InterContinental Hotels Group

opportunity, strategy, investment, targets, performance, progress, growth, profits, returns, dividends, results…

great hotels guests love™

IHG Annual Report and Financial Statements 2007

Contents

Welcome to IHG

In 2007 our operating profits grew, reflecting a record increase in our room and hotel count and a healthy increase in our revenues per room night.

We are one of the world's largest hotel companies and are focused on quality growth through managing and franchising our seven distinctive brands.

Our core purpose is to create Great Hotels Guests Love. We do this by placing guest satisfaction at the heart of everything we do and, as a result, developing our financial strength for the benefit of all our stakeholders.

This Report presents a full review of our business endeavours, embracing the key areas of employee engagement and corporate responsibility as well as our financial and operational performance and approach towards risk management. We also present a wide range of statutory and governance data and our full financial statements for the year.

Highlights

RECORD NET ROOMS GROWTH

UP **5%** BY **28,848** ROOMS

TOTAL HOTELS OPEN UNDER IHG BRANDS

UP **208** TO **3,949** HOTELS

RECORD SIGNINGS

UP **22%** TO **125,533** ROOMS

DEVELOPMENT PIPELINE

UP **43%** TO **225,872** ROOMS

REVENUE PER AVAILABLE ROOM‡

UP **7%**

TOTAL GROSS REVENUE†
FROM ALL HOTELS IN IHG SYSTEM

UP **17%** TO **$18bn+**

CONTINUING REVENUE

UP **12%** TO **£883m**

CONTINUING OPERATING PROFIT*

UP **19%** TO **£237m**

ADJUSTED CONTINUING EARNINGS PER SHARE

UP **23%** TO **46.9p**

SPECIAL DIVIDEND

£709m PAID

FINAL DIVIDEND

UP **12%** TO **14.9p**

‡ Total system room revenue divided by the number of room nights available.

† Total room revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels (not revenue attributable to IHG, as it is derived mainly from hotels owned by third parties).

+ US dollars.

* Operating profit before exceptional items.

"2007 was a year of excellent progress for IHG in which the Company recorded strong growth in an expanding industry. We opened and signed a record number of hotels, and grew revenue per available room (RevPAR) faster than the market in all our major geographies. Our brands are increasingly being chosen over those of our competitors, by guests and by the hotel owners with whom we partner."

Andrew Cosslett
Chief Executive

David Webster
Chairman

Message from the Chairman and Chief Executive

OVERVIEW

Strong trading

Our financial performance was strong. Continuing operating profit before exceptional items was up 19 per cent, from £200 million to £237 million, and up 30 per cent at constant exchange rates. Adjusted continuing earnings per share rose 23 per cent from 38.0p to 46.9p. Global RevPAR rose by 7 per cent, mainly driven by guests' willingness to pay more for an enhanced customer experience.

Accelerating growth

The number of hotels which operate under IHG's brands grew at a record pace. We opened 366 hotels in 2007, one a day on average. We continued to focus on improving the quality of our hotel estate and removed over 150 hotels during the year. Taking into account these removals, the number of hotel rooms in our system increased by over 5 per cent, representing more than a 50 per cent increase in rooms growth over 2006. Our future growth lies in the forward order book of contracts that we have signed for new hotels – our pipeline. This pipeline also grew at a record pace in 2007, and now stands at 1,674 hotels, comprising 225,872 rooms, a 43 per cent increase on 2006. We signed 873 hotels in the year, comprising 125,533 rooms, a 22 per cent increase on 2006. This is by far the highest level of signings in the hotel industry. We have now added a total of 47,419 rooms to our system against our three-year target of adding 50,000 to 60,000 net rooms by the end of 2008. We remain confident we will exceed the top end of this target.

Improving brand performance

Over the last two years we have conducted extensive hotel research studies across the globe and we are now applying the insights from this work to refresh and renew our hotel brands. The performance of the InterContinental brand continues to gather pace; we signed 33 new InterContinental hotels around the world in 2007 and ended the year with a record pipeline of 62 hotels. In October 2007 we announced the global relaunch of our Holiday Inn brand family. The relaunch is designed to raise the standards of quality, style and comfort in the hotels, and will deliver a consistent, best-in-class service to our guests. Owners and franchisees will invest up to £500 million in Holiday Inn hotels around the world over the next three years, and IHG will separately make a £30 million contribution. This activity should generate a strong return on investment through expected increases in RevPAR following completion of the relaunch.

Board and Executive Committee

As previously announced, Richard Hartman retired from the Board in September 2007. We thank him for his service and wish him well for the future. In December 2007 Ying Yeh was appointed as a Non-Executive Director. Her in-depth knowledge of the Asia Pacific region will be of great value to IHG. Two of our Non-Executive Directors, Sir David Prosser and Robert C Larson, are planning to retire from the Board at the end of May and December 2008, respectively. Both have given outstanding service to IHG.

We also made changes to our Executive Committee. Kirk Kinsell, previously Chief Development Officer for the Americas region, took up the position of President of our Europe, Middle East and Africa region. Peter Gowers, formerly Chief Marketing Officer, became President of our Asia Pacific region, and we welcomed back Tom Seddon (who had previously worked for IHG) as Chief Marketing Officer.

Shareholder returns

During the year we returned £790 million to shareholders by way of a £709 million special dividend and £81 million of share buybacks. This takes our total funds returned to shareholders since March 2004 to £3.5 billion.

Dividend increase

The Board is recommending a 12 per cent increase to the final dividend for 2007, taking it to 14.9p per share. This will give a full year dividend of 20.6p, 12 per cent higher than in 2006. Subject to shareholder approval, the final dividend will be paid on 6 June 2008.

Outlook

The outstanding contribution from our people has driven excellent results in 2007. We have the biggest development pipeline in the industry and this will deliver another high level of hotel openings in 2008. Although the current economic environment is less predictable than in 2007, our broadly-based portfolio of brands and our resilient fee-based business model position us well for future growth.

David Webster
Chairman

Andrew Cosslett
Chief Executive

The IHG brands

Our seven hotel brands and our Priority Club Rewards programme are among the best known in the world.

InterContinental Hotels & Resorts

High-class facilities and services for the discerning business and leisure traveller. Memorable experiences in special locations.

149 HOTELS
8 OWNED AND LEASED
104 MANAGED
37 FRANCHISED

50,762 ROOMS

62 HOTELS IN DEVELOPMENT PIPELINE

Crowne Plaza Hotels & Resorts

Simple elegance and full-service facilities for business and leisure guests in more than 50 countries around the world.

299 HOTELS
1 OWNED AND LEASED
89 MANAGED
209 FRANCHISED

83,170 ROOMS

118 HOTELS IN DEVELOPMENT PIPELINE

Holiday Inn Hotels · Resorts

Relaunched in 2007 to improve our ability to meet guest needs for contemporary, high-quality facilities.

1,381 HOTELS
6 OWNED AND LEASED
193 MANAGED
1,182 FRANCHISED

256,699 ROOMS

365 HOTELS IN DEVELOPMENT PIPELINE

Holiday Inn Express

Convenience, comfort and value make Holiday Inn Express a popular choice with guests and hotel owners.

1,808 HOTELS
1 OWNED AND LEASED
23 MANAGED
1,784 FRANCHISED

156,531 ROOMS

712 HOTELS IN DEVELOPMENT PIPELINE

The relaunch included a new identity for the Holiday Inn brand family.

Hotel Indigo

The industry's first branded boutique hotel, aimed at style-conscious guests who want peaceful and affordable luxury.

11 HOTELS
2 MANAGED
9 FRANCHISED

1,501 ROOMS

52 HOTELS IN DEVELOPMENT PIPELINE

Staybridge Suites

A high-end brand offering guests a home from home for extended hotel stays. The brand will develop outside the US in 2008.

122 HOTELS
2 OWNED AND LEASED
41 MANAGED
79 FRANCHISED

13,466 ROOMS

157 HOTELS IN DEVELOPMENT PIPELINE

Candlewood Suites

Studios and one-bedroom suites offer convenience and comfort for guest stays of a week or longer.

158 HOTELS
78 MANAGED
80 FRANCHISED

16,825 ROOMS

207 HOTELS IN DEVELOPMENT PIPELINE

Priority Club Rewards

Our award-winning rewards programme is the world's largest hotel loyalty scheme, offering unrivalled incentives to choose our hotels.

37 MILLION MEMBERS WORLDWIDE

PRIORITY CLUB REWARDS WEBSITES IN NINE LANGUAGES

Business review

In this section we present an overview of our business, including the markets in which we work, our strategy, activities, resources and operating environment. We also describe the development and financial performance of the business during 2007, main trends and factors impacting the business, together with environmental and employee matters.

Business review

This Business Review provides a commentary on the performance of InterContinental Hotels Group PLC (the Group or IHG) for the financial year ended 31 December 2007.

Business overview

Market and competitive environment

Global room capacity

The global hotel market has an estimated room capacity of 18 million rooms. Room capacity has grown at approximately 3% per annum over the last five years. Competitors in the market include other large hotel companies and independently owned hotels.

The market remains fragmented, with an estimated seven million branded hotel rooms (approximately 40% of the total market). IHG has an estimated 8% share of the branded market (approximately 3% of the total market). The top six major companies, including IHG, together control approximately 38% of the branded rooms, only 15% of total hotel rooms.

Geographically, the market is more concentrated with the top 20 countries accounting for 80% of global hotel rooms. Within this, the United States (US) is dominant (more than 25% of global hotel rooms) with China, Japan and Italy being the next largest markets. The Group's brands have a leadership position (top three by room numbers) in each of the six largest geographic markets, a greater representation than any other major hotel company.

Drivers of growth

US market data indicates a steady increase in hotel industry revenues, broadly in line with Gross Domestic Product, with growth of approximately 1% to 1.5% per annum in real terms since 1967, driven by a number of underlying trends:

- change in demographics – as the population ages and becomes wealthier, increased leisure time and income encourages more travel and hotel visits;
- increase in travel volumes as low cost airlines grow rapidly;
- globalisation of trade and tourism;
- increase in affluence and freedom to travel within the Chinese middle class; and
- increase in the preference for branded hotels amongst consumers.

Branded v unbranded

2006 branded hotel rooms by region as a percentage of the total market

US	67%
Europe, Middle East and Africa (EMEA)	35%
Asia Pacific	28%

Source: IHG Analysis, Northstar Travel Management.

Within the global market, a relatively low proportion of hotel rooms are branded; however, there has been an increasing trend towards branded rooms. Branded companies are therefore gaining market share at the expense of unbranded companies. IHG is well positioned to benefit from this trend. Hotel owners are increasingly recognising the benefits of working with a group such as IHG which can offer a portfolio of brands to suit the different real estate opportunities an owner may have, together with effective revenue delivery through global reservation channels. Furthermore, hotel ownership is increasingly being separated from hotel operations, encouraging hotel owners to use third parties such as IHG to manage or franchise their hotels.

Other factors

Potential negative trends impacting hotel industry growth include increased terrorism, environmental considerations and economic factors such as high oil prices, risk of recession and global credit restrictions.

Supply growth in the industry is cyclical, averaging between zero and 5% per annum historically. The Group's fee-based profit is partly protected from changes of supply due to its model of third-party ownership of hotels under IHG management and franchise contracts.

Strategy

IHG's ambition

IHG seeks to deliver enduring top quartile shareholder returns, when measured against a broad global hotel peer group.

