign currency borrowings and derivative instruments that provide a hedge against net investments in foreign operations. On adoption of IFRS, cumulative exchange differences were deemed to be $nil as permitted by IFRS 1.

The fair value of derivative instruments designated as hedges of net investments in foreign operations outstanding at 31 December 2018 was $1m net asset (2017: $nil, 2016: $3m net liability).

Treasury shares

During 2018, 0.8m (2017: 0.9m, 2016: 0.9m) treasury shares were transferred to the employee share trusts. As a result of the 2017 share consolidation, the number of shares held in treasury reduced by 0.4m during 2017 (2016: reduced by 1.7m during 2016 as a result of the 2016 share consolidation). At 31 December 2018, 6.8m shares (2017: 7.6m, 2016: 8.9m) with a nominal value of $1.7m (2017: $2.0m, 2016: $2.1m) were held as treasury shares at cost and deducted from retained earnings.

Non-controlling interest

A non-controlling interest is equity in a subsidiary of the Group not attributable, directly or indirectly, to the Group. Non-controlling interests are not material to the Group.

28. Operating leases

During the year ended 31 December 2018, $101m (2017: $86m, 2016: $84m) was recognised as an expense in the Group income statement in respect of operating leases, net of amounts borne directly by the System Fund. An additional $5m (2017: $6m, 2016: $7m) has been charged to the System Fund. The expense, recorded in the Group income statement, includes contingent rents of $51m (2017: $32m, 2016: $32m). $2m (2017: $2m, 2016: $2m) was recognised as income from sub-leases.

Future minimum lease payments under non-cancellable operating leases are as follows:

	2018 $m	2017 $m
Due within one year	56	56
One to two years	54	46
Two to three years	67	45
Three to four years	35	60
Four to five years	31	30
More than five years	266	297
	509	534

In addition, in certain circumstances the Group is committed to making additional lease payments that are contingent on the performance of the hotels that are being leased.

The average remaining term of these leases, which generally contain renewal options, is approximately 15 years (2017: 15 years). No material restrictions or guarantees exist in the Group's lease obligations.

The leases acquired with the UK portfolio acquisition (see note 11) include variable payments where rentals are linked to the performance of the hotels by way of reductions in rentals in the event that lower than target cash flows are generated by the hotels. In the event that rent reductions are not applicable, the Group's exposure to this type of rental payment is £48m per annum over the remaining lease term of 25 years. Additional rentals, which are uncapped, are also payable calculated as a percentage of the profit earned by the hotels.

Total future minimum rentals expected to be received under non-cancellable sub-leases are $3m (2017: $4m).

29. Capital and other commitments

	2018 $m	2017 $m
Contracts placed for expenditure not provided for in the Financial Statements:		
Property, plant and equipment[a]	**46**	18
Intangible assets	**7**	27
Key money	**83**	59
	136	104

[a] Includes a commitment to spend $33m on the acquired UK portfolio (see note 11) within two and a half years of the acquisition date.

A loan facility of $5m (2017: $5m) has also been made available to a hotel owner; this was undrawn at 31 December 2018.

There were no commitments to invest in associates at 31 December 2018 (2017: $33m).

30. Contingencies and guarantees

Security incidents

In 2016, the Group was notified of (a) a security incident at a number of Kimpton hotels that resulted in unauthorised access to guest payment card data, and (b) security incidents at a number of IHG branded hotels including the installation of malware on servers that processed payment cards used at restaurants and bars of 12 IHG managed properties, together the Security Incidents. A provision of $5m was made at 31 December 2016 (see note 19), to cover the estimated cost of reimbursing the impacted card networks for counterfeit fraud losses and related expenses. During the year, the Group has reached agreement with the card networks on the assessments payable, $3m in total, the vast majority of which have been settled under the Group's insurance programmes, with the balance expected to be similarly recovered. As a consequence, a provision is no longer required at 31 December 2018.

The Group may also be exposed to investigations regarding compliance with applicable State and Federal data security standards, and legal action from individuals and organisations impacted by the Security Incidents. Due to the general nature of the regulatory enquiries received and class action filings to date, other than mentioned below, it is not practicable to make a reliable estimate of the possible financial effects of any such claims on the Group at this time. These contingent liabilities are potentially recoverable under the Group's insurance programmes, although specific agreement will need to be reached with the relevant insurance providers at the time any claim is made.

