InterContinental Hotels UK Pension Plan

ANNUAL REPORT 2007

Registered number: 10263243

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InterContinental Hotels UK Pension Plan ("the Plan")

Chairman's Report

The main focus of activity by the Trustee Board during the year has been the agreement of the actuarial valuation and necessary actions which result from the valuation.

As reported last year it was agreed with InterContinental Hotels Group ("the Company") that, following significant changes to the membership profile and the employer's business model, the next scheduled actuarial valuation would be brought forward by a year so that it took place as at March 2006. This was the first time that the Plan had conducted a valuation under the Pensions Act 2004 and the associated code of practice.

The Board paid considerable attention to the assumptions used in the valuation and in general adopted a more prudent approach than the 2004 valuation, for instance by allowing for improved life expectancy. The valuation was prepared on an "economic" basis which is more cautious than the corporate accounting basis which tends to be quoted in the media.

The valuation showed that the Plan has liabilities at March 2006 of £340 million on the above basis compared to assets of £259 million, a funding level of 76%, which represented an improvement from 60% at the last valuation due to an additional Company contribution of £51 million and strong investment returns. The Board also considered the period over which it should seek to eliminate the deficit of £81 million, and included an assessment of the financial strength of the Company. The Board concluded that the recovery period should be 6 to 8 years from the valuation date, that is by March 2014 at the latest. The Company has agreed to make £40 million additional contributions in 4 equal payments by January 2009 leaving the remaining £42 million deficit to be recovered either through investment returns or further Company contributions, to be reassessed after the next valuation in 2009 unless the financial position of the Company or the scheme changes significantly.

Progress has already been made in reducing the deficit. At March 2007 the funding level had risen to 82% partly as a result of the first instalment of £10 million from the Company. This was despite the weaker performance of equity and bond markets in the 12 months to March 2007 than in the past 3 years. The return on the Plan's investments for the scheme year was 5.6%.

As a result of the stronger funding position it is likely that the Plan's investment strategy will be changed to reduce the risk of the funding level falling back and to better match the assets to the plan's liabilities. This would be achieved by increasing the allocation to bonds and reducing the exposure to equity markets. The selection of managers for any new mandates will take place later in 2007. In the meantime two of the underperforming active equity mandates have been switched to passive management.

The Board has put in place a process for monitoring potential changes in the Company's financial position and ownership. This is considered particularly important in the context of persistent market rumours of a possible bid for the Company and the significant stake taken by an investor.

Although the matters discussed above relate to the Defined Benefit (DB) section, the Plan also has a smaller but growing Defined Contribution (DC) section which is incorporated in the Plan's financial statements. At 31 March 2007 there were 264 DC members, with assets in their personal accounts totalling approximately £3.5 million.

The management of the Plan is compliant in all material respects with published guidelines including the Myners principles to the extent possible.

Chairman's Report (continued/....)

Changes to the Plan rules have been made to comply with age discrimination regulations introduced in December 2006.

Since the last report there have been some changes to the membership of the Trustee Board following new regulations relating to the appointment of member nominated trustee directors. Susan Radford decided not to stand again as a member-nominated director and we thank her for her valuable service. Lewis Howes and Paul Phillips were appointed as member-nominated directors, and Keith Reed replaced Lori Gaytan as an employer-nominated director.

We are fortunate in having directors who are able and conscientious – a necessity when there is so much of importance to do. I would also like to thank the IHG pensions team for their hard work and invaluable support over the last 12 months.

Trevor Jones
Chairman

21 August 2007

Trustee's Report

1. Introduction

The InterContinental Hotels UK Pension Plan ('the Plan') was established on 1 April 2003 in anticipation of the separation of the Six Continents hotel and soft drinks businesses from its pubs and restaurants business, which took place on 15 April 2003.

The Plan's sponsoring company is Six Continents Ltd, which is a principal subsidiary undertaking of InterContinental Hotels Group PLC ("IHG"or "the Company"). Its corporate trustee is IC Hotels UK Pension Trust Limited ('the Trustee').

The Plan provides pensions and other related benefits, under Defined Benefit (DB) arrangements, including protection for dependents in the event of death in service. The Plan also operates a Defined Contribution (DC) section. It is governed by a Trust Deed and Rules, copies of which are held for inspection by the Company's Global Human Resources Department. The Plan is registered with HM Revenue & Customs under section 150(2) of the Finance Act 2004, and its DB contributing members are contracted-out of the State Second Pension.

In addition to the Trust Deed and Rules, there are a number of different sources of information which are available to members from the Plan's third party administrators, namely Mercer Human Resource Consulting for the DB section and LCP DC Link Limited for the DC section. These include:

- Plan Handbooks, for both DB and DC sections of the Plan, which set out details of the benefits and contributions (including Additional Voluntary Contributions) of the Plan;
- annual benefit statements;
- an annual newsletter, which contains the summary funding statements and is sent to all Plan members

DC members also have access to their individual records via the website www.dc-link.co.uk, which is operated by LCP DC Link Limited.

2. Statement of Trustee's responsibilities

The Plan's Trustee is responsible for obtaining audited financial statements which comply with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and for making available certain other information about the Plan in the form of an Annual Report.

The financial statements are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Plan members, beneficiaries and certain other parties, audited financial statements for each Plan year which:

- show a true and fair view of the financial transactions of the Plan during the Plan year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year, and

- contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice titled 'Financial Reports of Pension Schemes'.

The Trustee has, through InterContinental Hotels Ltd, supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable by or on behalf of the employer and the active members of the Plan and the dates on or before which such contributions are to be paid.

The Trustee is also responsible under pensions legislation for keeping records in respect of contributions received in respect of any active member of the Plan and for procuring that contributions are made to the Plan in accordance with the Schedule of Contributions.

The Trustee has general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities.

The Trustee confirms that the financial statements on pages 22 to 31 have been prepared and audited in accordance with the regulations made under section 41(1) and (6) of the Pensions Act 1995, on a going concern basis and in accordance with the Statement of Recommended Practice (SORP), issued in 1996 and revised in 2002 by the Accounting Standards Board and the Pensions Research Accountants Group, which itself accords with the requirements of the Pensions Act 1995.

3. Management of the Plan

The assets of the Plan are held entirely separately from those of the Company and are in the care of the corporate Trustee which is legally independent of the Company and whose role is to ensure that the Plan is administered according to the Rules and to safeguard the assets of the Plan in the best interests of all its members.

Until 31 March 2006 most of the Plan's investments were managed jointly with those of the Britvic Pension Plan by the InterContinental Hotels Common Investment Fund (the CIF). Following the Initial Public Offering of Britvic PLC in December 2005 the Plan's solicitors advised that the CIF could not continue for more than 12 months after the date of separation. The effective date of 31 March 2006 was chosen for the termination as it was the end of the CIF's financial year, although a small value of net assets remained at that date and were distributed between the Plans by the end of September 2006. The Final Report and Accounts of the CIF to 30 September 2006 were prepared and audited, and the CIF Trustee was dissolved in March 2007. The Trustee has entered into an agreement with the Trustee of the Britvic Plan to share the responsibility for the indemnities given by the CIF Trustee since its inception in 2003. From 1 April 2006 the Plan's investments have been managed by the Plan Trustee.

In August 2006 the Company relinquished its powers to remove the corporate Trustee, and to remove the 3 independent Trustee Directors who gained the power to appoint their successors subject to a veto by the Company which cannot be used unreasonably. The independent Directors are appointed for a term of 10 years. These changes have resulted in the corporate Trustee becoming fully independent of the Company.

The Trustee Board considered the Code of Practice issued by the Pensions Regulator on Member Nominated Directors (MNDs) which includes a requirement to have a nomination process that must involve at least all active and pensioner members. Given the recent reduction in active membership it was decided to replace the structure of 3 MNDs elected by the active members with 2 MNDs so elected and 1 MND selected by the Trustee Board from the deferred and pensioner members, who would be invited to put themselves forward for the position.

