

Trustee Directors

The following individuals make up the Trustee Board, 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
Independent Trustee Services

Three Employer Nominated

Sean Harrison
Adrian Hill
Ralph Wheeler

Three Member Nominated

Lars Eldekvist (elected from active membership)
Colin Garwood (elected from active membership)
Lewis Howes (selected from deferred/pensioner membership)

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.

Administration and Secretary

David Coles* – VP Pensions
Angela Schofield – Secretary and Administrator
Keith Sully – Director, Pension Administration & Policy
Rob Watson – Secretary to the Trustee

Investment and Accounting

Adrian Hill – VP Global Financial Reporting
Renata Padilla – Director, Financial Reporting (Technical) and Benefit Plans
Jane Young – Trust Accountant

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

*Contact for Internal Dispute Resolution Procedures

Contact details

Active/deferred members

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

☎ **Freephone tel:** 0800 389 7835

@ **Email:** ichotelsgroup@mercer.com

Pensioners

✉ Mercer Limited
52 Westgate
Chichester
West Sussex
PO19 3HF

☎ **Freephone tel:** 0800 197 3437

@ **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.

InterContinental Hotels UK Pension Plan Pension Newsletter

Room for you

Defined Benefits Section – September 2012

Welcome to this year's Pension Newsletter, which includes a summary of the Trustee's Annual Report for the year to 31 March 2012, as it relates to Defined Benefits (DB) Section members.

The newsletter also includes the latest Summary Funding Statement, which provides an update to the results of the 2009 actuarial valuation and gives an indication of the value of the Plan's assets and liabilities as at 31 March 2012.

On page 2, we remind members about the changes to benefits which will take effect from 30 June 2013. Employee members will receive more information about these changes in due course.

During the year there were some changes to the Trustee Board which are detailed on page 3. I would like to take this opportunity to thank the Trustee Directors for their continued hard work and commitment to the Plan.

Finally, we hope you find this newsletter informative. If you have any queries about your pension you can contact the Plan administrator, Mercer, or the Company Management Team (see back page for contact details).

David Coles
Vice President Pensions

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Room to be yourself

Changes to benefits for employee members

Following consultation with the employee members it was announced in September 2011 that:

- Active members will stop building up pension in the DB Section on 30 June 2013.
- Affected DB members will be automatically enrolled into the DC Section of the Plan on 1 July 2013.
- From 1 October 2011 to 30 June 2013 salary increases for DB Section purposes are limited to the rise in the Retail Prices Index, plus 2.5%. Any excess salary increase will be eligible for employee and Company contributions in the DC Section.
- The early retirement facilities as they apply to pension earned up to 30 June 2013 will remain unchanged.
- Alternative benefits will be put in place to compensate for the reduction in value of the DB benefits on death or ill health, which currently include an allowance for future service.
- Company DC Section contribution rates for some grades of staff were increased on 1 October 2011.

You will receive more information about the changes which will come into effect on 1 July 2013 nearer the time.

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?

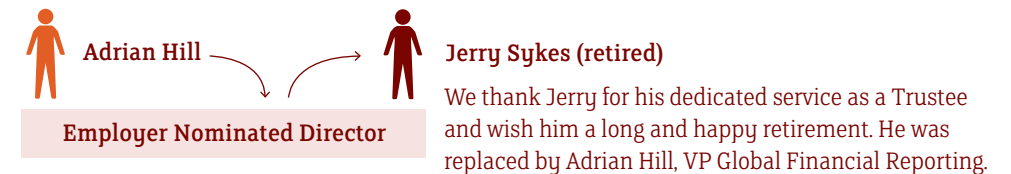
www.pensions.ichotelsgroup.com



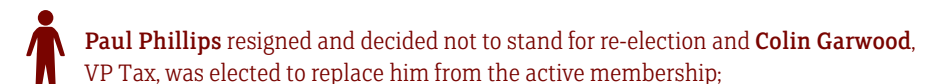
Changes to the Trustee Board

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.

The following changes have taken place since the last newsletter:



Following the end of the five-year maximum term for **Paul Phillips** and **Lewis Howes**:



Financials

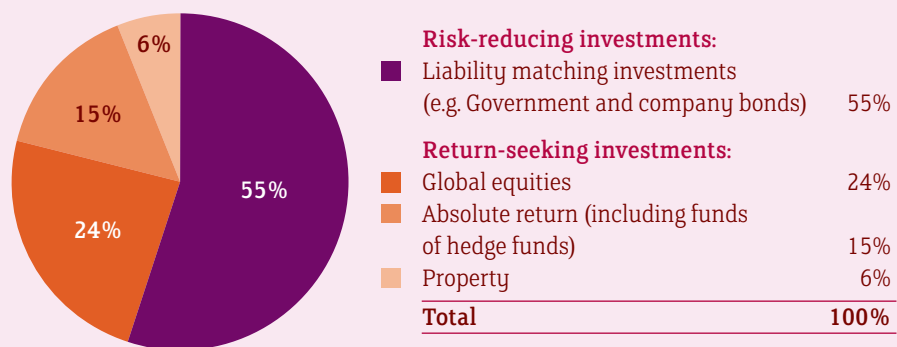
The information on the next two pages provides a summary of the Plan's accounts (excluding specific assets of the defined contribution section) for the year ended 31 March 2012.

Plan investments

In the 12 months to 31 March 2012, the return on the Plan's investments was **12.4%**.

