InterContinental Hotels UK Pension Plan

Pension Newsletter

Room for you

Defined Benefits Section –September 2010

Welcome to this year's Pension Newsletter, which includes the latest Summary Funding Statement and a summary of the Trustee's Annual Report for the year to 31 March 2010, as it related to Defined Benefits Section members. The full Annual Report is available on request from the Company Management Team or can be viewed or downloaded from the IHG pensions website at **www.pensions.ichotelsgroup.com**

The Summary Funding Statement gives you some details of the results of the 2009 actuarial valuation and the subsequent commitment by the Company to improve the funding of the Plan, including:

- contributing an extra £30m over the next two years, £10m of which has already been paid into the Fund; and
- agreeing to pay a proportion of any sale proceeds from the disposal of hotels into the Plan.

Changes to the Trustee Board

The Trustee Board is made up of nine Directors: three nominated by the Company, three Independent Directors and three nominated and selected from the Plan's membership. Since last year's newsletter, Sean Harrison, Vice President, Human Resources, Global Finance, HR & Corporate Services, was appointed to fill the vacant Employer Nominated Trustee position.

Pensions tax changes

In the April 2009 Budget, it was announced that tax relief on pension savings for high earners would be reduced to the basic rate from 6 April 2011. The effect of the proposed mechanism would be that those members will pay tax as their pensions are earned, and further tax when they are paid.

The new Government still wishes to restrict tax relief to increase its revenue, but is consulting with the pensions industry on an alternative method to achieve this. The proposal is that the existing Annual Allowance (the amount that can be saved each year tax efficiently in a registered pension scheme such as IHG's Pension Plan) be reduced from £255,000 to between £30,000 and £45,000.

As these proposals crystallise, the Company will be formulating and finalising its approach to dealing with this changed pensions landscape. The Company will communicate to members potentially affected as soon as the way forward becomes clear.

If you wish to discuss any immediate concerns about the Government's proposals, please contact Keith Sully on 01283 513097 or email keith.sully@ihg.com

David Coles
Vice President Pensions

Jacqui
IHG, UK

Room to be yourself

InterContinental Hotels Group

Financials

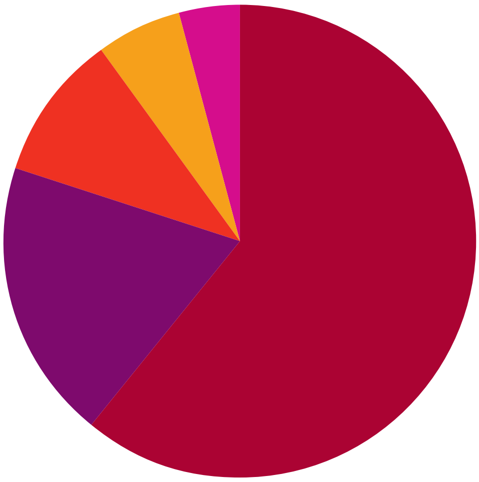
The information on this page provides a summary of the Plan's accounts (excluding specific assets of the Defined Contribution Section) for the year ended 31 March 2010.

Plan investments

In the 12 months to 31 March 2010, the return on the Plan's investments was 15%.

Asset allocation

The Trustee has been working hard to implement the following investment structure for the Plan's assets. This is considered to best meet the Trustee's investment objectives:



Risk-reducing investments:	
Liability matching investments (e.g. Government and company bonds)	61%
Return-seeking investments:	
Global equities	19%
Funds of hedge funds	10%
Property	6%
Currency	4%
Total	**100%**

A comprehensive review of the investment strategy is underway which will take into account the result of the actuarial valuation at 31 March 2009.