IHG's strategy

The Group's underlying strategy is that by putting the guest first, IHG will grow a portfolio of differentiated hospitality brands in core strategic countries and global key cities to maximise our scale advantage. With a clear target for room growth and a number of brands with market premiums offering excellent returns for owners, the Group is well placed to execute the following strategic priorities:

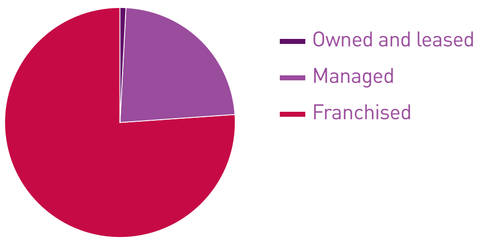
Strategic priorities	Key performance indicators (KPIs) v 2006*	Current status and 2007 developments	2008 priorities
Brand performance To operate a portfolio of brands attractive to both owners and guests that have clear market positions and differentiation in the eyes of the guest.	• Global revenue per available room (RevPAR) growth 6.9%; and • RevPAR growth premiums to respective key market segments** (% pt increase) + 4.4 InterContinental US + 1.0 Holiday Inn US + 0.7 Holiday Inn Express US + 3.5 InterContinental EMEA + 0.3 Holiday Inn and Holiday Inn Express UK.	• Relaunch of Holiday Inn brand family; • International launch of Staybridge Suites; and • InterContinental positioning continued to gain ground, with advertising driving a material change in consumer 'intent to stay', up 10% in the year.	• Roll-out of the Holiday Inn brand family relaunch; and • Define and roll-out Hotel Indigo internationally and continue to build scale in the US.
Excellent hotel returns To generate higher owner returns through revenue delivery and improved operating efficiency.	• Total gross revenue (TGR) growth 17.1%; • Continuing operating profit margin growth 1.4% pts; • Priority Club Rewards (PCR) membership growth 17.6%; and • Return on capital employed (ROCE) increased by 4% pts to 7% for IHG's flagship InterContinental hotels (New York, London Park Lane, Paris Le Grand and Hong Kong).	• Increased revenue delivery through IHG global reservation channels by 19.3% to $6.8bn of global system room revenue in 2007, including $2.6bn from the internet; • Industry leading PCR loyalty programme with 37 million members, contributing $5.2bn of global system room revenue, an increase of 16.3%; and • Strong web presence: holidayinn.com is the industry's most visited site, with around 75 million site visits per annum; new InterContinental website launch.	• Integrate reservation channels to provide a seamless and differentiated experience for guests; • Drive more value from the IHG loyalty programme initiatives; and • Implement technology upgrades across guest insight, owner insight and revenue delivery systems.
Market scale and knowledge To accelerate profitable growth in the largest markets where the Group currently has scale.	• Progress against 2008 growth targets, set in June 2005: – 47,419 net room growth; – 81 hotels in China; and – 13 net InterContinental hotel additions.	• Significant progress against 2008 growth targets; • TGR growth in US 8.5%, UK 22.4%, China 31.0%, Japan 269.9%; and • 90% of pipeline focused on core strategic countries.	• Achieve 2008 growth targets: – 50,000-60,000 net room growth; – 125 hotels in China; – 15-25 net InterContinental hotel additions; and • Execute agreed strategies for core strategic countries.
Aligned organisation To create a more efficient organisation with strong core capabilities.	• 2007 employee engagement of 65%, as defined on page 10 of this Report.	• Defined 'core purpose' for the organisation – Great Hotels Guests Love; • Continued to strengthen IHG's senior management team with new regional and functional appointments; and • Created Winning Ways and Room to be yourself initiatives, as explained on page 9 of this Report, resulting in increased employee engagement.	• Align organisation behind core purpose of Great Hotels Guests Love; and • Increase investment in key countries to compete for talent.

* KPIs v 2006 unless stated otherwise. ** Source: STR, Deloitte

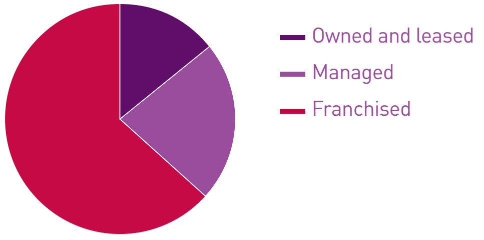
Business review continued

Operating model

Global room count by ownership type at 31 December 2007



Continuing operating profit* by ownership type at 31 December 2007



* Before regional and central overheads, exceptional items, interest and tax.

IHG's future growth will be achieved predominantly by managing and franchising rather than owning hotels. Approximately 580,000 rooms operating under Group brands are managed or franchised.

The managed and franchised fee-based model is attractive because it enables the Group to achieve its goals with limited capital investment at an accelerated pace.

For this reason, the Group has executed a disposal programme for most of its owned hotels, releasing capital and enabling the return of funds to shareholders as well as targeted investment in the business.

A key characteristic of the managed and franchised business is that it generates more cash than is required for investment in the business, with a high return on capital employed. Currently 86% of continuing earnings before regional and central overheads, exceptional items, interest and tax is derived from managed and franchised operations.

Business relationships

IHG maintains effective relationships across all aspects of its operations. The Group's operations are not dependent upon any single customer, supplier or hotel owner due to the extent of its brands, market segments and geographical coverage. For example, IHG's largest third-party hotel owner controls less than 4% of the Group's total room count.

To promote effective owner relationships, the Group's management meets with owners on a regular basis. In addition, IHG has an important relationship with the IAHI – The Owners' Association. The IAHI is an independent worldwide association for owners of the Crowne Plaza, Holiday Inn, Holiday Inn Express, Hotel Indigo, Staybridge Suites and Candlewood Suites brands. IHG and the IAHI work together to support and facilitate the continued development of IHG's brands and systems, with specific emphasis during 2007 on the relaunch of the Holiday Inn brand family. Additionally, IHG and the IAHI began working together to develop and facilitate key Corporate Responsibility (CR) initiatives within the IHG brands.

Many jurisdictions and countries regulate the offering of franchise agreements and recent trends indicate an increase in the number of countries adopting franchise legislation. As a significant percentage of the Group's revenue is derived from franchise fees, the Group's continued compliance with franchise legislation is important to the successful deployment of the Group's strategy.

People

IHG directly employed an average of 10,366 people worldwide during 2007. When the managed and franchised hotels are included, approximately 315,000 people are employed globally across IHG's brands. Unless otherwise stated, any data in this section relates to the people directly employed by IHG and those who work in managed hotels, in total approximately 93,000 people.

Culture of Winning Ways

Winning Ways, a set of behaviours that define how IHG interacts with guests, colleagues and hotel owners was developed in 2006 and integrated into the business in 2007. IHG's people have embraced these behaviours with enthusiasm and creativity worldwide. They are as follows:

Do the right thing	We aim to do what we believe is right and have the courage and conviction to put it into practice. We are honest and straightforward and see our decisions through.
Show we care	We want to be a company that understands people's needs better than anyone else in our industry. This means being sensitive to others, noticing the things that matter and taking responsibility for getting things right.
Aim higher	We aim to be acknowledged industry leaders, and have built a team of talented people who have the will to be the best. We strive for success and we value individuals who are always looking for better ways to do things.
Celebrate difference	We believe it is the knowledge of our people that brings our brands to life. We do not impose a rigid, uniform view of the world. Our global strength comes from celebrating local differences, while knowing that some things should be the same.
Work better together	We are at our best when we collaborate to form a powerful team. We listen to each other and combine our expertise to create a strong, focused, supportive and trusted team of people.

Defining IHG's commitment to our people

While Winning Ways define what is expected from all employees at IHG, the Group also developed standards that characterise what employees can expect from IHG. Four promises encompass the IHG commitment, internally called Room to be yourself and describe the work environment that employees can rely on at IHG.

Talent management focus

To meet the demands of growth and to deliver IHG's core purpose, Great Hotels Guests Love, IHG implements an ongoing talent management agenda. In 2007, this strategy was manifested in key programmes designed to attract, retain, and inspire employees across the owned and managed hotel portfolio, corporate offices, and reservation centres. These programmes focus on fulfilling expectations, developing skills and leadership, providing competitive rewards and benefits, measuring progress, celebrating diversity, leveraging technology and ensuring safety. IHG made progress in every category in 2007.

Strengthening leadership

IHG has a number of development programmes in place to support leaders in hotels and corporate offices to deliver Great Hotels Guests Love. These include the assessment of individual potential and capability, along with clarity on expectations and business-related education. In 2007, IHG launched the third stage of its senior leadership programme, concentrating on the role leaders play in driving performance and results through people.

The succession planning process for key senior leadership roles was reviewed and refined, enabling IHG to manage proactively changes in leadership. As part of this review, several key appointments were made, demonstrating the strength and depth in IHG's senior management team.

The following senior appointments were made in 2007:

- the appointment of Ms Ying Yeh as an additional independent Non-Executive Director of IHG, effective 1 December 2007;
- the internal appointment of Peter Gowers as President of the Asia Pacific region, effective 1 November 2007;
- the internal appointment of Kirk Kinsell as President of the EMEA region and member of the Executive Committee, effective 1 September 2007, succeeding outgoing President and Board Member, Richard Hartman, who retired on 25 September 2007; and
- the external appointment of Tom Seddon as Chief Marketing Officer and member of the Executive Committee, effective 1 November 2007.

Biographical details of the above are set out on pages 26 and 27 of this Report.

Business review continued

Communicating and measuring progress
Great emphasis is placed on employee communication, particularly on matters relating to the Group's business and its performance. Communication channels include global management conferences, team meetings, informal briefings, in-house publications and intranets.

Regular employee feedback is obtained to ensure that IHG meets expectations and delivers on its commitments. The Group conducts a twice-yearly survey that measures employee opinion and attitudes. This survey covers employees in owned and managed hotels, corporate offices and reservation centres.

The first survey in 2007 achieved a very high response rate of 83%, with over 77,500 employees participating. IHG's key measure is the engagement index. This is constructed from a set of questions which measure advocacy, retention and effort.

During 2007, IHG's engagement index improved by 5 percentage points to 65%. The survey also reported that nine out of 10 people are proud to work for IHG and 84% of employees would recommend IHG as a good place to work, a figure that is 10 percentage points higher than external benchmark data (source: TNS).

The survey highlights that initiatives undertaken during the year on Winning Ways and Room to be yourself are strongly correlated to employee engagement.

Continuing skills development
During the year, IHG continued to place importance on the growth and development of its people in the owned and managed hotels, and within its corporate and reservation offices, and ensured training programmes were available to all of its employees. The Group's internal surveys indicate that the majority of employees agree that IHG delivers training to assist with both current roles and future skills development.

Rewarding people by offering competitive compensation and benefits
IHG's compensation and benefits programmes are designed to be competitive and to recognise and reward achievement. The benefits offered to employees vary according to region. IHG contributes to both mandatory and company-sponsored retirement plans to ensure benefits are competitive within each local market. The majority of employees believe they are fairly paid for the work they do.

Leveraging technology
IHG is leveraging technology to improve communications and engagement with employees. In 2007, the Group introduced an upgraded corporate intranet site, 'Merlin', which provides continuous access to people information, policies and news. A best-in-class recruitment management system, e-Careers, reduces time to access and hire the most qualified candidates.