Trustee's Report (continued/...)

The revised composition of the Plan Board is therefore 9 Trustee directors comprising:

- 3 Trustee directors appointed by Six Continents Ltd.
- 3 independent Trustee directors
- 2 Trustee directors elected by active Plan members from among their number
- 1 Trustee director selected by the other directors from deferred and pensioner members.

The Trustee directors at 31 March 2007 are listed below.

Employer Nominated	Independent	Member Nominated
David House	Trevor Jones (Chairman)*	Terry Critchley*
Lori Gaytan	Sam Dow*	Susan Radford
Ralph Wheeler *	Anthony Stern*	

** Member of Investment Committee*

The following changes have taken place during the year and since the Plan year end:

- John Cameron was replaced by Lori Gaytan as an Employer Nominated Director in May 2006, who in turn was replaced by Keith Reed in July 2007.
- Following the implementation of the Trustee's new MND appointment arrangements, the resultant changes to the MND composition in May 2007 were:
  - Susan Radford resigned as she decided not to stand for re-election.
  - Terry Critchley was re-elected and Paul Phillips elected from the active membership.
  - Lewis Howes was selected by the other Directors from the deferred and pensioner membership.

All the Directors, except for Sam Dow, Lori Gaytan and Trevor Jones, are themselves members of the Plan.

During the year to 31 March 2007 the Plan Board and the Investment Committee met respectively 4 and 5 times. The directors received a full day's training on the actuarial valuation and scheme-specific funding. In addition each director carried out a self-assessment of their own knowledge and understanding, and so identified areas where further training was required.

4. Plan Advisers and Administration

Plan Actuary	David Coleman, Mercer Human Resource Consulting Ltd
Plan Auditors	Ernst & Young LLP
Pension Consultants	Mercer Human Resource Consulting Ltd
Investment Advisers	Hewitt Bacon & Woodrow Ltd
Solicitors	Allen & Overy
Secretary to Trustee	Robert Watson

Trustee's Report (continued/….)

Following the resignation of the individual consultant assigned to the Plan from Mercer Investment Consulting it was decided to bring forward the planned routine review of the investment adviser and carry out a full selection process. As a result Hewitt Bacon & Woodrow were appointed as investment advisers in place of Mercer Investment Consulting in May 2007.

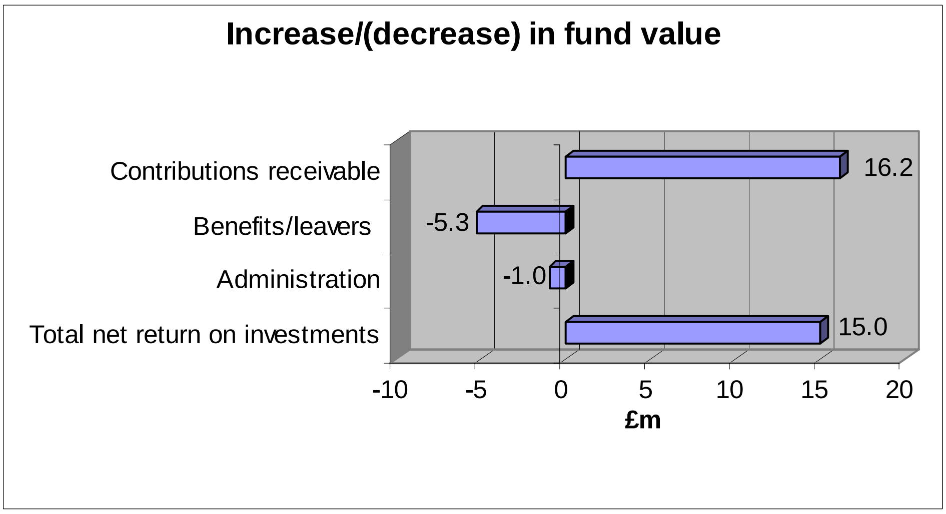
The Plan is managed by InterContinental Hotels Ltd. Benefits administration for the DB section is outsourced to Mercer Human Resource Consulting, and for the DC section to LCP DC Link: contact details are provided in section 13.

5. The Sponsoring Employer

The sponsoring employer of the Plan throughout the year ended 31 March 2007 was Six Continents Ltd (formerly called Six Continents PLC), a subsidiary company of InterContinental Hotels Group PLC, whose registered office is 67 Alma Road, Windsor, Berkshire SL4 3HD. The address of the Trustee is No 1 First Avenue, Centrum 100, Burton upon Trent DE14 2WB.

6. Financial Development of the Plan

The net increase in Plan value for the year ended 31 March 2007 of £24.9 million is shown on pages 22 and 23 of the financial statements and analysed graphically below:



Contributions receivable include the first £10 million tranche paid in March 2007 out of the £40 million of additional Company contributions described in the next section on Funding Levels.

Benefits/leavers comprise mainly pensions paid to members.

Administration costs are made up of expenses amounting to £899,000 and life insurance of £58,000. The expenses are analysed in note 8 to the financial statements and compare with £740,000 in 2006. The increase was mainly due to the actuarial valuation taking place in the year, and an increase in the charge from the Company for administration which arose from the loss of the benefits of sharing costs with the Britvic Pension Plan through the Common Investment Fund.

The total net return on investments, which includes investment income and is after the deduction of investment management expenses, is discussed in the Investment Report. During the year the subsidiary undertaking, SC Hotels UK Pensions SARL, was liquidated as described in note 16 to the Accounts and the Plan received €2.0 million, which represented the early realisation of the full value of an option which it held to sell the investment to IHG in 2008.

Trustee's Report (continued/...)

7. Plan Funding Levels

Under normal circumstances it is intended that a full actuarial valuation is carried out every three years. However following major changes to the membership profile and to the Company's business it was decided to bring forward the scheduled valuation, due as at 31 March 2007, by a year. This was the first valuation of the Plan to be carried under the requirements of the Pensions Act 2004 and the code of practice on scheme funding issued by the Pensions Regulator which sets out a more prescriptive process than hitherto.

The regulations require the scheme to adopt the Statutory Funding Objective, which is to have sufficient and appropriate assets to make provision for an estimate of the benefits already accrued by the scheme. In valuing the benefits the Trustee Board has made a number of assumptions, the most important of which is the expected investment return on the scheme's assets. Given the scheme's maturity the most appropriate measure of return is the return on UK Government gilt stocks less a deduction of 0.5%, and this is used for the economic basis.

The valuation also takes account of changes to the financial position of the Plan since the last valuation as at March 2004 and a reassessment of other financial assumptions. The non-financial assumptions have also been reviewed and in particular changes have been made to reflect improved life expectancy and allowances have been made for full pay increases and cash commutation.

The resulting valuation is that the Plan had a funding level of 76% which is equivalent to a deficit of £81 million at March 2006 compared to 60% and £100 million respectively at March 2004. On the accounting measure disclosed in corporate accounts (as defined by International Accounting Standard 19) the deficit at March 2006 was £2 million and as valued on the basis used by the Pensions Protection Fund showed a surplus of £30 million at the same date.

The Trustee is also required to put in place a Recovery Plan to ensure that the Statutory Funding Objective is met. In the course of developing this Plan the Trustee Board considered the strength of the employer covenant in the context of the special dividend and share repurchase programme which had been announced by IHG to take place later in 2007. The review resulted in a Recovery Plan to eliminate the deficit within 6 to 8 years of the valuation date, that is by 31 March 2014 at the latest, through a combination of additional Company contributions and investment returns. Following consultation with the Company it has been agreed that it will make additional contributions of £40 million over the period to January 2009. The need for further additional contributions will be reassessed following the 2009 valuation unless the Company's covenant or market conditions change significantly in which case the reassessment will be made straight away. Additionally the Company has asked the Trustee Board to discuss the need for the committed additional contributions if it looks likely that the scheme will become overfunded.