To date, four lawsuits have been filed against IHG entities relating to the Security Incidents. One of these has been withdrawn and a preliminary settlement, expected to be not more than $2m, has been agreed in respect of another lawsuit, although this is expected to be recovered from insurance.

Tax

Tax related developments during 2018 have confirmed that the Group no longer considers itself at risk of exposure to the outcome of the EU's State Aid investigation into the UK's Controlled Foreign Company rules.

Other

In limited cases, the Group may provide performance guarantees to third-party hotel owners to secure management contracts. At 31 December 2018, the amount included within trade and other payables in the Financial Statements was $3m (2017: $6m) and the maximum unprovided exposure under such guarantees was $42m (2017: $31m).

At 31 December 2018, the Group had outstanding letters of credit of $29m (2017: $35m) mainly relating to self insurance programmes.

The Group may guarantee bank loans made to facilitate third-party ownership of hotels under IHG management or franchise contracts. At 31 December 2018, there were guarantees of $43m in place (2017: $54m).

From time to time, the Group is subject to legal proceedings the ultimate outcome of each being always subject to many uncertainties inherent in litigation. In particular, the Group is currently subject to the claims listed under 'Legal proceedings' on page 192. The Group has also given warranties in respect of the disposal of certain of its former subsidiaries. It is the view of the Directors that, other than to the extent that liabilities have been provided for in these Financial Statements, it is not possible to quantify any loss to which these proceedings or claims under these warranties may give rise, however, as at the date of reporting, the Group does not believe that the outcome of these matters will have a material effect on the Group's financial position.

At 31 December 2018, the Group had no other contingent liabilities (2017: $nil).

31. Related party disclosures

	2018 $m	2017 $m	2016 $m
Total compensation of key management personnel			
Short-term employment benefits	**18.2**	21.3	19.2
Contributions to defined contribution pension plans	**0.5**	0.6	0.8
Equity compensation benefits	**13.0**	10.2	7.4
Termination benefits	**–**	1.9	–
	31.7	34.0	27.4

There were no other transactions with key management personnel during the years ended 31 December 2018, 2017 or 2016.

Key management personnel comprises the Board and Executive Committee.

Notes to the Group Financial Statements continued

31. Related party disclosures continued

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

	Associates			Joint ventures			Total		
	2018 $m	2017 $m	2016 $m	**2018 $m**	2017 $m	2016 $m	**2018 $m**	2017 $m	2016 $m
Revenue from associates and joint ventures	**9**	8	5	**1**	1	1	**10**	9	6
Loans to associates	**–**	–	9	**–**	–	–	**–**	–	9
Other amounts owed by associates and joint ventures	**1**	2	1	**–**	–	–	**1**	2	1
Amounts owed to associates and joint ventures	**2**	–	–	**–**	–	–	**2**	–	–

In addition, loans both to and from the Barclay associate of $237m (2017: $237m) are offset in accordance with the provisions of IAS 32 and presented net in the Group statement of financial position. Interest payable and receivable under the loans is equivalent (average interest rate of 2.7% in 2018 (2017: 2.0%)) and presented net in the Group income statement.

32. System Fund

System Fund revenues comprise:

	2018 $m	2017 Restated[a] $m	2016 Restated[a] $m
Assessment fees and contributions received from hotels	**979**	934	887
Loyalty programme revenues[b]	**254**	308	312
	1,233	1,242	1,199

System Fund expenses include:

	2018 $m	2017 $m	2016 $m
Marketing[c]	**427**	405	415
Payroll costs (note 4)	**347**	339	311
Depreciation and amortisation	**45**	36	31

[a] Restated for IFRS 15 (see pages 109 to 113).

[b] Loyalty programme revenue is shown net of the cost of point redemptions.

[c] Restated to reflect a wider definition of marketing costs.

33. Events after the reporting period

On 12 February 2019, the Group completed the acquisition of Six Senses Hotels Resorts Spas (Six Senses), for $300m paid in cash. Six Senses is a leading operator of top tier luxury hotels, resorts and spas with a world-renowned reputation for wellness and sustainability. Six Senses will sit at the top of IHG's luxury portfolio.