Ensuring health and safety
IHG applies high standards of health and safety equally to all employees and guests. The Group strives to provide and maintain a safe environment for all employees, customers and other visitors to its premises and to comply with relevant health and safety legislation. Further details can be found in the Corporate Reputation section of the Annual Review and Summary Financial Statement 2007 and in the online CR Report at www.ihg.com/responsibility

Celebrating diversity
IHG benefits from the diversity of its employees, owners, business partners and guests. The Group regards diversity as a fundamental factor in its success in operating as a global organisation and this principle is embedded in IHG's Winning Ways.

The Group is committed to providing equality of opportunity to all employees without discrimination and continues to be supportive of the employment of disabled persons. Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practical in the same or an alternative position.

Code of Ethics
Among the Group's core values is the concept that all employees should have the courage and conviction to do what is right. The Group's global Code of Ethics and Business Conduct consolidates and clarifies expected standards of behaviour and communicates the ethical values of the Group. The code is applicable to all employees and is available on the Company's website at www.ihg.com/corporate

Corporate responsibility

IHG is committed to integrating CR into its business. The table below outlines IHG's overall CR priorities, developments during the year and priorities for 2008. Further details on IHG's CR activities can be found on the website, www.ihg.com/responsibility, including IHG's online CR Report and in the Annual Review and Summary Financial Statement 2007.

CR priorities	2007 developments	2008 priorities
Building the base for delivery	• Established a steering group of senior IHG executives; • Developed a CR strategy in light of stakeholder feedback on responsible tourism and the need to respect local communities; • Integrated the CR strategy with IHG's corporate objectives; • Agreed CR priorities which include engaging IHG hotels and brands, aligning IHG's global environmental initiatives and supporting local communities; and • Improved internal and external communication including an online CR Report.	• Monitor performance of steering group members on agreed 2008 objectives; and • Periodically update the online CR Report, in line with widely accepted CR guidelines.
Engaging hotels and brands	• Commenced major consumer insight research project with focus groups conducted in the US and the UK; • Created an online Innovation Hotel resource to engage corporate clients and guests; • Commenced integration of CR considerations into brand strategies, including the design of an environmentally-friendly prototype which requires less construction materials; and • Developed and distributed best practice CR guides to hotels and owners.	• Complete consumer insight research and consider appropriate application; • Further integrate CR strategy in the brand planning process; and • Ensure best practice guides are made available to all hotels and owners.
Aligning global environmental initiatives	• Piloted an online tool which will enable IHG to measure its water, waste and energy across the globe; • Completed a carbon and environmental footprint, the first by a major hotel group; • Distributed compact fluorescent light bulbs as replacements for incandescent bulbs. It is estimated that this initiative will result in over $2m of annual energy savings; and • Implemented a range of environmental initiatives at IHG's corporate offices, including recycling and improved waste management.	• Roll-out the online tool to at least 70% of owned and managed hotels by the end of 2008; • Review footprint data in context of the overall CR strategy and consider appropriate targets for energy reduction; and • Expand CR activities at IHG's corporate head offices.
Supporting local communities	• IHG has a long tradition of community support which is continuing to evolve. During 2007, all hotel general managers were surveyed for details of activities undertaken, both in terms of cash and in kind, to support their local communities. Based on the results of the survey, it is estimated that IHG hotels provided more than $14m during 2007.	• Increase visibility of community support data.

Group performance

Group results

	12 months ended 31 December		
	2007 £m	2006 £m	% change
Revenue			
Americas	**450**	422	6.6
EMEA	**245**	198	23.7
Asia Pacific	**130**	111	17.1
Central	**58**	55	5.5
Continuing operations	**883**	786	12.3
Discontinued operations	**40**	174	(77.0)
	923	960	(3.9)
Operating profit			
Americas	**220**	215	2.3
EMEA	**67**	37	81.1
Asia Pacific	**31**	29	6.9
Central	**(81)**	(81)	–
Continuing operations	**237**	200	18.5
Discontinued operations	**8**	31	(74.2)
Operating profit before exceptional items	**245**	231	6.1
Exceptional operating items	**30**	27	11.1
Operating profit	**275**	258	6.6
Net financial expenses	**(45)**	(11)	(309.1)
Profit before tax*	**230**	247	(6.9)
Analysed as:			
Continuing operations	**222**	216	2.8
Discontinued operations	**8**	31	(74.2)
Earnings per ordinary share			
Basic	**72.2p**	104.1p	(30.6)
Adjusted	**48.4p**	42.9p	12.8
Adjusted – continuing operations	**46.9p**	38.0p	23.4

* Profit before tax includes the results of discontinued operations.

Revenue from continuing operations increased by 12.3% to £883m and continuing operating profit increased by 18.5% to £237m during the 12 months ended 31 December 2007. The growth was driven by strong underlying RevPAR gains across all regions, hotel expansion in key markets and profit uplift from owned and leased assets. Furthermore, strong revenue conversion led to a 1.4 percentage point increase in continuing operating profit margins to 26.8%.

Including discontinued operations, total revenue decreased by 3.9% to £923m whilst operating profit before exceptional items increased by 6.1% to £245m, reflecting the year-on-year impact of asset disposals. Discontinued operations represent the results from operations that have been sold, or are held for sale, and where there is a coordinated plan to dispose of the operations under IHG's asset disposal programme. In this Business Review, discontinued operations include owned and leased hotels in the US, the UK and Continental Europe that have been sold or placed on the market from 1 January 2006.

As the weighted average US dollar exchange rate to sterling has weakened during 2007 (2007 $2.01:£1, 2006 $1.84:£1), growth rates for results expressed in US dollars are higher than those in sterling. Continuing operating profit before exceptional items was $474m, ahead of 2006 by 29.2%. Including discontinued operations, operating profit before exceptional items was $491m, 15.8% higher than 2006. Translated at constant currency, applying 2006 exchange rates, continuing revenue increased by 19.6% and continuing operating profit increased by 30.0%.

Total gross revenues

	12 months ended 31 December		
	2007 $bn	2006 $bn	% change
InterContinental	**3.7**	3.0	23.3
Crowne Plaza	**2.8**	2.3	21.7
Holiday Inn	**6.7**	6.3	6.3
Holiday Inn Express	**3.5**	3.0	16.7
Other brands	**1.1**	0.6	83.3
Total	**17.8**	15.2	17.1

One measure of overall IHG hotel system performance is the growth in total gross revenue, defined as total room revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels. Total gross revenue is not revenue attributable to IHG, as it is derived mainly from hotels owned by third parties.

Total gross revenue increased by 17.1% from $15.2bn in 2006 to $17.8bn in 2007, with strong growth levels achieved across IHG's key brands reflecting hotel performance and room growth. Translated at constant currency, total gross revenue increased by 14.5%.

Global hotel and room count

At 31 December	Hotels 2007	Hotels Change over 2006	Rooms 2007	Rooms Change over 2006
Analysed by brand				
InterContinental	**149**	1	**50,762**	1,163
Crowne Plaza	**299**	24	**83,170**	7,538
Holiday Inn	**1,381**	(14)	**256,699**	(3,771)
Holiday Inn Express	**1,808**	122	**156,531**	12,949
Staybridge Suites	**122**	25	**13,466**	2,513
Candlewood Suites	**158**	28	**16,825**	2,676
Hotel Indigo	**11**	5	**1,501**	608
Other	**21**	17	**6,140**	5,172
Total	**3,949**	208	**585,094**	28,848
Analysed by ownership type				
Owned and leased	**18**	(7)	**6,396**	(2,064)
Managed	**539**	27	**134,883**	9,669
Franchised	**3,392**	188	**443,815**	21,243
Total	**3,949**	208	**585,094**	28,848

During 2007, the IHG global system (the number of hotels and rooms which are owned, leased, managed or franchised by the Group) increased by 208 hotels (28,848 rooms, or 5.2%) to 3,949 hotels (585,094 rooms). The record growth level was driven, in particular, by continued expansion in the US, the UK, China and Japan, resulting in openings of 366 hotels (52,846 rooms).

Holiday Inn Express represented 58.7% of the net hotel growth, demonstrating strong market demand in the midscale, limited service sector. The extended stay portfolio, comprising Staybridge Suites and Candlewood Suites hotels, expanded by 53 hotels (5,189 rooms), indicating owner confidence in this sector.
The net decline in the Holiday Inn hotel and room count (14 hotels and 3,771 rooms) primarily reflects IHG's continued strategy to reinvigorate the Holiday Inn brand through the removal of lower quality, non-brand conforming hotels in the US. This strategy is further supported by the worldwide brand relaunch of the Holiday Inn brand family, announced in October 2007, which entails the consistent delivery of best-in-class service and physical quality in all Holiday Inn and Holiday Inn Express hotels.

Global pipeline

At 31 December	Hotels 2007	Hotels Change over 2006	Rooms 2007	Rooms Change over 2006
Analysed by brand				
InterContinental	**62**	26	**20,013**	6,802
Crowne Plaza	**118**	58	**36,362**	19,249
Holiday Inn	**365**	66	**56,945**	12,171
Holiday Inn Express	**712**	138	**70,142**	14,622
Staybridge Suites	**157**	37	**17,150**	4,545
Candlewood Suites	**207**	79	**18,605**	6,882
Hotel Indigo	**52**	28	**6,565**	3,520
Other	**1**	1	**90**	90
Total	**1,674**	433	**225,872**	67,881
Analysed by ownership type				
Managed	**247**	108	**71,814**	30,166
Franchised	**1,427**	325	**154,058**	37,715
Total	**1,674**	433	**225,872**	67,881

At the end of 2007, the IHG pipeline (contracts signed for hotels and rooms yet to enter the IHG global system) totalled 1,674 hotels (225,872 rooms). In the year, record room signings across all regions of 125,533 rooms led to pipeline growth of 67,881 rooms (or 43.0%). This level of growth demonstrates strong demand for IHG brands across all regions and represents a key driver of future profitability.

Global pipeline signings

At 31 December	Hotels 2007	Hotels Change over 2006	Rooms 2007	Rooms Change over 2006
Total	**873**	156	**125,533**	22,759

The Americas

Americas results

		12 months ended 31 December		
		2007 $m	2006 $m	% change
Revenue				
Owned and leased		**257**	192	33.9
Managed		**156**	143	9.1
Franchised		**489**	443	10.4
Continuing operations		**902**	778	15.9
Discontinued operations*		**62**	74	(16.2)
Total	$m	**964**	852	13.1
Sterling equivalent	£m	**481**	463	3.9
Operating profit before exceptional items				
Owned and leased		**40**	22	81.8
Managed		**41**	50	(18.0)
Franchised		**425**	382	11.3
		506	454	11.5
Regional overheads		**(66)**	(59)	(11.9)
Continuing operations		**440**	395	11.4
Discontinued operations*		**16**	12	33.3
Total	$m	**456**	407	12.0
Sterling equivalent	£m	**228**	221	3.2

* Discontinued operations are all owned and leased.

Americas comparable RevPAR movement on previous year

	12 months ended 31 December 2007
Owned and leased	
InterContinental	10.6%
Managed	
InterContinental	10.8%
Crowne Plaza	7.2%
Holiday Inn	7.7%
Staybridge Suites	2.0%
Candlewood Suites	3.4%
Franchised	
Crowne Plaza	7.6%
Holiday Inn	4.7%
Holiday Inn Express	6.7%

Revenue and operating profit from continuing operations increased by 15.9% to $902m and 11.4% to $440m respectively. Discontinued operations include the results of hotels sold during 2006 and 2007, together with two hotels currently on the market for disposal. Including discontinued operations, revenue increased by 13.1% whilst operating profit increased by 12.0%.