The Actuary also provides quarterly an updated estimate of the Plan funding level and this is presented to the Trustee Board. The estimate of the funding level at 31 March 2007 based on the valuation carried out as at 31 March 2006 was a funding level of 82%, equivalent to a deficit of £60 million. This improvement in the funding position was due to the first £10 million instalment of the additional contributions together with returns from investment markets. A commentary on investment performance is provided in the Investment Report.

Company contribution rates to cover the cost of future service accrual have been increased from 1 April 2007 to reflect the revised assumptions in the valuation as follows:

Staff section: 31.5% of Annual Earnings (previously 15.6%)
Executive section: 75.1% of Pensionable Salaries (previously 38.5%)

Member contributions remain unchanged at 5% of Annual Earnings or Pensionable Salaries as appropriate.

8. Funding Risks

Any final salary pension scheme is exposed to various funding risks. The Trustee has considered the following such risks:-

a) the risk of a deterioration in the Plan's funding level. This risk is addressed through an investment strategy which is specific to the Plan's liabilities and funding level;

b) the risk of a shortfall of assets relative to the liabilities on an ongoing basis or if the Plan were to wind up. These risks are taken into account in setting the investment strategy;

c) the risk that the investment return from the assets will be below that expected by the Trustee. This risk is addressed by closely monitoring the Plan's investment managers and overall return.

d) the risk that the sponsor does not or cannot make the contributions necessary to support the solvency funding level. The Trustee has put in place a process to monitor the financial strength of the sponsor.

The principal employer has the right at any time to terminate its liability to pay contributions to the Plan subject to the provisions set out in the Trust Deed and Rules and funding obligations imposed by law, which in summary require the employer to improve the funding to a level which would permit the Trustee to purchase annuities to pay the pensions accrued at that point. The principal employer has not indicated that it intends to exercise this right.

Whether all Plan members receive their benefits should the Plan terminate at some future time will depend on the sufficiency, at that point in time, of the Plan's net assets to provide for the accumulated benefit obligations and the financial condition of the principal employer.

The Plan and its members benefit from some legislative protection. Firstly, solvent employers are unable to close their pension schemes without fully funding them to be able to pay all benefits earned to date. Secondly, the Pension Protection Fund (PPF) introduced by the Government in April 2005 provides the following protection for members in the event of the sponsoring employer becoming insolvent:

- 100% of pensions in payment or accrued benefits for members who have attained Normal Pension Age (NPA), or irrespective of age, if they are either receiving a spouse/partner pension or a pension due to ill-health
- 90% of accrued benefits for other members, subject to a maximum which is currently equivalent to £26,936 per year at age 65 both with limited protection against the effects of inflation, and with attaching 50% spouse/partner pensions.

9. Risk Assessment

In 2004 the Trustee commissioned an independent risk specialist to carry out a formal risk assessment of the Plan. This resulted in the compilation of a risk register and the Trustee Board regularly reviews the ongoing actions, in particular compliance with the draft code of practice on internal controls.

10. Changes to Plan Benefits

To meet the requirements of the Age Discrimination regulations that became law for pension schemes on 1 December 2006, the Plan made the following changes for members who remained employed by the InterContinental Hotels Group after their Normal Retirement Age (NRA):

- *Defined Benefit section members* can continue to earn further defined benefit pension benefits on the same terms that applied to service completed before NRA until the earlier of leaving the Plan, attaining age 75 or death. On death in employment, the pension for a spouse, civil partner or nominated partner is one-third of the member's pension earned to date of death.

- *Defined Contribution section members* can continue to pay Core Contributions and receive the Matching Credit until the earlier of leaving the Plan, attaining age 75 or death.

- *Active Defined Benefit and Defined Contribution section members* continue to receive life assurance cover of 4 times salary until the earlier of leaving the Plan, attaining age 75 or death.

11. Plan Membership

(a) Defined Benefit (DB) Section

The table below shows the movement in DB membership numbers during the year ended 31 March 2007 with total membership falling from 3,930 to 3,888 during the course of the year.

Members in Service	Total
At 31 March 2006 (reported)	233
Adjustments	0
At 31 March 2006 (adjusted)	233
Leavers	(19)
Deaths	0
Retirements	(2)
At 31 March 2007	212

Deferred Pensioners	Total
At 31 March 2006 (reported)	2740
Adjustments	(7)
At 31 March 2006 (adjusted)	2733
Leavers	19
Retirements	(49)
Transfers out	(31)
Deaths	(5)
At 31 March 2007	2667

Pensioners	Total
At 31 March 2006 (reported)	958
Adjustments	6
At 31 March 2006 (adjusted)	964
Retirements	51
Dependents	11
Deaths	(14)
Trivial commutation	(3)
At 31 March 2007	1009

At the end of the Plan year there were 120 DB members paying Additional Voluntary Contributions (AVCs) (2006 – 134) and 202 deferred members (2006 – 200) with AVC benefits remaining in the Plan.

(b) Defined Contribution (DC) Section

The DC section of the Plan had 264 members at 31 March 2007, compared to 234 at 31 March 2006 as shown below:

Members in Service	Total
At 31 March 2006	170
New entrants	68
Leavers	(34)
Transfers/refunds	(10)
Deaths	0
At 31 March 2007	194

Deferred Pensioners	Total
At 31 March 2006	64
Leavers	34
Transfers/refunds	(28)
At 31 March 2007	70

At the end of the Plan year there were 24 DC members paying AVCs (2006 – 30) and 7 deferred members (2006 – nil) with AVC benefits remaining in the Plan.

12. Schedule of Contributions

The first formal Schedule of Contributions was put in place in January 2005. From 6 April 2006 the Schedule was amended to take account of the impact of the changes arising from the Finance Act 2004 to employer contributions relating to the executive section. From 24 August 2006, the Schedule was amended to reflect the payment of Executive DC Section Company contributions in excess of the standard Executive matching credit. From 1 April 2007 the Schedule was further amended to reflect the revised employer contribution rates and the additional contributions outlined in Section 7 above. The Schedules have been certified by the Actuary and a copy of the latest certification is on page 35.

13. Contact for Further Information

If you wish to obtain further information about the DB or DC section of the Plan, including copies of Plan documentation, or about your own pension position, please contact:-

<u>DB section</u>
Mercer HR Consulting,
Stratford Court, Cranmore Boulevard,
Solihull, West Midlands, B90 4QT.
Telephone helpline: 0870 8500982
Email address: ichotelsgroup@mercer.com

<u>DC section</u>
LCP DC Link Limited
Telephone helpline: 01733 353418

14. Approval of Reports

The Trustee's Report, together with the Investment Report on pages 11 to 18 and the Compliance Report on page 32 of this Annual Report were approved by the Trustee directors at their meeting on 21 August 2007 and Trevor Jones and Ralph Wheeler were authorised to evidence that approval by signing this report on behalf of the Board.

Signed: …………………………………….. Trevor Jones

…………………………………….. Ralph Wheeler

21 August 2007

Investment Report

1. Investment Governance

Decision making in relation to the assets of the defined benefit section of the Plan is assigned as follows. The strategic management of the assets is the responsibility of the Trustee Board, which determines the strategic asset allocation of the Plan. In so doing it takes expert advice from the investment consultants, Hewitt Bacon and Woodrow and others as it deems appropriate. Executive decisions, such as the appointment of investment managers and performance monitoring, are made by the Investment Committee of the Board. The day-to-day management of those assets is delegated to professional investment managers.

The Trustee's custodian throughout the year was State Street Bank and Trust Company, who, as a global custodian, holds the records for all the assets.

In its role as administrator for the Trustee, InterContinental Hotels Group PLC monitors, on behalf of the Trustee, the accuracy and performance of the custodian by ensuring that the holdings recorded by the custodian agree with the managers' record of investment transactions and with the latter's monthly portfolio valuations. The administrator also has regular meetings with the custodian to discuss performance and State Street is required to present to the Trustee Board on an annual basis.