The assets and liabilities acquired largely comprise intangible assets, being the Six Senses' brands, management contracts and goodwill. Due to the close proximity of the acquisition date to the date of these financial statements, the initial accounting for the business combination is incomplete and the Group is unable to provide a quantification of the fair values of the assets and liabilities acquired. The Group will include a provisional acquisition balance sheet with its interim results for 2019.

34. Group companies

In accordance with Section 409 of the Companies Act 2006, a full list of entities in which the Group has an interest of greater than or equal to 20%, the registered office and effective percentage of equity owned as at 31 December 2018 are disclosed below. Unless otherwise stated the share capital disclosed comprises ordinary shares which are indirectly held by InterContinental Hotels Group PLC.

Fully owned subsidiaries

"IHG Management" d.o.o. Beograd (j)
24th Street Operator Sub, LLC (g) (k)
36th Street IHG Sub, LLC (g) (k)
426 Main Ave LLC (g) (k)
46 Nevins Street Associates, LLC (g) (k)
2250 Blake Street Hotel, LLC (g) (k)
Allegro Management LLC (g) (k)
Alpha Kimball Hotel LLC (g) (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 (g) (cj)
Bristol Oakbrook Tenant Company (k)
Café Biarritz (n)
Cambridge Lodging LLC (g) (k)
Capital Lodging LLC (g) (k)
CF Irving Owner, LLC (g) (k)
CF McKinney Owner, LLC (g) (k)
CF Waco Owner, LLC (g) (k)
Compañia Inter-Continental De Hoteles El Salvador SA (n)
Crowne Plaza LLC (g) (k)
Cumberland Akers Hotel LLC (g) (k)
Dunwoody Operations, Inc. (k)
Edinburgh George Street Hotel OpCo Ltd (n)
Edinburgh IC Limited (s)
EVEN Real Estate Holding LLC (g) (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)
HI Sugarloaf, LLC (g) (ci)
Hale International Ltd. (v)
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 (g) (k)
Holiday Hospitality Franchising, LLC (g) (k)
Holiday Inn Mexicana S.A. de C.V. (ab)
Holiday Inns (China) Ltd (ac)
Holiday Inns (Chongqing), Inc. (l)
Holiday Inns (Courtalin) Holdings SAS (x)
Holiday Inns (Courtalin) SAS (b) (x)
Holiday Inns (England) Limited (n)
Holiday Inns (Germany), LLC (g) (l)
Holiday Inns (Guangzhou), Inc. (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 (g) (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 (g) (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 (Australasia) Limited (d) (ai)
IHG (Marseille) SAS (x)
IHG (Myanmar) Ltd (ah)
IHG (Thailand) Limited (aj)
IHG Bangkok Ltd (v)
IHG Brasil Administracao de Hoteis e Servicos Ltda (ak)
IHG Commission Services SRL (co)
IHG Community Development, LLC (g) (ci)
IHG de Argentina SA (al)
IHG ECS (Barbados) SRL (co)
IHG Franchising Brasil Ltda (bd)
IHG Franchising DR Corporation (k)
IHG Franchising, LLC (g) (k)
IHG Hotels (New Zealand) Limited (an)
IHG Hotels Limited (n)
IHG Hotels Management (Australia) Pty Limited (d) (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 (g) (as)
IHG Management (Netherlands) B.V. (p)
IHG Management MD Barclay Sub LLC (g) (cj)
IHG Management SL d.o.o (bo)
IHG Orchard Street Member, LLC (g) (k)
IHG PS Nominees Limited (n)
IHG Systems Pty Ltd (d) (aa)
IHG Szalloda Budapest Szolgaltato Kft. (at)
IND East Village SD Holdings, LLC (g) (k)
InterContinental Berlin Service Company GmbH (au)
InterContinental (Branston) 1 Limited (c) (n)
InterContinental (PB) 1 (n)
InterContinental (PB) 2 (ay)
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 (d) (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 Inc. (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 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)