The region achieved healthy RevPAR growth across all ownership types and RevPAR premiums to the US market segments for hotels operating under InterContinental, Crowne Plaza, Holiday Inn and Holiday Inn Express brands. During the fourth quarter, consistent with the US market, the region was impacted by a marginal softening in RevPAR growth due to a slight decline in occupancy levels.

Continuing owned and leased revenue increased by 33.9% to $257m and operating profit increased by 81.8% to $40m. Positive underlying trading was driven by RevPAR growth of 9.7%, led by the InterContinental brand with growth of 10.6%. The results were favourably impacted by trading performance at the InterContinental Boston which became fully operational during the first half of the year (year-on-year profit increase of $11m) and trading at the InterContinental New York where robust market conditions lifted average occupancy levels to over 90%.

Managed revenues increased by 9.1% to $156m during the year, driven by strong RevPAR growth, particularly in Latin America where rate-led RevPAR growth exceeded 20%. Robust brand performance resulted in RevPAR growth premiums, compared to respective US market segments, for InterContinental, Crowne Plaza and Holiday Inn. Growth in the extended stay segment was impacted by an increase in market supply. Managed revenues included $86m (2006 $80m) from properties that are structured, for legal reasons, as operating leases but with the same characteristics as management contracts.

Managed operating profit decreased by 18.0% to $41m, including $6m (2006 $9m) from managed properties held as operating leases. The decline in profit principally reflects increased revenue investment to support growth in contract signings, the impact of fewer hotels under management contracts following the restructuring of the FelCor agreement in 2006, foreign exchange losses in Latin America and lower ancillary revenues together with higher costs at one of the hotels held as an operating lease. These items reduced operating profit margins in the managed estate by 8.7 percentage points to 26.3% and reduced continuing operating profit margins in the region by 2.0 percentage points to 48.8%.

Franchised revenue and operating profit increased by 10.4% to $489m and 11.3% to $425m respectively, compared to 2006. The increase was driven by RevPAR growth of 5.8%, net room count growth of 4.0% and fees associated with growth in signings.

Regional overheads were affected positively in 2006 by lower claims in the Group-funded employee healthcare programme. Excluding this, regional overheads were in line with the prior period.

Americas hotel and room count

At 31 December	Hotels 2007	Hotels Change over 2006	Rooms 2007	Rooms Change over 2006
Analysed by brand				
InterContinental	**50**	1	**16,624**	99
Crowne Plaza	**172**	17	**47,893**	5,289
Holiday Inn	**952**	(35)	**177,999**	(8,068)
Holiday Inn Express	**1,615**	109	**134,551**	10,833
Staybridge Suites	**122**	25	**13,466**	2,513
Candlewood Suites	**158**	28	**16,825**	2,676
Hotel Indigo	**11**	5	**1,501**	608
Total	**3,080**	150	**408,859**	13,950
Analysed by ownership type				
Owned and leased	**11**	(2)	**4,029**	(650)
Managed	**193**	4	**39,696**	439
Franchised	**2,876**	148	**365,134**	14,161
Total	**3,080**	150	**408,859**	13,950

The Americas hotel and room count grew by 150 hotels (13,950 rooms) to 3,080 hotels (408,859 rooms). The growth included openings of 274 hotels (31,744 rooms) led by continued demand for Holiday Inn Express of 156 hotels (13,908 rooms). Franchised hotels contributed over 98% of net growth, reflecting the sustained demand for the franchised model. Net growth also included removals of 124 hotels (17,794 rooms), of which Holiday Inn hotels represented 54.0% (69.2% of rooms).

Americas pipeline

At 31 December	Hotels 2007	Hotels Change over 2006	Rooms 2007	Rooms Change over 2006
Analysed by brand				
InterContinental	**8**	2	**3,722**	787
Crowne Plaza	**37**	13	**9,036**	3,197
Holiday Inn	**265**	53	**33,029**	6,463
Holiday Inn Express	**614**	111	**54,279**	10,729
Staybridge Suites	**147**	32	**15,921**	3,894
Candlewood Suites	**207**	79	**18,605**	6,882
Hotel Indigo	**52**	28	**6,565**	3,520
Total	**1,330**	318	**141,157**	35,472
Analysed by ownership type				
Managed	**21**	7	**4,961**	1,251
Franchised	**1,309**	311	**136,196**	34,221
Total	**1,330**	318	**141,157**	35,472

The Americas pipeline continued to achieve high growth levels and totalled 1,330 hotels (141,157 rooms) at 31 December 2007. During the year, 75,279 room signings were completed, compared with 61,673 room signings in 2006. These signing levels outpaced the prior year as demand for Holiday Inn and Holiday Inn Express continued to accelerate. Furthermore, the extended stay brands, Staybridge Suites and Candlewood Suites, contributed 24.3% of the region's room signings.

Europe, Middle East and Africa

EMEA results

		12 months ended 31 December		
		2007 £m	2006 £m	% change
Revenue				
Owned and leased		**121**	92	31.5
Managed		**84**	71	18.3
Franchised		**40**	35	14.3
Continuing operations		**245**	198	23.7
Discontinued operations*		**9**	133	(93.2)
Total	£m	**254**	331	(23.3)
Dollar equivalent	$m	**509**	608	(16.3)
Operating profit before exceptional items				
Owned and leased		**17**	(4)	525.0
Managed		**43**	37	16.2
Franchised		**29**	24	20.8
		89	57	56.1
Regional overheads		**(22)**	(20)	(10.0)
Continuing operations		**67**	37	81.1
Discontinued operations*		**–**	25	–
Total	£m	**67**	62	8.1
Dollar equivalent	$m	**135**	114	18.4

* Discontinued operations are all owned and leased.

EMEA comparable RevPAR movement on previous year

	12 months ended 31 December 2007
Owned and leased	
InterContinental	14.0%
All ownership types	
UK	6.2%
Continental Europe	7.6%
Middle East	19.6%

Revenue and operating profit from continuing operations increased by 23.7% to £245m and 81.1% to £67m respectively. Including discontinued operations, revenue decreased by 23.3% whilst operating profit increased by 8.1%, reflecting the impact of hotels sold and converted to management and franchise contracts over the past two years.

During the year, the region achieved RevPAR growth of 8.6% driven by substantial gains across all brands and ownership types. From a regional perspective, RevPAR levels benefited from the positive market conditions in the Middle East, France and the UK. The region's continuing operating profit margins increased by 8.6 percentage points to 27.3% as a result of improved revenue conversion in the owned and leased portfolio and increased scalability in the franchised operations.

In the owned and leased estate, continuing revenue increased by 31.5% to £121m as a result of trading at the InterContinental London Park Lane which became fully operational during the first half of 2007, together with strong rate-led RevPAR growth at the InterContinental Paris Le Grand. Effective revenue conversion led to an increase in continuing operating profit of £21m to £17m, including operating profit growth of £14m at the InterContinental London Park Lane.

EMEA managed revenues increased by 18.3% to £84m and operating profit increased by 16.2% to £43m. The growth was driven by management contracts negotiated in 2006 as part of the hotel disposal programme in Europe and strong underlying trading in markets such as the Middle East, the UK, Spain and Russia.

Franchised revenue and operating profit increased by 14.3% to £40m and 20.8% to £29m respectively. The growth was principally driven by RevPAR gains and room count expansion in the UK and Continental Europe.

EMEA hotel and room count

At 31 December	Hotels 2007	Hotels Change over 2006	Rooms 2007	Rooms Change over 2006
Analysed by brand				
InterContinental	**62**	(4)	**20,012**	(1,411)
Crowne Plaza	**72**	4	**17,326**	886
Holiday Inn	**335**	18	**52,842**	2,214
Holiday Inn Express	**182**	10	**19,380**	1,271
Total	**651**	28	**109,560**	2,960
Analysed by ownership type				
Owned and leased	**5**	(5)	**1,674**	(1,414)
Managed	**171**	(3)	**39,073**	(1,602)
Franchised	**475**	36	**68,813**	5,976
Total	**651**	28	**109,560**	2,960

During 2007, EMEA hotel and room count increased by 28 hotels (2,960 rooms) to 651 hotels (109,560 rooms). The net growth included the opening of 55 hotels (7,956 rooms) and the removal of 27 hotels (4,996 rooms). System growth was led by openings in the UK of 22 hotels (2,522 rooms). Holiday Inn was the largest contributor of room openings, adding over 50% of the region's total.

EMEA pipeline

At 31 December	Hotels 2007	Hotels Change over 2006	Rooms 2007	Rooms Change over 2006
Analysed by brand				
InterContinental	**24**	14	**5,960**	3,411
Crowne Plaza	**25**	10	**6,298**	2,631
Holiday Inn	**51**	(3)	**9,546**	1,728
Holiday Inn Express	**76**	17	**9,766**	2,321
Staybridge Suites	**10**	5	**1,229**	651
Other	**1**	1	**90**	90
Total	**187**	44	**32,889**	10,832
Analysed by ownership type				
Managed	**70**	31	**15,203**	7,514
Franchised	**117**	13	**17,686**	3,318
Total	**187**	44	**32,889**	10,832

The pipeline in EMEA increased by 44 hotels (10,832 rooms) to 187 hotels (32,889 rooms). The growth included a record level of 19,153 room signings, driven by exceptional demand in the Middle East, particularly in the United Arab Emirates and Saudi Arabia. Across the region, sustained demand for the Holiday Inn brand led to 6,004 room signings during the year whilst the region also experienced a significant increase in room signings for the InterContinental and Crowne Plaza brands. The EMEA pipeline included 10 Staybridge Suites hotels (1,229 rooms), of which the first hotels are expected to open in the UK and the Middle East during 2008.

Asia Pacific

Asia Pacific results

		12 months ended 31 December		
		2007 $m	2006 $m	% change
Revenue				
Owned and leased		**145**	131	10.7
Managed		**99**	65	52.3
Franchised		**16**	8	100.0
Total	$m	**260**	204	27.5
Sterling equivalent	£m	**130**	111	17.1
Operating profit before exceptional items				
Owned and leased		**36**	31	16.1
Managed		**46**	39	17.9
Franchised		**6**	5	20.0
		88	75	17.3
Regional overheads		**(25)**	(23)	(8.7)
Total	$m	**63**	52	21.2
Sterling equivalent	£m	**31**	29	6.9

Asia Pacific comparable RevPAR movement on previous year

	12 months ended 31 December 2007
Owned and leased	
InterContinental	7.3%
All ownership types	
Greater China	7.0%

Asia Pacific revenue increased by 27.5% to $260m whilst operating profit increased by 21.2% to $63m.

The region achieved strong RevPAR growth across all brands and ownership types and continued its strategic expansion in China and Japan. Strong growth in total profit was achieved; however, revenue conversion was impacted by continued investment to support expansion, resulting in a 1.3 percentage point reduction in operating profit margins to 24.2%.

In the owned and leased estate, revenue increased by 10.7% to $145m due to the combined impact of strong room and food and beverage trading at the InterContinental Hong Kong, despite the impact of renovation works throughout a significant part of the year. The hotel's revenue growth combined with profit margin gains drove the estate's operating profit growth of 16.1% to $36m.

Managed revenues increased by 52.3% to $99m as a result of the full year contribution from the hotels which joined the system in 2006 as part of the IHG ANA joint venture in Japan, continued organic expansion in China and solid RevPAR growth across Southern Asia and Australia. Operating profit increased by 17.9% to $46m as revenue gains were offset by integration and ongoing costs associated with the ANA joint venture and continued infrastructure investment in China.