Value of the Fund

	£000
Value of the Fund at 31 March 2009	**243,604**
Income	
Member contributions	674
Company contributions	5,225
Other income	601
Return on investments	36,959
Total	**43,459**
Expenditure	
Pensions	5,106
Cash options	1,765
Death benefits	6
Life assurance premium	61
Administration expenses	911
Total	**7,849**
Value of the Fund at 31 March 2010	**279,214**

Membership

The bar chart below shows the membership details at 31 March 2010 and 2009:

Summary Funding Statement for the DB Section of the Plan

Every three years the Trustee has to obtain a valuation of the Plan's assets and liabilities. This valuation is basically a financial health check carried out by the Plan's actuary – an expert at looking at valuations and risks. The valuation compares the value of the benefits earned up to the valuation date that the Plan will have to pay in the future (the liabilities) with the amount of money currently invested in the Plan (the assets). The funding level is the percentage of the liabilities covered by the assets. If the Plan has fewer assets than liabilities, it is said to have a "shortfall". If the assets are more than the liabilities there is said to be a "surplus". The Company contribution required in the future is set at each valuation and together with contributions made by active members, the money is invested to help provide your benefits.

How well funded is the Plan?

The Plan's funding level is calculated by the Plan's Actuary on a basis using gilt (Government stock) yields less 0.5% a year. This is a prudent approach and tells us what the position would be if all the Plan's money earned slightly less than gilts, the target being a 100% funding level. On this basis, at the last formal actuarial valuation on 31 March 2009, the Plan's liabilities of £370 million exceeded the assets by £129 million, indicating a funding level of 65%.

In last year's statement, the estimated funding level at 31 March 2009 was 70%, which was equivalent to a shortfall of £104m. The difference in this estimate and the actual funding level as at 31 March 2009 was largely due to the Trustee adopting the assumptions that members would live longer and refining the interest rate assumptions.

Based on consistent assumptions to the formal 31 March 2009 valuation, the funding level was estimated by the Plan's Actuary to be 69% at 31 March 2010, equivalent to an estimated shortfall of £124 million.

The funding levels are summarised in the following table:

Source	Liabilities	Assets	Shortfall	Funding level
Estimated position at 31 March 2009	£346m	£241m	£105m	70%
Actual valuation at 31 March 2009	£370m	£241m	£129m	65%
Estimated position at 31 March 2010	£401m	£277m	£124m	69%

What has influenced the funding level?

The estimated funding level at 31 March 2010 has improved by 4% since the 2009 actuarial valuation. This is due to the positive impact of higher investment returns from investment markets than expected, offset by a reduction in the return from UK Government gilt stocks, which has increased the value of the Plan's liabilities.

In July 2010, the Trustee and the Company agreed a contribution strategy to meet the shortfall. Details are shown on the next page.

The Company also makes regular contributions to the Plan. In accordance with the Actuary's recommendation, from October 2010 these will be set at 37.5% of Annual Earnings for Staff section members and 53.8% of Pensionable Salary for Executive section members.

Please note that as long as the Plan continues, benefits continue to be paid in full whether or not the funding level is below target from time to time.

What is the contribution strategy to meet the Plan's funding shortfall?

The Trustee's aim is for the 31 March 2009 shortfall of £129 million to be eliminated by 31 March 2017 at the latest. The Trustee has agreed with the Company that this will be achieved by a combination of (a) higher investment returns and (b) additional Company contributions as specified below:

1. Additional contributions from the Company of £30 million over the period up to 31 July 2012 (£10 million of which was paid in August 2010)

+

2. A proportion of any sale proceeds from the disposal of hotels

+

3. Payments relating to the growth in the Company's published earnings

+

4. If the total amount of the payments to the Plan in 1 to 3 above is less than £100 million by 31 March 2017, a balancing payment will be made by the Company by 31 March 2017 to bring the total up to £100 million.

The contribution strategy is subject to review at future actuarial valuations in the light of actual experience, and the Trustee will consider if further Company contributions are required at the next valuation (due to be carried out as at 31 March 2012).

Ana

Ana
IHG, UK

What protection is there for members?

The money to pay members' pensions is held in a fund separate from the Company's assets. If the Plan were ever to wind up (come to an end), the Company would be required to pay a contribution into the Plan to enable members' benefits to be completely secured with an insurance company. At the 31 March 2009 actuarial valuation, the cost of securing accrued benefits with an insurance company was estimated as £331 million, exceeding the assets by £90 million.