As set out in the Trustee's Report the vehicle which previously held most of the Plan's assets, the InterContinental Hotels Common Investment Fund, was effectively terminated on 31 March 2006 and the investments distributed to the participating Plans according to the unit holdings. Accordingly investments valued at £257.9 million were transferred to the Plan on that date. This new arrangement had no effect on the beneficial ownership of the investments. The remaining assets attributable to the Plan, amounting to £151,000, were received in the quarter ending June 2006.

2. Myners Report

Summarised below are the principles contained in the report issued by Paul Myners in March 2001 and the Trustee's assessment of the Plan's compliance with each. A review of the principles is being conducted by the National Association of Pension Funds and the results will be presented to HM Treasury in Autumn 2007 and the Government will consider what further action is needed. The Trustee Board intends to review these revisions when finalised and adopt them as appropriate.

a) Effective Decision Making

This principle requires that decisions should only be taken by those with the skills, information and resources necessary to take them effectively. The principle mentions appropriate training, in-house support staff, and investment subcommittees.

The fund has an experienced Investment Committee, including members with substantial investment experience. It is advised by an independent investment consultant with support from in-house staff. In order to improve compliance further, additional investment training is undertaken by all directors.

b) Clear Objectives

This principle requires that Trustee directors should set an overall investment objective for a fund that takes account of the fund's liabilities and their attitude to risk.

The fund has such objectives as set out in the Investment Report.

c) Focus on Asset Allocation

This principle requires that strategic asset allocation receives a high level of attention appropriate to its importance, should be approached with an open mind but should reflect a fund's own particular characteristics.

This is a principal focus of the Trustee Board and has been the main area covered by the review of investment strategy in 2007.

d) Expert Advice

This principle requires that contracts for actuarial services and investment advice should be open to separate competition.

The Fund receives independent advice on actuarial matters from the external Actuary and on investment matters from an external investment consultant. These are separate appointments which are reviewed on a regular basis.

e) Explicit Mandates

This principle requires that trustees should agree with both internal and external investment managers on explicit written mandates covering objectives, benchmarks and risk parameters, the manager's approach, and clear timescales of measurement and evaluation.

The Fund has explicit written mandates in place for investment managers covering objectives, benchmarks and risk parameters to the extent felt appropriate. In response to Myners, we have ensured that managers report fully on transaction costs.

f) Activism

This principle requires that the mandate and trust deed should incorporate the principle of the US Department of Labor Interpretive Bulletin on activism, which encourages activities intended to monitor or influence the management of corporations, where this is likely to enhance the value of the investment after taking into account costs involved.

The policy of the Trustee regarding corporate governance is to encourage best practice and active voting through its investment managers. As most of the funds are held through pooled vehicles direct control of voting activities is not normally possible.

g) Appropriate Benchmarks

This principle requires that care is taken in selecting benchmarks that are appropriate, and that active or passive management is considered separately for each asset class.

Benchmarks are considered carefully both for the Fund and individual managers. Active or passive management is used as considered appropriate.

h) Performance Measurement

This principle requires that trustees arrange performance measurement, and assess their own, their advisers', and their managers' performance.

The Fund places great emphasis on investment performance measurement and in the year under review received regular independent qualitative monitoring of investment managers.
In response to Myners, regular assessments will be made of the performance of the advisers and the Trustee going forward.

i) Transparency

This principle requires that the Statement of Investment Principles should include information on the decision taking structure, the investment objective, the planned asset allocation strategy, the mandates and the fee structures.

The Statement of Investment Principles covers these requirements.

j) Defined Contribution sections

In addition to the application, where relevant, of the principles set out above to DC sections, this principle relates to providing a sufficient range of funds for members, and in the case of a default option having an investment objective.

In 2005 these matters were considered by the Trustee with the result that the fund range was extended significantly and an objective set for the default option.

k) Regular Reporting

This principle relates to publishing the Statement of Investment Principles, the results of monitoring of advisers and managers, and the Scheme's compliance with the Myners Principles.

A comprehensive summary of the Fund's investment strategy and practice is included in the Annual Report and Accounts. Regarding compliance with the Myners Principles, this section addresses that requirement. In addition, key further information is included in the annual communication to members in appropriate summary form.

In taking the above actions and taking into account the high priority already being given to investment governance, the Trustee believes it has made every reasonable effort to comply with both the letter and spirit of the Myners Review Principles.

3. Investment Strategy

During the year the Plan continued to follow the investment strategy which was set by the Trustee Board the actuarial valuation as at March 2004. The Trustee then adopted investment objectives as follows:

1. To achieve an expected return on assets to enable the Plan to meet or exceed a 100% funding level over the average time to retirement of the existing active membership, which was estimated at about 15 years.
2. To limit the likelihood to 1 in 4 of the funding level falling by 10% or more on a gilt only basis in the next three years.

This strategy reflected the relative maturity of the Plan, its funding level, the perceived strength of the sponsoring employer and the tolerance to volatility. This resulted in an asset allocation as follows:

Bonds	46.5%
Equities	47.5%
Property	6.0%

Most of each asset class was allocated to active investment, that is where a manager is mandated to aim to exceed the relevant benchmark index within specified parameters of risk. Half of the equity allocation is held in UK equities. The rest of the equity allocation was apportioned into regions across the world on a broadly equal weighted basis, although a greater weight was assigned to the Far East at the expense of the Continental European allocation due to the perception of higher growth potential. Additionally there is an active currency overlay hedged into part of the North American equity allocation.

Portfolio risk is reduced by allocating a proportion of equities and bonds to a manager who operates indexed portfolios, all of which are pooled fund holdings. The remaining managers are chosen for their expertise in particular bond, equity or property markets.

In order to protect the sterling value of overseas assets, overseas bonds are hedged into sterling although the bond managers are permitted to take active positions on hedging in order to seek additional return. Overseas equities are 50% hedged.

Following the completion of the 2006 actuarial valuation the Board has reconsidered the investment objectives in the light of the Recovery Plan set out in the Trustee's Report and its view on the employer's covenant. These objectives and the resulting investment strategy will be finalised by the Trustee Board later in 2007 following which the selection of managers for any new mandates will take place.

The scheme's investment managers at 31 March 2007 are listed below.

Brief	Manager
Active managers	
Fixed interest and inflation-linked instruments	Insight Asset Management (Global) Ltd
Global bonds	PIMCO
UK equities European (ex UK) equities Far East equities	Russell Investment Group
Property	ING Real Estate Investment Management Ltd
Currency	Record Currency Management
Passive manager	
UK inflation-linked gilts UK equities North American equities Global equities	Legal & General Assurance (Pensions Management) Ltd

4. Investment Principles

The Trustee maintains a Statement of Investment Principles as required by Section 35 of the Pensions Act 1995. The statement has been revised to adhere to the Occupational Pension Schemes (Investment) Regulations 2005 which incorporated the requirements of the 2003 European Pensions Directive. The statement sets out the Trustee's policy towards the strategic and day-to-day management of the funds under its control and includes a description of its strategic objectives, the allocation of investment designed to achieve these objectives and the restrictions placed on the specialist investment managers. It also includes details of the Trustee's policy statement in respect of Socially Responsible Investment and guidelines for the investment managers on voting policy in respect of the shares held. The Statement is available to members at any time by written application to the Secretary to the Trustee.

5. Review of Investment and Performance

a) Equities and Bonds

In the year to March 2007 global growth remained robust although inflationary pressures continued to build. Housing and oil prices were dominant themes through the year. The UK economy expanded at steady pace, supported by consumer confidence arising from low unemployment and wage growth. US growth remained strong despite concerns about slowing household consumption and the housing market. After several years of economic underperformance the Eurozone grew strongly, led by exports. The Japanese economy was held back by poor domestic consumption.