Franchised revenues doubled from $8m to $16m, primarily driven by hotels in the IHG ANA joint venture. Similar to the managed operations, growth in profitability was impacted by ANA integration and ongoing costs.

Regional overheads increased by $2m to $25m primarily as a result of investment in technology and corporate infrastructure in China and Japan and included the favourable impact of a legal settlement.

Asia Pacific hotel and room count

At 31 December	Hotels 2007	Hotels Change over 2006	Rooms 2007	Rooms Change over 2006
Analysed by brand				
InterContinental	**37**	4	**14,126**	2,475
Crowne Plaza	**55**	3	**17,951**	1,363
Holiday Inn	**94**	3	**25,858**	2,083
Holiday Inn Express	**11**	3	**2,600**	845
Other	**21**	17	**6,140**	5,172
Total	**218**	30	**66,675**	11,938
Analysed by ownership type				
Owned and leased	**2**	–	**693**	–
Managed	**175**	26	**56,114**	10,832
Franchised	**41**	4	**9,868**	1,106
Total	**218**	30	**66,675**	11,938

Asia Pacific hotel and room count increased by 30 hotels (11,938 rooms) to 218 hotels (66,675 rooms). The net growth included 16 hotels (7,827 rooms) in Greater China reflecting continued expansion in one of IHG's strategic markets, together with 15 hotels (3,542 rooms) in Japan that joined the system as part of the IHG ANA joint venture.

Asia Pacific pipeline

At 31 December	Hotels 2007	Hotels Change over 2006	Rooms 2007	Rooms Change over 2006
Analysed by brand				
InterContinental	**30**	10	**10,331**	2,604
Crowne Plaza	**56**	35	**21,028**	13,421
Holiday Inn	**49**	16	**14,370**	3,980
Holiday Inn Express	**22**	10	**6,097**	1,572
Total	**157**	71	**51,826**	21,577
Analysed by ownership type				
Managed	**156**	70	**51,650**	21,401
Franchised	**1**	1	**176**	176
Total	**157**	71	**51,826**	21,577

The pipeline in Asia Pacific increased by 71 hotels (21,577 rooms) to 157 hotels (51,826 rooms). Demand in the Greater China market continued throughout the year and represented 82.3% of the region's room signings. From a brand perspective, Crowne Plaza attracted significant interest, contributing over half of the total room signings.

Central

Central results

12 months ended 31 December		2007 £m	2006 £m	% change
Revenue		**58**	55	5.5
Gross central costs		**(139)**	(136)	(2.2)
Net central costs	£m	**(81)**	(81)	–
Dollar equivalent	$m	**(163)**	(149)	(9.4)

During 2007, net central costs were flat on 2006 but increased in line with inflation when translated at constant currency exchange rates.

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Other financial information

Exceptional operating items

Exceptional operating items of £30m included an £18m gain on the sale of financial assets and an £11m gain on the sale of associate investments.

Exceptional operating items are treated as exceptional items by reason of their size or nature and are excluded from the calculation of adjusted earnings per share in order to provide a more meaningful comparison of performance.

Net financial expenses

Net financial expenses increased from £11m in 2006 to £45m in 2007, as a result of higher debt levels following payment of the £709m special dividend in June 2007.

Financing costs included £10m (2006 £10m) of interest costs associated with Priority Club Rewards where interest is charged on the accumulated balance of cash received in advance of the redemption points awarded. Financing costs in 2007 also included £9m (2006 £4m) in respect of the InterContinental Boston finance lease.

Taxation

The effective rate of tax on profit before tax, excluding the impact of exceptional items, was 22% (2006 24%). By also excluding the impact of prior year items, which are included wholly within continuing operations, the equivalent tax rate would be 36% (2006 36%). This rate is higher than the UK statutory rate of 30% due mainly to certain overseas profits (particularly in the US) being subject to statutory rates higher than the UK statutory rate and disallowable expenses.

Taxation within exceptional items totalled a credit of £30m (2006 £94m credit) in respect of continuing operations. This represented, primarily, the release of exceptional provisions relating to tax matters which were settled during the year, or in respect of which the statutory limitation period had expired. In 2006, taxation exceptional items, in addition to such provision releases, included £12m for the recognition of a deferred tax asset in respect of tax losses.

Net tax paid in 2007 totalled £69m (2006 £49m) including £32m (2006 £6m) in respect of disposals.

Earnings per share

Basic earnings per share in 2007 were 72.2p, compared with 104.1p in 2006. Adjusted earnings per share were 48.4p, against 42.9p in 2006. Adjusted continuing earnings per share were 46.9p, 23.4% up on last year.

Dividends

The Board has proposed a final dividend per share of 14.9p; with the interim dividend per share of 5.7p, the normal dividend per share for 2007 will total 20.6p.

Share price and market capitalisation

The IHG share price closed at 884.0p on 31 December 2007, down from 1262.0p on 31 December 2006. The market capitalisation of the Group at the year end was £2.6bn.

Cash flow

The net movement in cash and cash equivalents in the 12 months to 31 December 2007 was an outflow of £131m. This included net cash inflows from operating activities of £232m, net cash overflows from investing activities of £19m and net cash outflows from financing activities of £344m.

Key components of investing and financing activities included:

- proceeds from the disposal of hotels and equity investments totalled £106m;
- capital expenditure totalled £93m and included the completion of the major refurbishment at the InterContinental London Park Lane and the renovation works at the InterContinental Hong Kong;
- cash outflows associated with shareholder returns during the year included a special dividend of £709m and share buybacks of £81m; and
- increased borrowings of £553m.

IHG's cash flow strategy has focused on reducing capital intensity and returning surplus funds to shareholders. Capital investment in new projects will be made where this creates value by accelerating the development of IHG's brands. Such investment will be funded largely from the proceeds of hotel and minority shareholding disposals, with the objective of subsequently recycling that capital into other projects.

Capital structure and liquidity management

Net debt at 31 December 2007 was £825m and included £100m in respect of the finance lease commitment for the InterContinental Boston.

Net debt at 31 December	2007 £m	2006 £m
Borrowings (including derivatives):		
Sterling	**275**	102
US dollar	**439**	282
Euro	**121**	101
Other	**48**	48
Cash (including derivatives)	**(58)**	(403)
	825	130
Excluding fair value of derivatives (net)	**–**	4
Net debt	**825**	134
Average debt levels	**536**	92

Facilities at 31 December	2007 £m	2006 £m
Committed	**1,154**	1,157
Uncommitted	**25**	39
Total	**1,179**	1,196

Interest risk profile of net debt for major currencies (including derivatives) at 31 December	2007 %	2006 %
At fixed rates	**45**	57
At variable rates	**55**	43

Treasury policy is to manage financial risks that arise in relation to underlying business needs. The activities of the treasury function are carried out in accordance with Board approved policies and are subject to regular audit. The treasury function does not operate as a profit centre.

Medium and long-term borrowing requirements at 31 December 2007 were met through a £1.1bn Syndicated Bank Facility which matures in November 2009. Short-term borrowing requirements were principally met from drawings under committed and uncommitted bilateral loan facilities. At the year end, the Group had £377m of committed facilities available for drawing.

The Syndicated Bank Facility contains two financial covenants, interest cover and net debt/earnings before interest, tax, depreciation and amortisation. The Group is in compliance with both covenants, neither of which is expected to represent a material restriction on funding or investment policy in the foreseeable future.

Further information on the Group's treasury management can be found in note 21 on page 74 in the notes to the Group Financial Statements 2007.

Asset disposal programme

	Number of hotels	Proceeds	Net book value
Disposed since April 2003	181	£3.0bn	£2.9bn
Remaining owned and leased hotels	18		£0.9bn

During 2007, IHG achieved further progress with its asset disposal programme, including:

- the sale of the Crowne Plaza Santiago for $21m before transaction costs, approximately $9m above net book value. Under the agreement, IHG retained a 10 year franchise contract;
- the sale of its 74.11% share of the InterContinental Montreal for £17m before transaction costs, approximately £5m above book value. Under the agreement, IHG retained a 30 year management contract on the hotel; and
- the sale of the Holiday Inn Disney, Paris for £14m before transaction costs, approximately £2m above book value. Under the agreement, IHG retained a five year franchise contract.

These transactions support IHG's continued strategy of growing its managed and franchised business whilst reducing asset ownership. Since April 2003, 181 hotels with a net book value of £2.9bn have been sold, generating aggregate proceeds of £3.0bn, of which 162 of these hotels remained in the IHG system through the successful negotiation of either management or franchise agreements.

During 2007, IHG also divested a number of equity interests of which proceeds totalled £57m, including a 33.3% interest in the Crowne Plaza London The City for £19m and a 15% interest in the InterContinental Chicago for £11m.

Return of funds programme

	Timing	Total return	Returned to date	Still to be returned
£501m special dividend	Paid in December 2004	£501m	£501m	Nil
First £250m share buyback	Completed in 2004	£250m	£250m	Nil
£996m capital return	Paid in July 2005	£996m	£996m	Nil
Second £250m share buyback	Completed in 2006	£250m	£250m	Nil
£497m special dividend	Paid in June 2006	£497m	£497m	Nil
Third £250m share buyback	Completed in 2007	£250m	£250m	Nil
£709m special dividend	Paid in June 2007	£709m	£709m	Nil
£150m share buyback	Under way	£150m	£50m	£100m
Total		**£3,603m**	**£3,503m**	**£100m**

In the year, IHG paid a £709m special dividend, completed a third £250m share buyback and commenced a £150m share buyback.

At the year end, £100m of this buyback was outstanding. Since March 2004, IHG has returned £3.5bn to shareholders.

Risk management

The Group is subject to a variety of risks which could have a negative impact on its performance and financial condition. The Board is responsible for the Group's system of internal control and risk management, and for reviewing its effectiveness. In order to discharge that responsibility, the Board has established an ongoing process to identify significant business risks facing the Group. The Board also receives assurance from the internal audit and risk management functions that these risks are being appropriately managed, having regard to the balance of risk, cost and opportunity.

This section describes some of the risks that could materially affect the Group's business. The factors below should be considered in connection with any financial and forward-looking information in this Business Review and the cautionary statements contained on page 101.

The risks below are not the only ones that the Group faces. Some risks are not yet known to IHG and some that IHG does not currently believe to be material could later turn out to be material. All of these risks could materially affect the Group's business, revenue, operating profit, earnings, net assets and liquidity and/or capital resources.

The Group is reliant on the reputation of its brands and the protection of its intellectual property rights

Any event that materially damages the reputation of one or more of the Group's brands and/or failure to sustain the appeal of the Group's brands to its customers could have an adverse impact on the value of that brand and subsequent revenues from that brand or business. In addition, the value of the Group's brands is influenced by a number of other factors, some of which may be outside the Group's control, including commoditisation (whereby price/quality becomes relatively more important than brand identifications due, in part, to the increased prevalence of third-party intermediaries), consumer preference and perception, failure by the Group or its franchisees to ensure compliance with the significant regulations applicable to hotel operations (including fire and life safety requirements), or other factors affecting consumers' willingness to purchase goods and services, including any factor which adversely affects the reputation of those brands.

In particular, where the Group is unable to enforce adherence to its operating and quality standards, or the significant regulations applicable to hotel operations, pursuant to its management and franchise contracts, there may be further adverse impact upon brand reputation or customer perception and therefore the value of the hotel brands.