It is estimated that the shortfall on this basis has reduced to £59 million as at 31 March 2010. The reduction in the shortfall on this basis is due to (a) the positive impact of higher investment returns from investment markets than expected and (b) increased competition from insurers, which results in a lower estimated cost of securing the Plan's benefits with an insurance company.

A pension scheme whose sponsoring employer becomes insolvent and unable to meet the costs of providing pensions, will normally apply to the Pension Protection Fund (PPF) to take over the Plan and pay some compensation to members. Further information about the PPF can be obtained at **www.pensionprotectionfund.org.uk** or by calling the helpline on 0845 600 2541.

Please note that the Company remains committed to supporting the Plan and has no current intention to wind it up. The information about the insurance company position shown above is simply another piece of information to help you understand the financial security of your benefits.

Have there been any payments to the Company?

There have not been any payments to the Company out of the Plan in the 12 months to 31 March 2010, nor at any time since the Plan commenced. The Plan rules only allow the possibility of payments to the Company in the event of surplus funds being available on the winding-up of the Plan.

Is there anything else that I need to know?

Further information on the Plan's funding and investment principles can be found in the documents listed below, which are available on request from the Company Management Team. The contact details are provided on the back page.

The Trustee's Annual Report for the year ended 31 March 2010 also provides investment and funding information. It is available on request from the Company Management Team or can be viewed or downloaded from the IHG pensions website at **www.pensions.ichotelsgroup.com**

If you are thinking of leaving the Plan for any reason, before you take any action you should consider contacting an independent financial adviser.

Additional documents available on request from the Company Management Team

Statement of Funding Principles – explains the approach adopted by the Trustee to fund the Plan.

Recovery Plan – this sets out how the funding deficit will be met and over what period.

Statement of Investment Principles – this sets out how the assets of the Plan are invested.

Schedule of Contributions – shows how much money is being paid into the Plan by the Company and members.

Actuarial Valuation report as at 31 March 2009 – contains details of the Plan's funding position.

Pension increases

Under the rules of the Plan:

a) Pensions in payment in excess of any Guaranteed Minimum Pension (GMP) are increased by the rise in the Retail Prices Index (RPI), up to a maximum of:

- 5% a year for pensionable service up to 5 April 2006; and
- 2.5% a year for pensionable service after 5 April 2006.

b) Deferred pensions in excess of any GMP are increased by the rise in RPI up to a maximum of 5% a year for all pensionable service.

The Plan handbook states that the Company and Trustee aim to give additional increases based on two-thirds of any rise in RPI that is above the guaranteed level. The increases are applied to the amount of pension above any GMP that may have built up in respect of membership of the Plan up to 5 April 1997.

The annual increase is based on the rise in the RPI over the year up to May, which this year was 5.1%. The Company has decided to provide funding for the discretionary increase in excess of the guarantee outlined above. This means that from 1 October 2010 the following increases in excess of any GMP will be applied:

a) Pensioners – 5.1% in respect of pensionable service before 6 April 2006 and 4.2% for pensionable service after 5 April 2006.

b) Deferred pensions – 5.1% for all pensionable service.

Pensions that have been in payment for less than a year, and deferred pensions for members who left the Company less than a year ago, will receive a proportionate increase.

The following table shows the history of the last 10 years' pension increases:

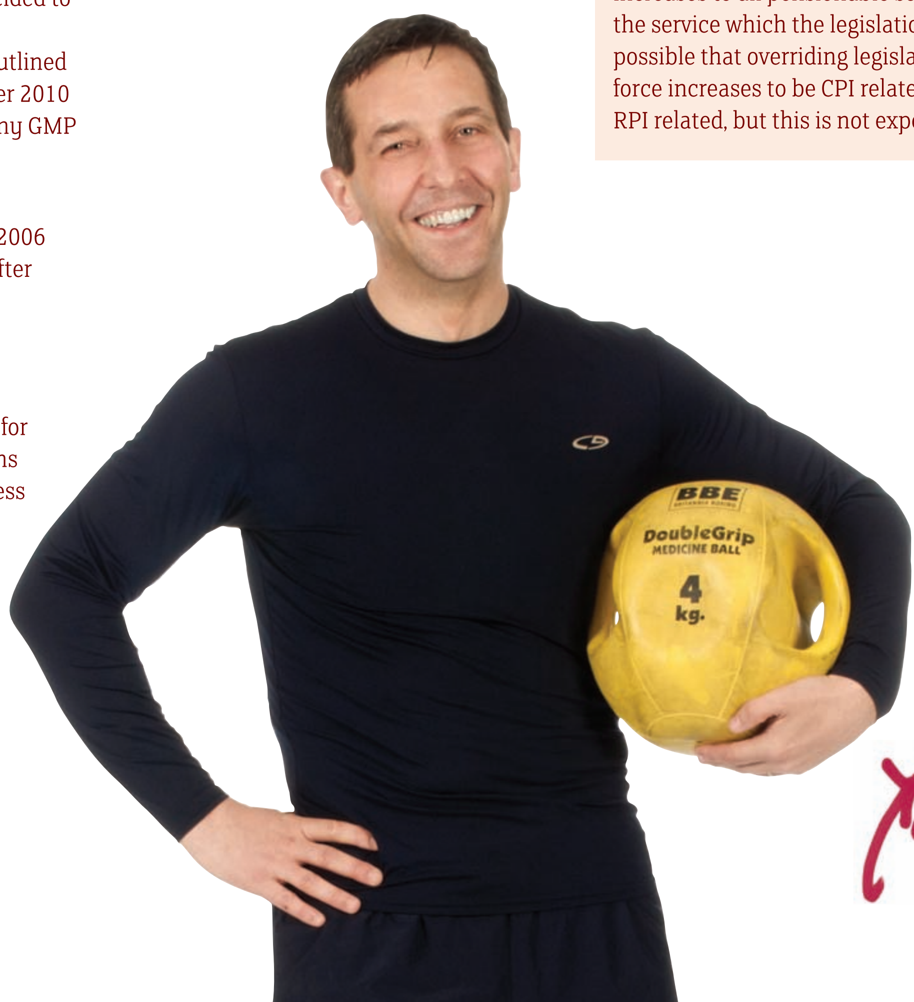
Year	% increase
2009	0.0
2008	4.3
2007	4.3
2006	3.0
2005	2.9
2004	2.8
2003	3.0
2002	1.1
2001	2.1
2000	3.1

Some pensioners and deferred pensioners who were members of the old Inter-Continental Scheme before 6 April 2000 may receive an increase that is worked out on a slightly different increase basis. Members to whom this applies were given written details before the merger of the Plans in 2000.

Retail Price Index (RPI) or Consumer Price Index (CPI)

On 8 July 2010, the Minister of State for Pensions announced the Government's intention to allow UK occupational pension schemes to move to the CPI for increasing pensions in payment and deferred pensions. As the increase in the CPI has historically been lower than the increase in the RPI, commentators have suggested that there will be a general reduction in pension increases of perhaps 0.5% pa, although this may not persist.

However, the main point is that the changes will affect the statutory minimum requirement for revaluation and indexation, and the government press release specifically states that "occupational pension schemes will still have the freedom to pay more than the statutory minimum". Our Plan Rules specifically state that increases are linked to the RPI rather than making reference to the statutory minimum legislation, and the intention has never been to be at the minimum since we relate increases to all pensionable service, not just the service which the legislation requires. It is possible that overriding legislation could force increases to be CPI related rather than RPI related, but this is not expected.



David
IHG, UK

Payments to the employer

The Trust Deed and Rules, a set of legal documents used to govern the Plan, includes rules for running the Plan as well as details about what the Trustee is allowed to do (known as its 'powers').

The Trustee has been advised that, as a result of some changes arising from the Pensions Act 2004 (section 251), the Trustee will lose its powers to pay money from the Plan to the employer in certain circumstances, unless it passes a resolution. The Trustee has decided to exercise its power under section 251(3) of the Pensions Act 2004, by passing a resolution, which will take effect from 1 February 2011, to preserve the power that permits Plan funds to be paid to the employer in certain circumstances. Part of the process to keep the power is to give notice of the resolution to Plan members.

It is important to note that no new power is being introduced, the resolution is simply a technical requirement in order for the Trustee to maintain its current powers under the Plan rules. No payment to the employer is currently proposed.