Notes to the Group Financial Statements continued

34. Group companies continued

Fully owned subsidiaries continued
InterContinental Overseas Holding Corporation (k)
KG Benefits LLC (g) (k)
KG Gift Card Inc. (bz)
KG Liability LLC (g) (k)
KG Technology, LLC (g) (k)
KHP Washington Operator LLC (g) (k)
KHRG 11th Avenue Hotel LLC (g) (k)
KHRG 851 LLC (g) (k)
KHRG Aertson LLC (g) (k)
KHRG Alexis, LLC (g) (k)
KHRG Allegro, LLC (g) (k)
KHRG Argyle, LLC (g) (k)
KHRG Austin Beverage Company, LLC (g) (k)
KHRG Baltimore, LLC (g) (k)
KHRG Born LLC (g) (k)
KHRG Boston Hotel, LLC (g) (k)
KHRG Canary LLC (g) (k)
KHRG Cayman LLC (g) (k)
KHRG Cayman Employer Ltd. (k)
KHRG DC 1731 LLC (g) (k)
KHRG DC 2505 LLC (g) (k)
KHRG Donovan LLC (g) (k)
KHRG Employer, LLC (g) (k)
KHRG Goleta LLC (g) (k)
KHRG Gray LLC (g) (k)
KHRG Gray U2 LLC (g) (k)
KHRG Huntington Beach LLC (g) (k)
KHRG Key West LLC (g) (k)
KHRG King Street, LLC (g) (k)
KHRG La Peer LLC (g) (k)
KHRG Miami Beach LLC (g) (k)
KHRG Muse LLC (g) (k)
KHRG NPC LLC (g) (k)
KHRG Onyx LLC (g) (k)
KHRG Palladian LLC (g) (k)
KHRG Palomar Phoenix LLC (g) (k)
KHRG Philly Monaco LLC (g) (k)
KHRG Pittsburgh LLC (g) (k)
KHRG Reynolds LLC (g) (k)
KHRG Riverplace LLC (g) (k)
KHRG Sacramento LLC (g) (k)
KHRG Savannah LLC (g) (k)
KHRG Schofield LLC (g) (k)
KHRG Sedona LLC (g) (k)
KHRG SFD LLC (g) (k)
KHRG South Beach LLC (g) (k)
KHRG State Street LLC (g) (k)
KHRG Sutter LLC (g) (k)
KHRG Sutter Union LLC (g) (k)
KHRG Taconic LLC (g) (k)
KHRG Tariff LLC (g) (k)
KHRG Texas Hospitality, LLC (g) (k)
KHRG Texas Operations, LLC (g) (k)
KHRG Tryon LLC (g) (k)
KHRG Vero Beach, LLC (g) (k)
KHRG Vintage Park LLC (g) (k)
KHRG VZ Austin LLC (g) (k)
KHRG Wabash LLC (g) (k)
KHRG Westwood, LLC (g) (k)
KHRG Wilshire LLC (g) (k)
KHRG Zamora LLC (g) (k)
Kimpton Hollywood Licenses LLC (g) (k)
Kimpton Hotel & Restaurant Group, LLC (g) (k)
Kimpton Phoenix Licenses Holdings LLC (g) (k)
Kimpton Sedona Licenses LLC (g) (k)
Louisiana Acquisitions Corp. (k)
Manchester Oxford Street Hotel OpCo Limited (n)
Mercer Fairview Holdings LLC (g) (k)
Met Leeds Hotel OpCo Limited (n)
MH Lodging LLC (g) (k)
PML Services LLC (g) (as)
Pollstrong Limited (n)
Powell Pine, Inc. (k)
Priscilla Holiday of Texas, Inc. (cl)
PT Regent Indonesia (r)
PT SC Hotels & Resorts Indonesia (bh)
Regent Asia Pacific Hotel Management Ltd (bw)
Regent Asia Pacific Management Ltd (cp)
Regent Berlin GmbH (cq)
Regent International Hotels Ltd (bw)
Resort Services International (Cayo Largo) L.P. (ci)
Roxburghe Hotel Edinburgh OpCo Limited (n)
Russell London Hotel OpCo Limited (n)
SBS Maryland Beverage Company LLC (g) (as)
SC Hotels International Services, Inc. (k)
SC Leisure Group Limited (n)
SC NAS 2 Limited (n)
SC Quest Limited (n)
SC Reservations (Philippines) Inc. (l)
SCH Insurance Company (bi)
SCIH Branston 3 (n)
Semiramis for training of Hotel Personnel and Hotel Management SAE (ch)
SF MH Acquisition LLC (g) (k)
Six Continents Corporate Services (ay)
Six Continents Holdings Limited (n)
Six Continents Hotels de Colombia SA (bj)
Six Continents Hotels International Limited (n)
Six Continents Hotels, Inc. (k)
Six Continents International Holdings B.V. (p)
Six Continents Investments Limited (f) (n)
Six Continents Limited (n)
Six Continents Overseas Holdings Limited (n)
Six Continents Restaurants Limited (n)
SixCo North America, Inc. (w)
Solamar Lodging LLC (g) (k)
Southern Pacific Hotel Corporation (BVI) Ltd. (v)
Southern Pacific Hotels Properties Limited (v)
SPHC Group Pty Ltd. (aa)
SPHC Management Ltd. (bq)
St David's Cardiff Hotel OpCo Limited (n)
The Grand Central Hotel Glasgow Limited (n)
The Met Hotel Leeds Limited (n)
The Principal Edinburgh George Street Limited (n)
The Principal London Limited (n)
The Principal Manchester Limited (n)
The Principal York Limited (n)
The Roxburghe Hotel Edinburgh Limited (s)
Universal de Hoteles SA (bj)
White Shield Insurance Company Limited (bk)
Wotton House Hotel OpCo Limited (n)
York Station Road Hotel OpCo Limited (n)