Given the importance of brand recognition to the Group's business, the Group has invested considerable effort in protecting its intellectual property, including registration of trademarks and domain names. However, the laws of certain foreign countries in which the Group operates do not protect the Group's proprietary rights to the same extent as the laws in the US and the European Union. This is particularly relevant in China where, despite recent improvements in intellectual property rights, the relative lack of protection increases the risk that the Group will be unable to prevent infringements of its intellectual property in this key growth market. Any widespread infringement or misappropriation could materially harm the value of the Group's brands and its ability to develop the business.

The Group is exposed to a variety of risks related to identifying, securing and retaining management and franchise agreements

The Group's growth strategy depends on its success in identifying, securing and retaining management and franchise agreements. Competition with other hotel companies may generally reduce the number of suitable management, franchise and investment opportunities offered to the Group and increase the bargaining power of property owners seeking to engage a manager or become a franchisee. The terms of new management or franchise agreements may not be as favourable as current arrangements and the Group may not be able to renew existing arrangements on the same terms.

There can also be no assurance that the Group will be able to identify, retain or add franchisees to the Group system or to secure management contracts. For example, the availability of suitable sites, planning and other local regulations or the availability and affordability of finance may all restrict the supply of suitable hotel development opportunities under franchise or management agreements. There are also risks that significant franchisees or groups of franchisees may have interests that conflict, or are not aligned, with those of the Group including, for example, the unwillingness of franchisees to support brand improvement initiatives. In connection with entering into management or franchise agreements, the Group may be required to make investments in, or guarantee the obligations of, third-parties or guarantee minimum income to third-parties.

Changes in legislation or regulatory changes may be implemented that have the effect of favouring franchisees relative to brand owners.

The Group is exposed to the risks of political and economic developments

The Group is exposed to the risks of global and regional adverse political, economic and financial market developments, including recession, inflation and currency fluctuations that could lower revenues and reduce income. A recession in one country or more widely tends to reduce leisure and business travel to and from affected countries and would adversely affect room rates and/or occupancy levels and other income-generating activities resulting in deterioration of results of operations and potentially reducing the value of properties in affected economies. The owners or potential owners of hotels managed or franchised by one group face similar risks which could adversely affect IHG's ability to secure management or franchise agreements. More specifically, the Group is highly exposed to the US market and, accordingly, is particularly susceptible to adverse changes in the US economy.

Further political or economic factors or regulatory action could effectively prevent the Group from receiving profits from, or selling its investments in, certain countries, or otherwise adversely affect operations. For example, changes to tax rates or legislation in the jurisdictions in which the Group operates could decrease the proportion of profits the Group is entitled to retain, or the Group's interpretation of various tax laws and regulations may prove to be incorrect, resulting in higher than expected tax charges. In addition, fluctuations in currency exchange rates between sterling, the currency in which the Group reports its financial statements, and the US dollar and other currencies in which the Group's international operations or investments do business, could adversely affect the Group's reported earnings and the value of its business. Fluctuations of this type have been experienced over recent years with the significant strengthening of sterling against the US dollar. As the majority of the Group's profits are generated in the US, such fluctuations may have a significant impact on the Group's reported results.

The Group is dependent upon recruiting and retaining key personnel and developing their skills

In order to develop, support and market its products, the Group must hire and retain highly skilled employees with particular expertise. The implementation of the Group's strategic business plans could be undermined by failure to recruit or retain key personnel, the unexpected loss of key senior employees, failures in the Group's succession planning and incentive plans, or a failure to invest in the development of key skills. Some of the markets in which the Group operates are experiencing rapid economic growth and the Group must compete against a number of companies inside and outside the hospitality industry for suitably qualified or experienced employees. Failure to attract and retain these employees may threaten the success of the Group's operations in these markets. Additionally, unless skills are supported by a sufficient infrastructure to enable knowledge and skills to be passed on, the Group risks losing accumulated knowledge if key employees leave the Group.

The Group is exposed to the risk of events that adversely impact domestic or international travel

The room rates and occupancy levels of the Group could be adversely impacted by events that reduce domestic or international travel, such as actual or threatened acts of terrorism or war, epidemics, travel-related accidents, travel-related industrial action, increased transportation and fuel costs and natural disasters resulting in reduced worldwide travel or other local factors impacting individual hotels. A decrease in the demand for hotel rooms as a result of such events may have an adverse impact on the Group's operations and financial results. In addition, inadequate preparedness, contingency planning or recovery capability in relation to a major incident or crisis may prevent operational continuity and consequently impact the value of the brand or the reputation of the Group.

The Group is reliant upon its proprietary reservation system and is exposed to the risk of failures in the system and increased competition in reservation infrastructure

The value of the brands of the Group is partly derived from the ability to drive reservations through its proprietary HolidexPlus reservation system, an electronic booking and delivery channel directly linked to travel agents, hotels and internet networks. Inadequate disaster recovery arrangements, or inadequate continued investment in this technology, leading to loss of key communications linkages, particularly in relation to HolidexPlus, internet reservation channels and other key parts of the IT infrastructure for a prolonged period, or permanently, may result in significant business interruption and subsequent impact on revenues.

The Group is also exposed to the risk of competition from third-party intermediaries who provide reservation infrastructure. In particular, any significant increase in the use of these reservation channels in preference to proprietary channels may impact the Group's ability to control the supply, presentation and price of its room inventory.

The Group is exposed to certain risks in relation to technology and systems

To varying degrees, the Group is reliant upon certain technologies and systems (including IT systems) for the running of its business, particularly those which are highly integrated with business processes. Disruption to those technologies or systems could adversely affect the efficiency of the business, notwithstanding business continuity or disaster recovery processes. The Group may have to make substantial additional investments in new technologies or systems to remain competitive. Failing to keep pace with developments in technologies or systems may put the Group at a competitive disadvantage. The technologies or systems that the Group chooses may not be commercially successful or the technology or system strategy employed may not be sufficiently aligned to the needs of the business or responsive to changes in business strategy. As a result, the Group could lose customers, fail to attract new customers or incur substantial costs or face other losses. Additionally, failure to develop an appropriate e-commerce strategy and select the right partners could erode the Group's market share.

The Group is exposed to the risks of the hotel industry supply and demand cycle

The future operating results of the Group could be adversely affected by industry over-capacity (by number of rooms) and weak demand due, in part, to the cyclical nature of the hotel industry, or other differences between planning assumptions and actual operating conditions. Reductions in room rates and occupancy levels would adversely impact the results of Group operations.

The Group may experience a lack of selected development opportunities

While the strategy of the Group is to extend the hotel network through activities that do not involve significant capital, in some cases the Group may consider it appropriate to acquire new land or locations for the development of new hotels. If the availability of suitable sites becomes limited, this could adversely affect its results of operations.

The Group is exposed to risks related to corporate responsibility

The reputation of the Group and the value of its brands are influenced by a wide variety of factors, including the perception of key stakeholders and the communities in which the Group operates. The social and environmental impacts of business are under increasing scrutiny, and the Group is exposed to the risk of damage to its reputation if it fails to demonstrate sufficiently responsible practices in a number of areas such as sustainability, responsible tourism, environmental management, human rights and support for the local community.

The Group is exposed to the risk of litigation

The Group could be at risk of litigation from its guests, customers, joint venture partners, suppliers, employees, regulatory authorities, franchisees and/or the owners of hotels managed by it for breach of its contractual or other duties. Claims filed in the US may include requests for punitive damages as well as compensatory damages. Exposure to litigation or fines imposed by regulatory authorities may affect the reputation of the Group even though the monetary consequences are not significant.

The Group may face difficulties insuring its business

Historically, the Group has maintained insurance at levels determined by it to be appropriate in light of the cost of cover and the risk profiles of the business in which it operates. However, forces beyond the Group's control including market forces, may limit the scope of coverage the Group can obtain as well as the Group's ability to obtain coverage at reasonable rates. Other forces beyond the Group's control, such as terrorist attacks or natural disasters may be uninsurable or simply too expensive to insure against. Inadequate or insufficient insurance could expose the Group to large claims or could result in the loss of capital invested in properties, as well as the anticipated future revenue from properties, and could leave the Group responsible for guarantees, debt or other financial obligations related to such properties.

The Group is exposed to a variety of risks associated with its ability to borrow and satisfy debt covenants

The Group is reliant on having access to borrowing facilities to meet its expected capital requirements and to maintain an efficient balance sheet. The majority of the Group's borrowing facilities are only available if the financial covenants in the facilities are complied with. If the Group is not in compliance with the covenants, the lenders may demand the repayment of the funds advanced. If the Group's financial performance does not meet market expectations it may not be able to refinance its existing facilities on terms it considers favourable. The availability of funds for future financing is, in part, dependent on conditions and liquidity in the capital markets.

The Group is required to comply with data privacy regulations

Existing and emerging data privacy regulations limit the extent to which the Group can use customer information for marketing or promotional purposes. Compliance with these regulations in each jurisdiction in which the Group operates may require changes in marketing strategies and associated processes which could increase operating costs or reduce the success with which products and services can be marketed to existing or future customers. In addition, non-compliance with privacy regulations may result in fines, damage to reputation or restrictions on the use or transfer of information.

The Group is exposed to funding risks in relation to the defined benefits under its pension plans

The Group is required by law to maintain a minimum funding level in relation to its ongoing obligation to provide current and future pensions for members of its pension plans who are entitled to defined benefits. In addition, if any plan of the Group is wound up, the Group could become statutorily liable to make an immediate payment to the trustees to bring the funding of these defined benefits to a level which is higher than this minimum. The contributions payable by the Group must be set with a view to making prudent provision for the benefits accruing under the plans of the Group.

Some of the issues which could adversely affect the funding of these defined benefits (and materially affect the Group's funding obligations) include:

- poor investment performance of pension fund investments which are substantially weighted towards global equity markets;
- long life expectancy (which will make pensions payable for longer and therefore more expensive to provide);
- adverse annuity rates (which tend in particular to depend on prevailing interest rates and life expectancy) as these will make it more expensive to secure pensions with an insurance company; and
- other events occurring which make past service benefits more expensive than predicted in the actuarial assumptions by reference to which the Group's past contributions were assessed.

The trustees of the UK defined benefit plan can demand increases to the contribution rates relating to the funding of this pension plan, which would oblige the relevant members of the Group to contribute extra amounts to such pension funds. The trustees must consult the plan's actuary and principal employer before exercising this power. In practice, contribution rates are agreed between the Group and the trustees on actuarial advice, and are set for three year terms. The last such review was as at 31 March 2006.

The Board, senior management and their responsibilities

In this section we present our Board and senior management team, our governance processes and procedures, and our compliance with the codes and regulations to which we are committed. We also present details of Directors' remuneration in 2007.

The Board of Directors

David Webster Non-Executive Chairman*

Appointed Deputy Chairman and Senior Independent Director of InterContinental Hotels Group on the separation of Six Continents PLC in April 2003. Appointed Non-Executive Chairman on 1 January 2004. Also Non-Executive Chairman of Makinson Cowell Limited, a capital markets advisory firm, and a member of the Appeals Committee of the Panel on Takeovers and Mergers. Formerly Chairman of Safeway plc and a Non-Executive Director of Reed Elsevier PLC. Chairman of the Nomination Committee. Age 63.