Payment of funds to the employer remains subject to strict controls set out in the Plan rules and legislation. If any future payment of surplus funds to the employer is proposed, the Trustee would have to be satisfied that any payment was in the interests of members of the Plan, and members would be notified of the proposal. One of the conditions would be that the Plan would remain fully-funded after any such payment was made.

Further information relating to the proposed resolution can be obtained from Rob Watson on 01283 513629 or email rob.watson@ihg.com

You are not required to take any action as a result of this notice.

Taking the initiative

In accordance with the Data Protection Act 1998, the Trustee, as data controller, is required to inform you that, along with other organisations, it is taking part in the Audit Commission's National Fraud Initiative 2010/11.

We are providing details of our pensioners and deferred members to the Audit Commission so that they can be compared to information provided by other public bodies in order to prevent and detect fraud. This will ensure, for example, that no pensions are being paid to persons who are deceased or no longer entitled to the benefit, and that occupational pension income is being declared when an application for housing benefit is made.

This data matching exercise meets the requirements of the data protection law. The Audit Commission will be processing the data for the purpose described only, and will comply with data protection principles.

The use of data by the Audit Commission in a data matching exercise is carried out with statutory authority under its powers in Part 2A of the Audit Commission Act 1998. It does not require the consent of the individuals concerned under the Data Protection Act 1998.

If you would like to know more about the National Fraud Initiative, further information is available from the Audit Commission's website: **www.audit-commission.gov.uk**

Have you visited the pensions website?

In the pensions area of the IHG website, you'll find lots of useful information about the Plan including downloadable handbooks, forms, newsletters and the full Trustee's Report and Accounts. There are also links to useful pension-related websites.

Why not visit the site to see for yourself?

www.pensions.ichotelsgroup.com

Online facility

Did you know that if you pay Additional Voluntary Contributions to DC Choice (the pension arrangement for Defined Contribution Section members and administered by dc-Link), you can manage your individual account online? This will enable you to check your current balance, the contributions paid into your account, the returns on your investment and to switch your investment choices online. If you are interested in this facility, call the DC Choice Helpline on 01733 353418.

Company Management Team

The following individuals make up the Company Management Team, which is responsible for managing the outsourced administration and assisting the Trustee Directors with their duties.

David Coles† - VP Pensions

Rob Watson - Secretary to the Trustee

Keith Sully - Director, Pension Administration & Policy

† Contact for Internal Dispute Resolution Procedures.

Jerry Sykes - VP Benefits Plan Investments

Jane Young - Trust Accountant

Angela Schofield - Secretary and Administrator

You can contact the Company Management Team at:

No.1 First Avenue, Centrum 100,
Burton-on-Trent, Staffordshire DE14 2WB

Tel: 01283 511 311

Email: enquiries.pensions@ihg.com

Trustee Directors

The following individuals make up the Board of Trustee Directors, which is responsible for the day-to-day running of the Plan and the membership as a whole.

Three Independent

Sam Dow (Chairman)
Anthony Stern
Nita Tinn

Three Employer Nominated

Sean Harrison*
Jerry Sykes
Ralph Wheeler

* Sean Harrison was appointed to the vacant Employer Nominated Trustee Director position in August 2009.

Three Member Nominated

Terry Critchley (elected from active membership)
Lewis Howes (selected from deferred/pensioner membership)
Paul Phillips (elected from active membership)

Contact details

Active/deferred members

Mercer Limited
Stratford Court
Cranmore Boulevard
Solihull, West Midlands
B90 4QT

Tel: 0870 850 0982

Email: ichotelsgroup@mercer.com

Pensioners

Mercer Limited
52 Westgate
Chichester
West Sussex
PO19 3HF

Tel: 0870 850 0715

Email:
ichotelsgroup.pensionpayments@mercer.com

Tax Office details (Pension Payroll)

Birmingham Tax Office
City Centre
36 Union Street
Birmingham
B2 4AE

Tel: 0845 302 1437

Please help us to keep in touch with you by notifying Mercer of any change to your home address. This is especially important for deferred members as we lose touch with a number of these members each year.