Subsidiaries where the effective interest is less than 100%
H.I. Soaltee Management Company Ltd (76.5%) (ac)
IHG ANA Hotels Group Japan LLC (74.66%) (ar)
IHG ANA Hotels Holdings Co., Ltd. (66%) (ar)
Regent Hospitality Worldwide, Inc. (51%) (bt)
World Trade Centre Montreal Hotel Corporation (74.11%) (bl)

Associates and joint ventures
111 East 48th Street Holdings LLC (19.9%) (g) (h) (k)
Alkoer, S. de R.L. de C.V. (50%) (h) (cg)
BCRE IHG 180 Orchard Holdings LLC (49%) (g) (cf)
Beijing Orient Express Hotel Co., Ltd. (16.24%) (bm)
Blue Blood (Tianjin) Equity Investment Management Co., Limited (30.05%) (bn)
Carr Clark SWW Subventure, LLC (26.67%) (g) (ca)
Carr Waterfront Hotel, LLC (11.46%) (g) (h) (ca)
China Hotel Investment Limited (30.05%) (i) (am)
Desarrollo Alkoer Irapuato S. de R.L. de C.V. (50%) (cg)
Desarrollo Alkoer Saltillo S. de R.L. de C.V. (50%) (cg)
Desarrollo Alkoer Silao S. de R.L. de C.V. (50%) (cg)
Gestion Hotelera Gestel, C.A. (50%) (c) (h) (ba)
H.I. Soaltee Hotel Company Private Ltd (33.4%) (br)
Hotel JV Services LLC (17.8%) (c) (g) (cb)
Inter-Continental Hotels Saudi Arabia Limited (40%) (bs)
NF III Seattle, LLC (25%) (g) (cc)
Nuevas Fronteras S.A. (23.66%) (cd)
Panacon (33.33%) (ce)
President Hotel & Tower Co Ltd. (30%) (bu)
Tianjin ICBCI IHG Equity Investment Fund Management Co., Limited (21.04%) (bv)

34. Group companies continued

Key

(a) Directly owned by InterContinental Hotels Group PLC
(b) Ordinary shares and preference shares
(c) Ordinary A and ordinary B shares
(d) Ordinary shares and redeemable preference shares
(e) 1/4 vote ordinary shares and ordinary shares
(f) Ordinary shares, 5% cumulative preference shares and 7% cumulative preference shares
(g) The entities do not have share capital and are governed by an operating agreement
(h) Accounted for as associates and joint ventures due to IHG's decision-making rights contained in the partnership agreement
(i) Accounted for as an other financial asset due to IHG being unable to exercise significant influence over the financial and operating policy decisions of the entity