Andrew Cosslett Chief Executive†

Appointed Chief Executive in February 2005, joining the Group from Cadbury Schweppes plc where he was most recently President, Europe, Middle East & Africa. During his career at Cadbury Schweppes he held a variety of senior regional management and marketing roles in the UK and Asia Pacific. Also has over 11 years' experience in brand marketing with Unilever. Non-Executive Chairman of Duchy Originals Limited. Age 52.

Richard Solomons Finance Director†

Qualified as a chartered accountant in 1985, followed by seven years in investment banking, based in London and New York. Joined the Group in 1992 and held a variety of senior finance and operational roles. Appointed Finance Director of the Hotels business in October 2002 in anticipation of the separation of Six Continents PLC in April 2003. Responsible for corporate and regional finance, Group financial control, strategy, investor relations, tax and treasury. Age 46.

Stevan Porter President, The Americas†

Previously 13 years with Hilton Corporation in a variety of senior management positions. Joined the Group in 2001 as Chief Operating Officer, The Americas. Subsequently, as President, The Americas, he was appointed an Executive Director in April 2003. Responsible for the business development and performance of all the hotel brands and properties in the Americas region. Additionally, has responsibility for the development and deployment of best practice in franchising, globally. US citizen. Age 53.

David Kappler Senior Independent Non-Executive Director#

Appointed a Director and Senior Independent Director in June 2004. Non-Executive Chairman of Premier Foods plc and a Non-Executive Director of Shire plc. A qualified accountant and formerly Chief Financial Officer of Cadbury Schweppes plc until April 2004. Also served as a Non-Executive Director of Camelot Group plc and of HMV Group plc. Chairman of the Audit Committee. Age 60.

Ralph Kugler Non-Executive Director•

Appointed a Director in April 2003, he is President, Unilever Home and Personal Care, and joined the boards of Unilever plc and Unilever NV in May 2005. Held a variety of senior positions globally for Unilever and has experience of regional management in Asia, Latin America and Europe, with over 25 years' experience of general management and brand marketing. Will become Chairman of the Remuneration Committee following the retirement of Sir David Prosser on 31 May 2008. Age 51.

Jennifer Laing Non-Executive Director•

Appointed a Director in August 2005, she was Associate Dean, External Relations at London Business School, until 2007. A fellow of the Marketing Society and of the Institute of Practitioners in Advertising, she has over 30 years' experience in advertising including 16 years with Saatchi & Saatchi, to whom she sold her own agency. Also serves as a Non-Executive Director of Hudson Highland Group Inc., a US human resources company. Age 60.

Robert C Larson Non-Executive Director‡

Appointed a Director in April 2003, he is a Managing Director of Lazard Alternative Investments LLC and Chairman of Lazard Real Estate Partners, LLC. Also Chairman of Larson Realty Group and Non-Executive Chairman of UDR, Inc. Served as a Non-Executive Director of Six Continents PLC (formerly Bass PLC) from 1996 until April 2003. Will retire from the Board on 31 December 2008. US citizen. Age 73.

Jonathan Linen Non-Executive Director‡

Appointed a Director in December 2005, he was formerly Vice Chairman of the American Express Company, having held a range of senior positions throughout his career of over 35 years with American Express. Also serves as a Non-Executive Director of Yum! Brands, Inc. and on a number of US Councils and advisory boards. US citizen. Age 64.

Sir David Prosser Non-Executive Director#

Qualified actuary with over 40 years' experience in financial services. Appointed a Director in April 2003, he was formerly Group Chief Executive of Legal & General Group Plc. Also a Non-Executive Director of Investec plc and of Investec Limited, a Director of the Royal Automobile Club Limited and of Epsom Downs Racecourse Limited. Chairman of the Remuneration Committee. Will retire from the Board on 31 May 2008. Age 63.

Ying Yeh Non-Executive Director‡

Appointed a Director in December 2007, she is Chairman and President, North Asia Region, President, Business Development, Asia Pacific Region and Vice President, Eastman Kodak Company. Also a Non-Executive Director of AB Volvo. Prior to joining Kodak in 1997 she was, for 15 years, a diplomat with the US Foreign Service in Hong Kong and Beijing. US citizen. Age 59.

Other members of the Executive Committee

Richard Winter **Executive Vice President, Corporate Services, General Counsel and Company Secretary†§**

Solicitor, qualified in 1973 with over 20 years' commercial law experience in private practice. Joined the Group in 1994 as Director of Group Legal and was appointed Company Secretary in 2000. Now responsible for corporate governance, corporate responsibility, risk management, insurance, internal audit, data privacy, company secretariat and Group legal matters. Age 58.

Tom Conophy **Executive Vice President and Chief Information Officer†§**

Has over 27 years' experience in the IT industry, including management and development of new technology solutions within the travel and hospitality business. Joined the Group in February 2006 from Starwood Hotels & Resorts International where he held the position of Executive Vice President & Chief Technology Officer. Responsible for global technology, including IT systems and information management throughout the Group. US citizen. Age 47.

Peter Gowers **President, Asia Pacific†§**

Joined the Group in 1999. Following appointments as Executive Vice President, Global Brand Services in 2003, and as Chief Marketing Officer in 2005, he was appointed President, Asia Pacific in November 2007. Now has responsibility for the business development and performance of all the hotel brands and properties in the Asia Pacific region. Has previous international experience in management consultancy, based in London and Singapore. Age 35.

Kirk Kinsell **President, EMEA†§**

Has over 25 years' experience in the hospitality industry, including senior franchise positions with Holiday Inn Corporation and ITT Sheraton, prior to joining the Group in 2002 as Senior Vice President, Chief Development Officer for the Americas region. Promoted to the role of President, EMEA and joined the Executive Committee in September 2007. Responsible for the business development and performance of all the hotel brands and properties in the EMEA region. US citizen. Age 53.

Tracy Robbins **Executive Vice President, Global Human Resources†§**

Has over 22 years' experience in line and HR roles in service industries. Joined the Group in December 2005 from Compass Group PLC, a world leading food service company, where she was Group Human Resources Leadership & Development Director. Previously Group HR Director for Forte Hotels Group. Responsible for global talent management and leadership development, reward strategy and implementation. Age 44.

Tom Seddon **Executive Vice President and Chief Marketing Officer †§**

Has over 15 years' experience in sales and marketing in the hospitality industry, including with IHG's predecessor parent companies from 1994 to 2004. Rejoined the Group in November 2007, from restaurant business SUBWAY® where he was responsible for worldwide sales and marketing activities. Has in the past held senior positions in management consulting and at Motorola. Has responsibility for worldwide brand management, reservations, e-commerce, global sales, relationship and distribution marketing and loyalty programmes. British and US citizen. Age 39.

The Board of Directors and other members of the Executive Committee together comprise the IHG Senior Leadership Team.

While the Directors have certain specific legal and regulatory duties and responsibilities, they work with and rely on the detailed knowledge and experience of all the Executive Committee members to secure the effective running of the business in support of IHG's core purpose to create Great Hotels Guests Love.

* A Non-Executive Director and a member of the Nomination Committee

† A member of the Executive Committee

An independent Non-Executive Director and a member of the Audit, Remuneration and Nomination Committees

• An independent Non-Executive Director and a member of the Audit and Nomination Committees

‡ An independent Non-Executive Director and a member of the Remuneration and Nomination Committees

§ Not a main Board Director

Directors' report

The Directors present their report for the financial year ended 31 December 2007.

Certain information required for disclosure in this report is provided in other appropriate sections of the full Annual Report and Financial Statements 2007. These include the Business Review, the Corporate Governance and Remuneration Reports, and the Group financial statements and these are, accordingly, incorporated into this Directors' Report by reference.

Activities of the Group

The principal activities of the Group are in hotels and resorts, with franchising, management, ownership and leasing interests in almost 4,000 establishments, with over 585,000 guest rooms in nearly 100 countries and territories around the world.

Business review

This Directors' Report should be read in conjunction with the Message from the Chairman and Chief Executive on pages 2 and 3, and the Business Review on pages 6 to 24. Taken together, these provide a fair review of the Group's strategy and business and a description of the principal risks and uncertainties it faces. The development and performance of the business during and at the end of the year are described, together with main trends, factors and likely developments, environmental and employee matters, and social and community issues.

Significant growth during the year

During 2007, the Group increased its development pipeline to 1,674 hotels (225,872 rooms), up by 35% and 43% respectively compared with 2006.

Return of shareholders' funds and share consolidation

In June 2007, the Company completed a £250m share repurchase programme and commenced a further £150m share repurchase programme which is well under way. Additionally, £709m was returned to shareholders on 15 June 2007 by way of a special interim dividend of 200p per share. This special dividend was accompanied by a consolidation of the Company's ordinary share capital on the basis of 47 new ordinary shares for every 56 existing ordinary shares, effective from 4 June 2007. The nominal value of the new shares is 13 $^{29}/_{47}$p per share.

Results and dividends

The profit on ordinary activities before taxation was £230m. In addition to the special dividend referred to above, an interim dividend of 5.7p per share was paid on 5 October 2007. The Directors are recommending a final dividend of 14.9p per share to be paid on 6 June 2008 to shareholders on the Register at close of business on 28 March 2008. Total dividends relating to the year are expected to amount to £770m.

Share repurchases

During the year, 7,724,844 ordinary shares were purchased and cancelled at a cost of £80,772,397 (excluding transaction costs) under IHG's planned share repurchase programmes. Of these shares, 2,237,264 were 11 $^{3}/_{7}$p shares in the capital of the Company, purchased at an average price of 1227p per share and 5,487,580 were 13 $^{29}/_{47}$p shares in the capital of the Company, purchased at an average price of 972p per share.

Shares purchased and cancelled represented approximately 2% of the issued share capital of the Company at the start of the year and were purchased and cancelled under the authorities granted by shareholders at an Extraordinary General Meeting held on 1 June 2006 and at the Annual and Extraordinary General Meetings held on 1 June 2007.

The share buyback authority remains in force until the Annual General Meeting in 2008, and a resolution to renew the authority will be put to shareholders at that Meeting.

Share plans

Under the terms of the separation of Six Continents PLC in 2003, holders of options under the Six Continents Executive Share Option Schemes were given the opportunity to exchange their Six Continents options for equivalent value new options over InterContinental Hotels Group PLC shares. At 31 December 2007, 2,696,883 such options were outstanding.

During 2007, 101,846 options granted to employees in December 2003 under IHG's Sharesave Plan matured. Of these, 99,678 were exercised during the year.

During 2007, 6,211,990 options granted in April 2004 under the IHG Executive Share Option Plan, vested in full. Of these, 3,428,514 had been exercised by 31 December 2007.

During 2007, conditional rights over 3,538,535 shares were awarded to employees under the Performance Restricted Share Plan (now called the Long Term Incentive Plan) and 1,694,173 shares were released to employees under the plan.

A number of employees participated in the Short Term Deferred Incentive Plan (now called the Annual Bonus Plan) during the year. Conditional rights over 675,515 shares were awarded to participants. 418,450 shares were released under the plan during the year. A number of participants are eligible to receive a bonus award in shares on 25 February 2008.

No options were granted under either the Executive Share Option Plan or the Sharesave Plan during the year. Neither the Hotels Group Share Incentive Plan nor the US Employee Stock Purchase Plan was operated during the year.

During the year, no awards or grants over shares were made that would be dilutive of the Company's ordinary share capital. Current policy is to settle all awards or grants under the Company's share plans with shares purchased in the market, with the exception of a number of options granted before 2005, which are yet to be exercised and settled with the issue of new shares.