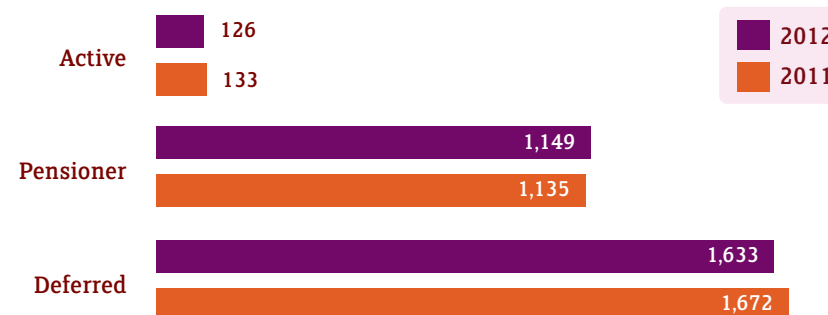
Asset allocation

The Trustee has been working to implement the following investment structure for the Plan's assets in order to best meet the Trustee's investment objectives:



Membership

The bar chart below shows the membership details at 31 March 2012 and 2011:



Value of the Fund

	£000
Value of the Fund at 31 March 2011	309,134
Income	
Member contributions	492
Company contributions	21,430*
Other income	754
Return on investments	37,249
Total	59,925
Expenditure	
Pensions	5,936
Cash options	1,524
Transfer values paid	98
Death benefits	3
Life assurance premium	78
Administration expenses	906
Total	8,545
Value of the Fund at 31 March 2012	360,514

* Includes £18.2 million in special contributions.

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 finance and risks. The valuation compares:



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 as at 31 March 2011 was 73%, which was equivalent to a shortfall of £112m. Based on assumptions consistent with those used for the actuarial valuation as at 31 March 2009 and allowing for an update in life expectancies to reflect changes in market practice since 2009, the funding level was estimated by the Plan's Actuary to have remained at 73% at 31 March 2012, which is equivalent to an estimated shortfall of £132m at this date.

Funding levels summary:

Formal valuation at 31 March 2009



Estimated position at 31 March 2010



Estimated position at 31 March 2011



Estimated position at 31 March 2012



What has influenced the funding level?

At 31 March 2012, the estimated funding level had increased since the 2009 actuarial valuation. This is due to the positive impact of higher investment returns than expected and the lump sum contributions paid by the Company over the three years since the valuation date. The position has also improved because the removal of the final pensionable salary link from July 2013 has been taken into account.

The improvement from these factors has been offset by a fall in gilt yields, partly caused by the quantitative easing policy being followed by the Bank of England as it looks to stimulate the UK economy. As gilt yields are used to measure pension fund liabilities, any falls in yields lead to a rise in the Plan's liabilities with a resulting increase in the Plan's shortfall.

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 this will be achieved by a combination of investment returns on the Plan's assets and additional Company contributions as specified below:

1 Additional contributions received from the Company of £30 million over the period up to 31 July 2012.



2 A proportion of any proceeds from the sale of hotels (£11.4 million of which has been paid to date).



3 Payments relating to the growth in the Company's published earnings (£5.8 million of which has been paid to date).



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 (including any other Company additional contributions paid for this purpose).

The Recovery Plan will be reviewed as part of the 31 March 2012 actuarial valuation, which will be finalised in early 2013. The Plan's funding position depends on the scheme-specific assumptions used for the 2012 valuation, which may be different to those used to give the estimated 31 March 2012 funding position shown on page 7. The contribution strategy, including the timing of any additional contributions needed to meet any funding shortfall, will be agreed by the Company and the Trustee as part of the valuation process. The contribution strategy will take into account the return of \$1 billion to IHG's shareholders announced on 7 August.

“The Company remains committed to supporting the Plan.”

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 £58 million as at 31 March 2012. The reduction in this shortfall is due to the positive investment returns and lump sum contributions paid by the Company since 2009, together with changes in the estimated cost of securing the Plan's benefits with an insurance company.

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

The Company remains committed to supporting the Plan. The information about the insurance company position shown above is information to help you understand the financial security of your benefits.

Have there been any payments from the Plan to the Company?

There have not been any payments to the Company out of the Plan in the 12 months to 31 March 2012, 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 on page 11, 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 2012 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.ihggroup.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.

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 the 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 3.1%. The stated aim would result in a pension in payment increase of 2.9% in respect of pensionable service after 5 April 2006. **However, on this occasion, the Company has decided to improve on this and increase pensions in payment in excess of any GMP by full RPI with effect from 1 October 2012 in respect of all pensionable service.** This means that from 1 October 2012 the following increases in excess of any GMP will be applied:

- a** Pensioners – 3.1% in respect of all pensionable service.
- b** Deferred pensions – 3.1% in respect of 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.

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

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

Year	% increase in respect of pre 6 April 2006 pensionable service for pensioners and all pensionable service for deferred pensions	% increase in respect of post 5 April 2006 pensionable service for pensioners
2011	5.1	4.3
2010	5.1	4.2
2009	0.0	0.0
2008	4.3	4.3
2007	4.3	4.3
2006	3.0	3.0
2005	2.9	n/a
2004	2.8	n/a
2003	3.0	n/a
2002	1.1	n/a

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 – sets out how the funding shortfall will be met and over what period.

Statement of Investment Principles – 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.

Annual Report at 31 March 2012 – contains details of the Plan's income and expenditure over the year.