Registered addresses

(j) Krunska 73, Beograd, 11000, Serbia
(k) 251 Little Falls Drive, Wilmington, DE 19808, USA
(l) 2908 Poston Avenue, Nashville, TN 37203, USA
(m) Clarendon House, 2 Church Street, Hamilton HM11, Bermuda
(n) Broadwater Park, Denham, Buckinghamshire, UB9 5HR, UK
(o) 199 Bay Street, Suite 2800, Commerce Court West, Toronto, ON M5L 1A9, Canada
(p) Kingsfordweg 151, 1043 GR Amsterdam, The Netherlands
(q) Alameda Jau 536, Suite 3s-A, 01420-000 Sao Paulo, Brazil
(r) Gedung Mega Plaza Lantai 12, Jl. H. R. Rasuna Said Kav. C-3, Kelurahan Karet, Kecamtan Setiabudi, Jakarta Seltan, Indonesia
(s) Caledonian Exchange, 19a Canning Street, Edinburgh, EH3 8HE, UK
(t) Building 4, No. 13 Xiao Gang Zhong Ma Road, Zhuhai District, Guangzhou, Guangdong, P.R. China
(u) 29 Earlsfort Terrace, Dublin 2, D02 AY28, Ireland
(v) Craigmuir Chambers, Road Town, Tortola VG1110, British Virgin Islands
(w) Wilmington Trust SP Services, Inc. 1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA
(x) 31–33 rue Mogador – 75009 Paris, France
(y) Bucharest, 1st District, 50–52 Buzesti St, 83 module, 11 floor, Romania
(z) 230 J E Irausquin Boulevard, Palm Beach, Aruba
(aa) Level 11, 20 Bond Street, Sydney NSW 2000, Australia
(ab) Ontario # 1050, Col. Providencia. Guadalajara, Jalisco CP 44630, Mexico
(ac) Level 54, Hopewell Center, 183 Queen's Road East, Hong Kong
(ad) Rond Punt Schumanplein 11, 1040 Brussels, Belgium
(ae) Johannesgasse 28, 1030 Wien, Am Heumarkt 4, 1030 Wien, Austria
(af) Avenida da Republica, no 52 – 9, 1069 – 211, Lisbon, Portugal
(ag) 24, Rusakovskaya Str., Moscow 107014, Russian Federation
(ah) 10 Bo Yar Zar Street, Kyaukkone Yankin Township, Yangon, Myanmar
(ai) 230 Victoria Street, #13-00 Bugis Junction Towers, 188024, Singapore
(aj) 973 President Tower, 7th Floor, Units 7A, 7B, 7C, 7D, 7I, 7F, 7G and 7H, Ploenchit Road, Khwaeng Lumpini, Khet Pathumwan, Bangkok Metropolis, 10330, Thailand
(ak) Alameda Jau 536, Suite 3S-B, 01420-000 Sao Paulo, Brazil
(al) Avenida Cordoba 1547, piso 8, oficina A, Buenos Aires, Argentina
(am) The Phoenix Centre, George Street, Belleville St. Michael, Barbados
(an) Floor 9, 36 Kitchener Street, Auckland Central, Auckland 1010, New Zealand
(ao) 1, Murtala Muhammed Drive, Ikoyi, Lagos, Nigeria
(ap) Central Office Park Unit 4, 257 Jean Avenue, Centurion 0157, South Africa
(aq) 11th Floor, Building No. 10, Tower C, DLF Phase-II, DLF Cyber City, Gurgaon, Haryana-122002, India
(ar) 20th Floor, Toranomon Kotohira Tower, 2–8, Toranomon 1-chome, Minato-ku, Tokyo, Japan
(as) HIQ Corporate Services Inc., 715 St. Paul Street, Baltimore, MD 21202, USA
(at) 1052 Budapest, Apáczai Csere János u. 12–14, Hungary
(au) Budapester Str. 2, 10787 Berlin, Germany
(av) Koenigsallee 59, D-40215, Dusseldorf, Germany
(aw) Alameda Jau 536, Suite 3S-E, 01420-000 Sao Paulo, Brazil
(ax) InterContinental Montreal, 360 St. Antoine Street West, Montreal, Quebec H2Y 3X4, Canada
(ay) BDO LLP, Two Snowhill, Birmingham, B4 6GA, UK
(az) 361 San Francisco Street Penthouse, San Juan, PR 00901, Puerto Rico
(ba) Hotel Tamanaco Inter-Continental, Final Av. Ppal, Mercedes, Caracas, Venezuela
(bb) 22nd Floor, Citigroup Tower, No. 33 Huayuanshiqiao Road, Pudong, Shanghai, P.R. China