In the favourable economic conditions all the key equity markets, except Japan, rose strongly. However the strength of sterling against the US dollar and the yen diluted total returns when expressed in sterling terms:

	Year to March 2007
UK	+11%
Continental Europe	+12%
North America	-1%
Japan	-11%
Pacific Rim	+13%
Global	+3%

Bond returns were also positive across the year. Long-dated index-linked gilts grew by 3%, UK Government fixed interest and sterling corporate bonds by 1%, and global corporate bonds by 5% in the year to 31 March. Towards the end of the year bond returns fell back due to inflationary pressures and the consequent impact on interest rates.

b) Property

The sector continued to perform strongly, with the overall return for the year at 17%, down from 23% last year. The return came from strong institutional demand, supported by rental growth, although these factors moderated towards the end of the year.

c) Manager Performance and changes to structure

Most of the Plan's investments are managed by active managers, that is managers with mandates to outperform the relevant benchmark index. Each manager has been set a target return over the relevant benchmark which is measured over a three year rolling period.

PIMCO (appointed in September 2005), ING Real Estate (transfer to new fund in March 2006) and Record (August 2006) have not yet completed the three year assessment period. Of the remaining managers Insight and the Russell Japan Fund have slightly outperformed their respective benchmark but not achieved their target. The remaining Russell funds, Northern Trust (UK equity) and Wellington (Global equity) have not achieved their benchmarks. After taking advice from the investment consultant (Mercer) on the capacity of these managers to deliver target performance in the future it was decided to sell the holdings in Northern Trust and Wellington during the year and buy units in equivalent passive equity funds managed by Legal & General, pending the outcome of the strategy review discussed above. The position of the Russell funds will also be considered as part of the review.

d) Fund Return

In the year to 31 March 2007 the return on the Plan's investments was 5.6% which was 0.4% below the composite benchmark. The shortfall was largely due to underperformance by active equity managers which was partly offset by an overweight position in equities against allocation in the second half. This resulted from a decision to suspend rebalancing to the asset allocation pending the outcome of the investment strategy review.

Prior to March 2006 investment performance was measured jointly with the Britvic Pension Plan in the CIF.

6. Investment management expenses

Investment expenses amounted to £284,000 for the year. In 2006 these were borne by the CIF and therefore there is no comparable figure.

	2007 £000
Fees payable to investment managers	355
Rebates receivable from investment managers	(167)
Investment consultant	71
Custody and investment accounting	25
	284

Investment managers' fees are mainly calculated on the average market value of each manager's portfolio. The fees of two managers are performance related and are calculated on a base fee for the whole portfolio augmented by specified percentage fees for exceeding mandated benchmark returns. Management fees which are charged directly to a fund, rather than to the Plan, are not included in this amount but netted off the return of the respective fund. However in certain cases lower rates have been agreed with a manager than have been charged directly to the fund and these result in rebates as disclosed.

Custody fees include both core custody fees, in the form of a percentage charge on asset value, flat rate transaction charges, which vary to reflect local market conditions, and investment accounting fees which consist of fixed charges per month for each segregated portfolio and pooled holding.

7. Additional Voluntary Contribution (AVC) Fund

The weighted average rate of return earned on the Prudential Assurance Company's deposit fund during the year was 4.77%. The interest calculated is paid annually.

The other Prudential option available, the With Profits Fund, is based upon individual accounts in a broad spread of investments with some smoothing of investment returns. The Prudential's Annual Bonus Declaration on the With Profits Fund for 31 March 2007 was 3%. The average annual yield for investments in this fund over the five-year period ended 31 March 2007 was 9.5%.

The performance of AVCs invested in the same funds as the DC section is set out in section 8 below.

8. DC section

The objectives as set out in the Statement of Investment Principles are to provide a range of investment options suitable to meet members' needs, by providing options that give members a reasonable expectation of:

- optimising the value of their assets at retirement, allowing for individual members' risk tolerances
- maintaining the purchasing power of their savings in real (i.e. post-inflation) terms
- providing protection for accumulated assets in the years approaching retirement against a sudden (downward) volatility in the capital value, and fluctuations in the cost of annuities

whilst taking into account the impact that increased complexity may have on administration requirements and the overall cost of the arrangements.

In the year to March 2007 contributions relating to members of the DC section have been invested in a range of specialist investment funds with DC Choice, and this range was extended in April 2005. Members are able to choose between a Lifestyle and a Freestyle option. Under the Lifestyle option the choice of investment funds is made for the member, whilst under the Freestyle option members make their own fund decisions.

Most DC section members select the Lifestyle option which invests in the Passive 50:50 Global Equity fund until 10 years before retirement. As a result 78% of the DC section investments are in this fund.

All of the DC section funds are listed below, together with their investment return before fees for the years ending 31 March 2006 and 31 March 2007:

Fund	Year to March 2006	Year to March 2007
Equities		
50/50 Global Equity – Passive	31.3%	7.3%
50/50 Global Equity – Active	32.4%	5.2%
UK Equity – Passive	27.8%	11.2%
UK Equity – Active	28.4%	10.0%
Global ex-UK Equity – Passive	34.6%	3.5%
Global ex-UK Equity – Active	36.3%	0.5%
Continental European Equity – Passive	35.9%	12.2%
US Equity – Passive	24.2%	-0.9%
Japan Equity – Passive	49.0%	-9.9%
Pacific ex-Japan Equity – Passive	34.1%	20.3%
Bonds		
All Stock UK Corporate Bond – Active	8.1%	2.2%
Long-dated Fixed Interest Gilt – Passive	10.7%	-1.0%
Over 5 Year Index-linked Gilt – Passive	8.9%	2.7%
Property – Active	19.6%	17.2%
Sterling Liquidity	4.7%	5.0%

A commentary on the returns for the year to March 2007 is provided in Section 5(a) and 5(b) on page 15. The returns are stated before fees which are paid by the Plan except for AVCs where they are borne by the member.

All the passive funds are managed by Hermes Investment Management. The active UK Equity and Corporate Bond funds are managed by Investment Solutions on a multi-manager basis. The active Global ex UK Equity fund is managed by Russell Investment Group, itself a manager of managers, whilst the active Property fund is managed by Morley Fund Management.

Investment Report (continued/....)

9. Major Assets

The Plan's 10 largest holdings by value at 31 March 2007 are listed below:

	Market Value £m	%of Total Assets
1. L&G UK Equity Index Fund	40.6	14.5
2. L&G Index Linked Gilts Fund	38.4	13.7
3. PIMCO Global Investment Grade Credit Fund	26.3	9.4
4. Russell UK Equity Fund	25.8	9.2
5. UK Government Stock 4% 2016	21.9	7.8
6. Osiris Property Fund	17.3	6.2
7. L&G World (ex UK) Equity Index Fund	13.3	4.7
8. Insight UK Corporate All Maturities Bond Fund	9.6	3.4
9. UK Government Stock 5% 2025	9.5	3.4
10. Russell Continental European Equity Fund	8.7	3.1

10. Employer-related Investments

The Statement of Investment Principles specifies that employer related investments, as defined by Section 40 of the Pensions Act 1995, may not in the generality be entered into except when reasonably incidental to an investment policy designed to track the FT Actuaries All Share Index. In exceptional circumstances, such an investment may be made but the decision to do so must be supported by professional advice and explicitly approved by the Trustee Board. The Pensions Act 1995 limits employer related investments to a maximum of 5% of the total value of the net assets of the Fund. Employer related investments are disclosed in note 16 to the Accounts of the Plan and are negligible.

Actuary's Report

As noted last year a full Actuarial Valuation of the Plan was undertaken as at 31 March 2006.

The main funding objective of the Trustee Board is calculated on a basis using gilt yields less 0.5% p.a. On this basis, the Plan was 76% funded as at 31 March 2006, with a shortfall of £81m.