(bc) Alameda Jau 536, Suite 3S-C, 01420-000 Sao Paulo, Brazil
(bd) Alameda Jau 536, Suite 3S-D, 01420-000 Sao Paulo, Brazil
(be) Bastioni di Porta Nuova 21, 20121 Milano, Italy
(bf) Thurn-und-Taxis-Platz 6 – 60313 Frankfurt am Main, Germany
(bg) JurisTax Services Ltd, Level 12, NeXTeracom Tower II, Ebene, Mauritius
(bh) Menara Impreium 22nd Floor, Suite D, Jl. HR. Rasuna Said Kav.1, Guntur Sub-district, Setiabudi District, South Jakarta 12980, Indonesia
(bi) 150 South Champlain Street, Burlington, VT 05401, USA
(bj) Calle 49, Sur 45 A 300 Of 1102 Envigado Antioquia, Colombia
(bk) Suite B, Ground Floor, Regal House, Queensway, Gibraltar
(bl) Suite 2500, 1000 De La Gauchetiere St. West, Montreal QC H3B 0A2, Canada
(bm) Room 311, Building 1, No 6 East Wen Hua Yuan Road, Beijing Economy and Technology Development Zone, Beijing, P.R.China
(bn) Room N306, 3rd Floor, Building 6, Binhai Financial Street, No. 52 West Xincheng Road, Tianjin Economy and Technology Development Zone, Tianjin, P.R. China
(bo) Cesta v Mestni log 1, 1000 Ljubljana, Slovenia
(bp) 51B Bulgaria Blvd, 4th Floor, District Triaditsa, Sofia, 1404, Bulgaria
(bq) C/o Holiday Inn & Suites, Cnr Waigani Drive & Wards Road, Port Moresby, National Capital District, Papua New Guinea
(br) Tahachal, Kathmandu, Nepal
(bs) Madinah Road, Jeddah, P.O Box 9456, Post Code 21413, Jeddah, Saudi Arabia
(bt) Maples Corporate Services Ltd. – PO Box 309, Ugland House, Grand Cayman – KY-1104, Cayman Islands
(bu) 971, 973 Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330, Thailand
(bv) Room R316, 3rd Floor, Building 6, Binhai Financial Street, No. 52 West Xincheng Road, Tianjin Economy and Technology Development Zone, Tianjin, P.R. China
(bw) 14th Floor, South China Building, 1-3 Wyndham Street, Hong Kong
(bx) Eski Büyükdere Cd. Park Plaza No:14 K:4 Maslak – Sarıyer, Istanbul, Turkey
(by) Paseo de la Castellana 49, 28046 Madrid, Spain
(bz) 2710 Gateway Oaks Drive, Suite 150N, Sacramento, CA 95833-3505, USA
(ca) Carr Hospitality, LLC, 1455 Pennsylvania Avenue, NW, Suite 100, Washington, DC 20004, USA
(cb) 2711 Centerville Road, Suite 400, Wilmington, DE 19805, USA
(cc) 2000 Monarch Tower, 3424 Peachtree Road, N.E., Atlanta, GA 30326, USA
(cd) Moreno 809 2 Piso, Buenos Aires, Argentina
(ce) Pan-American Life Insurance Company, 601 Poydras Street, New Orleans, LA 70130, USA
(cf) Brack Capital Real Estate Ltd., 885 Third Avenue, 24th Floor, New York, NY 10022, USA
(cg) Avenida Ejercito Nacional Mexicano No. 769, Torre B Piso 8, Granada, Miguel Hidalgo, Ciudad de México, CP 11520, Mexico
(ch) Ground Floor, Al Kamel Law Building, Plot 52-b, Banks Area, Six of October City, Egypt
(ci) 40 Technology Pkwy South, #300 Norcross GA 30092, USA
(cj) 80 State Street, Albany NY 12207-2543, USA
(ck) 2215-B Renaissance Drive, Las Vegas, NV 89119, USA
(cl) 11003 Onion Creek Court, Austin, TX 78747, USA
(cm) 10 Vazgen Sargsyan, Office 114, Yerevan, RA 0010, Armenia
(cn) Al. Jerozolimskie 56C, 00-803 Warsaw, Poland
(co) Suite 1, Ground Floor, The Financial Services Centre, Bishops Court Hill, St. Michael, Barbados, BB14004
(cp) Brumby Centre, Lot 42, Jalan Muhibbah, 87000 Labuan F.T., Malaysia
(cq) Charlottenstrasse 49, Berlin, 10117, Germany