The Trustee has agreed with the Company that the shortfall of £81m be met by a combination of the Company making additional payments totalling £40 million over the period up to 31 January 2009 (£10m of which was paid in March 2007), together with projected investment returns on the Plan's assets above those used to assess the liabilities.

In addition, from April 2007, the Company increased its regular contributions to the Plan as follows:

From 15.6% to 31.5% of annual earnings of members of the Defined Benefit (DB) Staff section;

From 38.5% to 75.1% of pensionable salaries of members in the DB Executive section.

In addition to the above, the Company also pays contributions to members' personal accounts in respect of members of the Defined Contribution (DC) Section, together with 2½% of total Plan Pay of members of that section (3% for Executive DC members) to cover the cost of their death in service benefits, ill-health benefits and expenses.

An Actuarial Certificate has been provided by the Actuary and is incorporated in this Annual Report on page 35.

David Coleman
Mercer Human Resource Consulting Ltd
Birmingham

Independent auditors' report to the Trustee of the InterContinental Hotels UK Pension Plan

We have audited the Plan's financial statements for the year ended 31 March 2007 which comprise the fund account, the net assets statement and the related notes 1 to 16. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Trustee, as a body, in accordance with regulation 3 (c) of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to it in an auditors' 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 Trustee as a body, for our audit work, for this report, or the opinions we have formed.

Respective responsibilities of trustees and auditor

As described in the Statement of Trustee's Responsibilities, the Plan's Trustee is responsible for obtaining audited financial statements which comply with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and for making available certain other information about the Plan in the form of an Annual Report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified by the relevant legislation. We also report to you if, in our opinion, we have not received all the information and explanations that we require for our audit, or the information specified by law is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within the financial statements. The other information comprises Trustee's Report, Investment Report, Actuarial Statements, and Compliance Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the Trustee in the preparation of the financial statements and of whether the accounting policies are appropriate to the Plan's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

The Financial Statements of the InterContinental Hotels UK Pension Plan

Fund Account – for the year ended 31 March 2007

	Note	2007 Defined Benefit Section £000	2007 Defined Contribution Section £000	2007 Total £000	2006 Total £000
Contributions					
Contributions receivable	*3*	14,494	1,599	16,093	5,405
Transfer values receivable	*4*	12	14	26	221
Other income	*5*	24	42	66	255
		14,530	1,655	16,185	5,881
Benefits					
Benefits payable	*6*	5,074	0	5,074	6,130
Leavers	*7*	154	126	280	1,282
Life Insurance		58	0	58	42
Administration expenses	*8*	899	0	899	740
		6,185	126	6,311	8,194
Net additions/withdrawals from dealings with members		8,345	1,529	9,874	(2,313)
Returns on investments					
Investment income	*9*	3,593	0	3,593	139
Change in market value of investments	*10/11*	11,518	211	11,729	43,142
Investment management expenses	*12*	(284)	0	(284)	0
Net returns on investments		14,827	211	15,038	43,281
Net increase in the Fund during the year		23,172	1,740	24,912	40,968
Net assets of the Plan					
At 31 March 2006		260,776	2,182	262,958	221,990
Transfers between sections	*5*	299	(299)	0	0
At 31 March 2007		284,247	3,623	287,870	262,958

The Financial Statements of the InterContinental Hotels UK Pension Plan (continued/….)

Net Assets Statement – as at 31 March 2007

	Note	2007 £000	2006 £000
Defined Benefit Section			
Investments			
Ordinary plan investments	*10*	281,349	258,043
AVC investments	*11*	2,529	2,351
Other	*16*	0	3,488
Borrowings	*16*	0	(3,488)
Current assets and liabilities	*14*	369	382
Net assets of Defined Benefit Section		284,247	260,776
Defined Contribution Section			
Assets designated to members			
Investments			
Ordinary plan investments	*11*	3,272	2,187
AVC investments	*11*	197	77
Current assets and liabilities	*14*	154	(82)
Net assets of Defined Contribution Section		3,623	2,182
Net assets of the Plan at 31 March 2007		287,870	262,958

These financial statements were approved by the Trustee's Board on 21 August 2007. The accompanying notes form an integral part of these financial statements.

Signed on behalf of the Board:

……………………………………………… Trevor Jones, Chairman

……………………………………………… Ralph Wheeler, Director

Notes to the Financial Statements

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes, issued in 1996 and revised in 2002.

The financial statements summarise the transactions of the Plan and the net assets of the Plan at 31st March 2007 at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Plan year. The actuarial position of the Plan, which does take account of such obligations, is dealt with in the statement by the actuary on page 19 of this annual report and these financial statements should be read in conjunction with it.

2. Accounting policies

a) Investments

i) Pooled Investment Vehicles are valued either at the average of the bid and offer prices provided by the relevant fund managers or on the single price, which reflect the market value of the underlying investments. Accrued income is included under “Cash and other investments” in Note 10.
ii) Fixed interest securities are valued by the custodian at the mid price and exclude the value of interest accruing from the previous interest payment date which is shown under “Cash and other investments” in Note 10.
iii) Investment management fees are accounted for on an accruals basis. Acquisition costs are included in the purchase cost of investments.
iv) Pooled investment vehicles attributable to DC members are valued at prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

b) Investment Income

i) Income from fixed interest and index-linked securities is accounted for on the date stocks are quoted ex-interest.
ii) Income from cash and short term deposits is accounted for on an accruals basis.

c) Foreign currencies

Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

d) Change in market value of investments

Change in market value of investments comprises:-
i) investment income from pooled investment vehicles (e.g. unit trusts, open-ended investment companies) where this is accumulated within the value of units or automatically reinvested in additional units.
ii) profits and losses on the sale of investments together with changes in market values of investments during the year.
iii) the difference between the contract price of financial futures and the market value at the balance sheet date.
iv) profits and losses on the translation of foreign currency assets and liabilities.

e) Transfer values

Transfer values represent the value of pension benefits of members transferring to and from the Plan during the year. For groups of members these are included in the accounts from the date of transfer, or from the date of the relevant agreement, and for individual members on the basis of sums payable or receivable, which is when the member liability is accepted or discharged.

Transfer values for members are calculated and verified in accordance with the requirements of Chapter IV of Part IV of the Pension Schemes Act 1993 and provide, as a minimum, an amount consistent with those used for the purposes of Section 57 of the Pensions Act 1995.

f) Contributions

Contributions are accounted for on an accruals basis at rates agreed between the Trustee and Employer as set out in the Schedule of Contributions.

g) Benefits payable

Members can choose on retirement whether to take their benefits wholly as a pension or partially as a pension with a lump sum option. Pensions in payment are accounted for on an accruals basis. Lump sum payments are accounted for at the date an option is exercised.

h) Administrative expenses

Administrative expenses are accounted for on an accruals basis.

i) AVCs

With-profit policies have been included in the net assets statement at the value estimated by the provider. This valuation excludes terminal bonuses that are not guaranteed. With-profit policies are not marketable in the same manner as other investments. As a result the market value of insurance policies is not readily ascertainable. The approach used is consistent in so far as is practical with the mid-market approach adopted for other types of pension fund assets. Deposit AVCs have been included in the net assets statement at the value determined by the provider, which includes accrued income. The funds of DC AVC payers are invested in managed fund units (see a) iv) above).

j) Analysis between DB and DC sections

The financial statements analyse the transactions and net assets of the Plan between the Defined Benefit (DB) and Defined Contribution (DC) sections. Income, expenditure and investments reported within the DC section of the Fund Account and Net Assets Statement relate specifically to the DC section of the Plan. The DB section of the Financial Statements contains the remaining income, expenditure and investments of the Plan, including those which relate to the Plan as a whole and cannot be specifically allocated between the sections.

3. Contributions receivable

	DB section £000	DC section £000	2007 Total £000	2006 Total £000
From Participating Companies				
normal	3,572	740	4,312	3,798
special	10,217	0	10,217	103
DC scheme administration charge	0	257	257	197
	13,789	997	14,786	4,098
From the members				
normal	597	440	1,037	1,159
AVCs	108	162	270	148
	705	602	1,307	1,307
	14,494	1,599	16,093	5,405

Special contributions into the Plan in 2007 included £10 million payable by the Company to improve the Plan's funding level. Other special contributions are pension augmentation payments, made entirely at the company's discretion. The DC scheme administration charge covers both the costs of administering the DC scheme and DC member risk benefits.

4. Transfer values receivable

	DB section £000	DC section £000	2007 Total £000	2006 Total £000
Individual members	12	14	26	221

5. Other Income

	DB section £000	DC section £000	2007 Total £000	2006 Total £000
Age Related Rebates (from the Department for Work and Pensions)	24	0	24	213
Employers contributions retained	0	42	42	42
	24	42	66	255

Age related rebates are shown after the removal of overestimates of the amounts receivable of £77,000 in 2003/04 and £12,000 in 2004/05.

Employers contributions retained arise where DC members have left the Plan but are not eligible to withdraw, and do not choose to transfer, employers' contributions in respect of their membership. These contributions, together with the DC administration charge of £257,000 as shown in note 3, have been retained for the benefit of all members and are shown as a transfer between sections, and total £299,000.

6. Benefits payable

	DB Section £000	DC Section £000	2007 Total £000	2006 Total £000
Retirement:				
Members', spouses' and dependents' pensions	3,958	0	3,958	3,655
Cash options	919	0	919	2,357
	4,877	0	4,877	6,012
Death benefits:				
Life assurance	103	0	103	104
Pension guarantee	62	0	62	1
Contributions repaid	32	0	32	13
	197	0	197	118
	5,074	0	5,074	6,130

The value of pensions is arrived at after netting off annuity income of £22,000.

7. Payments to and on behalf of leavers

	DB section £000	DC section £000	2007 Total £000	2006 Total £000
Refunds to members leaving service	0	(7)	(7)	180
Individual members transferring to approved scheme	154	133	287	1,102
	154	126	280	1,282

8. Administration expenses

The expenses of Plan administration are borne by the Plan. In the year to 31 March 2007, total costs were £899,000 compared to £740,000 in 2006. The increase was mainly due to the actuarial valuation taking place in the year, and an increase in the charge from the Company for administration which arose from the loss of the benefits of sharing costs with the Britvic Pension Plan through the Common Investment Fund. Benefits administration costs include £21,000 relating to the DC section. The expenditure for the year may be analysed as follows:-

	2007 £000	2006 £000
Actuarial and legal fees	313	219
Company administration	220	170
Benefits administration	187	186
Trustee fees and expenses	48	40
Pension Protection Fund levy	43	52
Audit fee & internal controls review	39	23
Member communications & sundry costs	30	31
Trustee indemnity insurance	19	19
	899	740

Notes to the Financial Statements *(continued/….)*

9. Investment Income

	2007 £000	2006 £000
Income from fixed interest sterling securities	2,066	0
Income from UK index-linked securities	272	0
Income from foreign currency bonds	65	0
Income from pooled investment vehicles	441	0
Income on liquidation of subsidiary undertaking (see note 16)	725	124
Interest on cash deposits	24	15
	3,593	139

In 2006 the majority of the Plan's assets were held by the Common Investment Fund and investment income was reported within the change in value of units held in the Fund.

10. Investments: Ordinary Plan Investments

	Value at 31.3.2006 £000	Purchases at cost £000	Sales Proceeds £000	Change in market value £000	Value at 31.3.2007 £000
Fixed interest sterling securities					
- Government	35,484	168,114	(159,556)	(817)	43,225
- Non Government	10,631	19,591	(18,251)	(214)	11,757
UK Index linked securities	44,752	18,490	(23,111)	1,042	41,173
Foreign currency bonds	21,932	15,102	(9,717)	1,120	28,437
UK equities	63,809	26,081	(29,191)	5,930	66,629
Overseas equities					
- North America	19,774	21,956	(22,775)	474	19,429
- Europe	20,596	14,418	(16,236)	1,690	20,468
- Far East	25,106	16,467	(15,492)	253	26,334
- Emerging markets	0	1,276	(850)	(2)	424
Property	14,351	973	0	1,988	17,312
Units in CIF (see note below)	109	0	(151)	42	
	256,544	302,468	(295,330)	11,506	275,188
Cash & other investments (note 13)	1,499			12	6,161
	258,043			11,518	281,349

Pooled investment vehicles included in the above					
Fixed interest sterling securities					
- Government	445	81	0	264	790
- Non Government	2,001	216	0	(110)	2,107
UK Index linked securities	33,708	3,699	0	961	38,368
Foreign currency bonds	19,788	2,403	0	1,251	23,442
UK equities	63,809	26,081	(29,191)	5,930	66,629
Overseas equities					
- North America	19,774	21,956	(22,775)	474	19,429
- Europe	20,596	14,418	(16,236)	1,690	20,468
- Far East	25,106	16,467	(15,492)	253	26,334
- Emerging markets	0	1,276	(850)	(2)	424
Property	14,351	973	0	1,988	17,312
	199,578	87,570	(84,544)	12,699	215,303

Included under North American equities is the pooled holding in an actively managed currency fund which is hedged into the S&P 500 equity fund. This investment was valued at £5,371,000 on 31st March 2007 (2006 – nil).

The Pooled Investment Vehicles are managed by companies registered in the UK and USA.

At the year end the Plan held £13.1 million of forward currency contracts. These represent contracts taken out by the active bond manager to hedge into sterling the value of bonds denominated in foreign currencies. These contracts were closed out by May 2007.

Until March 2006 the Plan participated, on behalf of its DB membership, in the InterContinental Hotels Common Investment Fund (CIF) together with the Britvic Pension Plan. As set out in the Trustee Report the CIF was effectively terminated on 31st March 2006 and most of the assets transferred to the participating plans. During the year the residual amount remaining in the CIF was distributed between the plans according to a predetermined allocation.

11. Investments: Additional Voluntary Contributions (AVCs) and Defined Contribution (DC) Section

The Trustee holds assets invested separately from the main fund, securing additional benefits on a money purchase basis, for those members who have elected to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held in their account and the movement in the year.

Investments purchased by the DC section of the Plan are designated to provide benefits to the individuals on whose behalf the corresponding contributions were paid. Accordingly the assets within the DC section of the net assets statement do not form a common pool of assets available for members generally. Members each receive an annual statement confirming the contributions paid on their behalf and the value of their money purchase rights. Ordinary plan investments are in pooled investment vehicles which are UK-registered.

	Value at 1.4.2006 £000	Transfers £000	Purchases at cost £000	Sales Proceeds £000	Change in Market value £000	Value at 31.3.2007 £000
DB section:						
AVC Investments	2,351	17	105	(51)	107	2,529
DC section:						
Ordinary Plan investments	2,187	(189)	1,156	(85)	203	3,272
AVC investments	77	(4)	119	(3)	8	197
	4,615	(176)	1,380	(139)	318	5,998

At the year end, the aggregate value of AVC investments was as follows:

	DB section £000	DC section £000	2007 Total £000	2006 Total £000
Prudential	1,920	0	1,920	1,795
Other investments closed to new members	425	0	425	409
Investment Solutions	184	197	381	224
	2,529	197	2,726	2,428

12. Investment management expenses

In 2006 investment management expenses were borne by the Common Investment Fund and were therefore deducted in arriving at the number of units held by the Plan. Following the discontinuation of the CIF these expenses are now borne directly by the Plan:

	2007 £000	2006 £000
Fees payable to investment managers	355	0
Rebates receivable from investment managers	(167)	0
Investment consultant	71	0
Custody and investment accounting	25	0
	284	0

13. Other Investments

	2007 £000	2006 £000
Cash deposit	5,727	937
Dividends and interest due	461	562
Amounts due from investment managers	3	0
Unrealised profit on forward contracts	(36)	0
	6,161	1,499

14. Current assets & liabilities

	DB section £000	DC section £000	2007 Total £000	2006 Total £000
Contributions due from Participating Companies	23	67	90	71
Contributions due from members: normal	48	40	88	80
AVCs	7	59	66	20
Cash balances	693	0	693	128
Interest receivable from exercise of option (note 16)	0	0	0	622
Other debtors	300	0	300	390
Transfer values payable	0	(12)	(12)	(652)
Unpaid benefits	(160)	0	(160)	(54)
Other creditors	(542)	0	(542)	(305)
	369	154	523	300

Contributions due have been paid to the Plan subsequent to the year-end in accordance with the Schedule of Contributions, apart from £11,000 owing from the Ministry of Defence relating to a member on military service (included in other debtors). Unpaid benefits relate principally to lump sums due on retirement or death of members.

Other debtors consist primarily of age related rebates receivable from the Department of Work and Pensions of £155,000.

Other creditors include £465,000 payable to IHG for expenses paid on the Plan's behalf – this compares with £236,000 in 2006 when the CIF bore investment expenses which are now paid by the Plan.

15. Related party transactions

The Trustee has an agreement with InterContinental Hotels Ltd, the immediate holding company of the sponsoring company, to provide administration services to the Trustee. For the year to 31st March 2007 the cost was £220,000 (2006 - £170,000).

Fees and expenses payable to Trustee directors of £48,000 were borne by the Plan (2006 - £40,000). The Plan has received employee contributions from Participating Companies in respect of Trustee directors and employees of the administrator who are also contributing members of the Plan, in accordance with Plan rules. One Trustee director receives a pension from the Plan.

Stop–loss insurance cover for death in service was provided by White Shield Insurance Company Ltd, a subsidiary undertaking of InterContinental Hotels Group PLC, at a cost of £8,000.

16. Employer related investments

There were three instances of late payment of contributions in the year totalling £14,146 which were paid between 9 and 43 days after they were due.

At the start of the year the Plan owned the entire share capital of SC Hotels UK Pensions SARL (SCHUP), an investment holding company incorporated in Luxembourg. This company held minority stakes in German hotel companies in which subsidiary undertakings of InterContinental Hotels Group PLC (IHG) also held an investment. To finance this purchase the Plan issued a Capital Note to SC Luxembourg Investments SARL, another subsidiary undertaking of IHG, which was repayable on 27th October 2008. The Plan had an option to sell the investment to IHG on 27th October 2008 which would have been worth €2,013,000 (net of the redemption of the Capital Note) if the investment had been held for its full term.

During the year the minority stakes were sold as part of the complete disposal of the hotel companies, and IHG asked the Trustee to liquidate SCHUP in return for the early realisation of the full option value, which comprised the net liquidation proceeds and a payment from IHG. The Trustee agreed to this action, subject to the provision of an indemnity from a subsidiary undertaking of IHG relating to any liabilities arising from the liquidation, and accordingly SCHUP has been formally liquidated. The impact of the liquidation is reported under “Other investments” and “Borrowings” in the Net Assets Statement and the receivable under Note 9 – “Investment income”.

Compliance Report

1. Changes to the Plan

The changes to the Plan during the year were as detailed in Section 10 of the Trustee's Report.

2. Tax Status

As stated in the Trustee's Report, the Plan is registered with HM Revenue & Customs under section 150(2) of the Finance Act 2004 and, to the Trustee's knowledge, there is no reason why such registration should be prejudiced or withdrawn.

3. Pension Increases

It is the current policy of the Trustee and the Company that the normal increase for all pensions takes place on 1st October each year. Pensions earned before 6 April 2006, in excess of any Guaranteed Minimum Pension (GMP) are guaranteed to increase in line with the rise in the Retail Prices Index (RPI) for the year to the preceding 31st May, up to a maximum of 5%. Pensions earned after 5 April 2006 are guaranteed to increase in line with the rise in the RPI up to a maximum of 2.5%. Furthermore, while not a binding commitment, it is the aim to pay additional increases equivalent to two-thirds of amount by which the RPI movement exceeds the guaranteed rates. Increases in deferred pension payments are dealt with on the same basis.

The annual increase in the RPI over the year up to May 2006 was 3%. The stated aim for October 2006 would have resulted in a pension increase of 2.8% in respect of pensions earned after 5 April 2006. However on this occasion the Company decided to improve on this and increase pensions in payment and deferred pensions in excess of any GMP by 3% from 1st October 2006, in respect of all pension earned, with proportionate increases for those who retired or left the Plan after 30th September 2005. This fully covered the RPI movement for the relevant period. Increases in the GMP element are provided on a statutory basis, in line with the RPI movement, partly by the State Scheme.

4. Calculation of Transfer Values

The calculation method incorporates the stated aim of providing additional discretionary benefits where inflation exceeds 5% or 2½% as described above.

The transfer values paid during the year were calculated and verified in the manner prescribed by the regulations made under section 97 of the Pension Schemes Act 1993.

Independent Auditors' Statement about Contributions, under Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of the InterContinental Hotels UK Pension Plan.

We have examined the summary of contributions to the InterContinental Hotels UK Pension Plan in respect of the Plan year ended 31 March 2007 to which this statement is attached.

This statement is made solely to the Trustee, as a body, in accordance with regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditors' statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our work, for this statement, or the opinion we have formed.

Respective responsibilities of Trustee and auditor

As described in the Statement of Trustee's Responsibilities, the Plan's Trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan. The Plan's Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Plan and for monitoring whether contributions are made to the Plan by the employer in accordance with the schedule of contributions.

Our responsibility is to provide a statement about contributions paid under the schedule of contributions and to report our opinion to you.

Basis of statement about contributions

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to give reasonable assurance that contributions reported in the attached summary of contributions, have in all material respects been paid at least in accordance with the relevant requirements. For this purpose the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the schedule of contributions. Our statement about contributions is required to refer to those breaches of the schedule of contributions which come to our attention in the course of our work.

Statement about contributions

In our opinion, contributions for the Plan year ended 31 March 2007, as reported in the attached summary of contributions, have, in all material respects, been paid from 1 April to 23 August 2006 at least in accordance with the schedule of contributions certified by the Plan actuary on 4 April 2006, and for the period from 24 August 2006 to 31 March 2007 at least in accordance with the schedule of contributions certified by the Plan actuary on 24 August 2006.

Ernst & Young LLP
Registered Auditor
Birmingham

21 August 2007

InterContinental Hotels UK Pension Plan
Summary of Contributions payable during the year ended 31st March 2007

During the year ended 31st March 2007, the contributions payable to the scheme under the schedules of contributions were as follows:

	£000
Employer normal contributions	4,312
Employer special contributions - augmentations	217
Defined Contribution scheme administration charge paid by employer	257
Employee normal contributions	1,037
Total contributions under the schedules of contributions	5,823
Other contributions:	
Employer special contributions	10,000
Employee additional voluntary contributions	270
Total contributions per note 3 of the financial statements	16,093

Signed on behalf of the Trustee

Trevor Jones
21 August 2007

Certification of Schedule of Contributions

Name of Plan InterContinental Hotels UK Pension Plan

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the Statutory Funding Objective can be expected to be met by the end of the period specified in the Recovery Plan dated 26 April 2007.

Adherence to Statement of Funding Principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 26 April 2007.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Plan's liabilities by the purchase of annuities, if the Plan were to be wound-up.

Signature	David Coleman
Scheme Actuary	David Coleman
Date of signing	11/6/07
Name of Company	Mercer Human Resource Consulting Limited
Address	Four Brindleyplace, Birmingham B1 2JQ
Qualification	Fellow of the Institute of Actuaries