Share capital

During the year, 3,512,783 new shares were issued under employee share plans and, following the share capital consolidation, the Company's share capital at 31 December 2007 consisted of 294,623,308 ordinary shares of 13 $^{29}/_{47}$p each. There are no special control rights or restrictions on transfer attaching to these ordinary shares.

The Company has not utilised the authority given by shareholders at any of its Annual General Meetings, to allot shares for cash without offering such shares to existing shareholders.

Substantial shareholdings

As at 18 February 2008, the Company had been notified by shareholders of the following substantial interests, representing 3% or more of its ordinary share capital:

Ellerman Corporation Limited 10%
Morgan Stanley Investment Management Limited 5.60%
Cedar Rock Capital Limited 5.07%
Legal & General Group Plc 4.09%
Lloyds TSB Group Plc 3.84%

Directors

Details of Directors who served on the Board during the year are shown on page 31. Details of the beneficial share interests of Directors who were on the Board at the year end are shown on page 43. No changes to these interests occurred between the year end and the date of this report.

During the year, IHG has maintained cover for its Directors and officers, and those of its subsidiary companies, under a directors' and officers' liability insurance policy, as permitted by the Companies Act 2006.

The Group has provided to all of its Directors, limited indemnities in respect of costs of defending claims against them, and third-party liabilities. These are all qualifying third-party indemnity provisions for the purposes of the Companies Act 2006 and are all currently in force.

There were no indemnity provisions relating to the UK pension plan, for the benefit of the Directors of the Company, in place during the period.

Employees

IHG directly employed an average of 10,366 people worldwide in the year ended 31 December 2007. When the managed and franchised estate is included, approximately 315,000 people work for IHG's brands across the globe.

Further information regarding the Group's employment policies, including its obligations under equal opportunities legislation, its commitment to employee communications and its approach towards staff development, can be found on pages 9 and 10 of the Business Review.

Charitable donations

During the year, the Group donated £626,000 in support of community initiatives and charitable causes. In addition to these cash contributions, employees are encouraged to give their time and skills to a variety of causes and IHG makes donations in kind, such as hotel accommodation. Taking these contributions into account, total donations in 2007 are estimated at £770,000.

Political donations

The Group made no political donations during the year and proposes to maintain its policy of not making such payments.

Financial risk management

The Group's financial risk management objectives and policies, including its use of financial instruments, are set out on pages 20 and 21 of the Business Review and in notes 21 and 22 to the Group financial statements on pages 73 to 76.

A number of IHG's banking arrangements are terminable upon a change of control of the Company.

Policy on payment of suppliers

InterContinental Hotels Group PLC is a holding company and has no trade creditors. Group companies aim to adhere to the payment terms agreed with suppliers. Payments are contingent on the supplier providing goods or services to the required standard, and purchasing is sometimes coordinated between Group undertakings.

Going concern

The financial statements which appear on pages 48 to 88 have been prepared on a going concern basis as, after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Auditors

The Directors who held office as at the date of approval of this report confirm that they have taken steps to make themselves aware of relevant audit information. None of the Directors is aware of any relevant audit information which has not been disclosed to the auditors.

Ernst & Young LLP have expressed their willingness to continue in office as auditors of the Company and their reappointment will be put to members at the Annual General Meeting.

Annual General Meeting

The Notice convening the Annual General Meeting to be held at 11.00am on Friday, 30 May 2008 is contained in a circular sent to shareholders with this Report.

By order of the Board

Richard Winter
Company Secretary
18 February 2008

Corporate governance

Combined Code compliance

The Board is committed to compliance with the principles set out in the Combined Code on Corporate Governance (the Code) and considers that the Company has complied with the Code requirements throughout the year ended 31 December 2007.

As InterContinental Hotels Group PLC's shares are also listed on the New York Stock Exchange (NYSE), the Company is subject to the rules of the NYSE, US securities laws and the rules of the Securities and Exchange Commission (SEC). As required by the SEC, a statement outlining the differences between the Company's corporate governance practices and those followed by US companies may be found on the Company's website at www.ihg.com/investors under corporate governance/ NYSE differences.

Control environment

The Board is responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. In order to discharge that responsibility, the Board has established the procedures necessary to apply the Code, including clear operating procedures, lines of responsibility and delegated authority.

Business performance is managed closely and, in particular, the Board, the Executive Committee and the Regional Operating Committees have established processes, as part of the normal good management of the business, to monitor:

- strategic plan achievement, through a comprehensive series of Group and regional strategic reviews;
- financial performance, within a comprehensive financial planning and accounting framework;
- capital investment performance, with detailed appraisal and authorisation processes; and
- risk management, (through an ongoing process, which has been in place up to the date of the accounts) providing assurance through reports from both the Head of Risk Management and the Head of Internal Audit that the significant risks faced by the Group are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.

In addition, the Audit Committee receives:

- reports from the Head of Internal Audit on the work carried out under the annual internal audit plan, including an annual report on the operation of the monitoring processes set out above to support the Board's annual statement on internal control; and
- reports from the external auditor.

The Board has conducted a review of the effectiveness of the system of internal control during the year ended 31 December 2007, taking account of any material developments which have taken place since the year end.

The review was carried out through the monitoring process set out above, which accords with the Turnbull Guidance. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and it must be recognised that it can only provide reasonable and not absolute assurance against material misstatement or loss. In that context, the review, in the opinion of the Board, did not indicate that the system was ineffective or unsatisfactory.

To comply with the Group's US obligations, arising from the Sarbanes-Oxley Act 2002, a project has been completed to identify, evaluate and test key financial controls across all our business units. This enabled appropriate representations regarding the effectiveness of internal financial controls to be made in the Company's Annual Report on Form 20-F for the December 2006 year end, in compliance with these US obligations, and will enable similar representations to be made in the Company's 2007 Annual Report on Form 20-F.

With regard to insurance against risk, it is not practicable to insure against every risk to the fullest extent. While the insurance market has eased in some areas, certain risks, eg natural catastrophe, remain difficult to insure both as to breadth and cost of coverage. In some cases external insurance is not available at all or not at an economic price. The Group regularly reviews both the type and amount of external insurance that it buys, bearing in mind the availability of such cover, its price and the likelihood and magnitude of the risks involved.

Board and Committee structure

To support the principles of good corporate governance, the Board and Committee structure operates as set out below.

The Board

The Board's current composition of the Non-Executive Chairman, three Executive and seven Non-Executive Directors meets the requirement of the Combined Code for at least half the Board, excluding the Chairman, to be independent Non-Executive Directors. In the Board's view, all of the current Non-Executive Directors are independent.

The Board is responsible to the shareholders for the strategic direction, development, performance and control of the Group. It therefore approves strategic plans and capital and revenue budgets. It reviews significant investment proposals and the performance of past investments and maintains an overview and control of the Group's operating and financial performance. It monitors the Group's overall system of internal controls, governance and compliance. The Board ensures that the necessary financial and human resources are in place for the Group to meet its objectives. The Board has established a schedule of matters which are reserved for its attention and decision. These may be found on the Company's website.

The Board adopts objective criteria for the appointment of Directors, and the roles of the Chairman and of the Chief Executive have been defined in writing and approved by the Board.

The Board has responsibility for the planned and progressive refreshing of the Board and its Committees. It establishes and regularly reviews its policy in both of these areas and it is the Nomination Committee's responsibility to evaluate formally the required skills, knowledge and experience of the Board, in a structured way.

Eight regular Board meetings are scheduled each year and further meetings are held as needed. During 2007, 11 Board meetings were held. These were attended by all Directors with the exception that Jennifer Laing and Sir David Prosser could not attend one meeting each. Ralph Kugler and Jonathan Linen could not attend two meetings each. Despite being unable to attend meetings, these Directors were provided with all the papers and information relevant to those meetings and were able to discuss matters arising with the Chairman and the Chief Executive.

It is unavoidable that, from time to time, particularly given the other corporate and international responsibilities of the very experienced people concerned, individual Non-Executive Directors may be unable to attend a Board meeting. Any such non-attendance is occasional and the Board is satisfied that all Directors remain committed to their roles and responsibilities.

All Directors are briefed by means of comprehensive papers in advance of Board meetings and by presentations at meetings. Their understanding of the Group's operations is enhanced by regular business presentations outside Board meetings and visits to the regions. At least two Board meetings a year are held overseas.

Formal performance evaluations of the Board and the Directors were undertaken during 2007. An independent third-party facilitator assists in the performance evaluation in alternate years. The 2007 evaluation involved such external assistance.

The 2007 Board evaluation, including that of the Chairman and the Executive Directors, involved completion of comprehensive questionnaires and the Chairman having discussions with each Director individually. A number of areas for assessment had been identified in advance of these meetings, and these were used as a framework for the discussions.

Feedback was provided to the Board through a formal report and the findings were discussed. The Board concluded that it was operating in an effective manner but identified certain areas to which more emphasis might be given.

With regard to the performance of individual Directors, as part of the evaluation process, the Chairman held meetings with each Director and it was concluded that they continue to make an effective contribution to the work of the Board. All Directors are well prepared and informed concerning items to be considered by the Board, have a good understanding of the Group's businesses and retain a strong commitment to their roles.

During the year, the Non-Executive Directors met together without the Chairman present, under the chairmanship of the Senior Independent Director, to appraise the Chairman's performance. The outcome of this appraisal was positive.

The work and effectiveness during the year of the Audit Committee were also evaluated, and the results were reported to the Board. The performance of the Remuneration and Nomination Committees was also considered. These reviews concluded that each Committee was operating in an effective manner.

The following were Directors of the Company during the year:

	Position	Date of original appointment[1]
David Webster	Non-Executive Chairman	15.4.03
Andrew Cosslett	Chief Executive	3.2.05
Richard Solomons	Finance Director	10.2.03
Richard Hartman[2]	President, Europe, Middle East and Africa	15.4.03
Stevan Porter	President, The Americas	15.4.03
David Kappler	Non-Executive Director and Senior Independent Director	21.6.04
Ralph Kugler	Non-Executive Director	15.4.03
Jennifer Laing	Non-Executive Director	25.8.05
Robert C Larson	Non-Executive Director	15.4.03
Jonathan Linen	Non-Executive Director	1.12.05
Sir David Prosser	Non-Executive Director	15.4.03
Ying Yeh	Non-Executive Director	1.12.07

1 The capital reorganisation of the Group, effective on 27 June 2005, entailed the insertion of a new parent company of the Group. All Directors serving at that time signed new letters of appointment effective from that date. The dates shown above represent the original dates of appointment of each of the Directors to the Group's parent company.

2 Richard Hartman retired as a Director of the Company on 25 September 2007.

Current Directors' biographical details are set out on page 26 of this Report. These include their main external commitments.

On appointment, Non-Executive Directors participate in induction programmes designed to meet their individual needs and to introduce them to, and familiarise them with, the principal activities of the Group and with central and regional management. Ying Yeh, as a Non-Executive Director appointed during the year, has been invited and intends to participate in such a programme. Comprehensive induction programmes are also put in place for any Executive Director who may join the Group. These induction programmes accord with the guidelines referred to in the Combined Code. The updating of all Directors' skills and knowledge is a progressive exercise. This is accomplished at Board and strategy meetings, through presentations and visits to hotels and other business premises, and through contact with employees at all levels.

Chairman

David Webster was Non-Executive Chairman throughout the year. He is also Non-Executive Chairman of Makinson Cowell Limited. During 2007 he became a member of the Appeals Committee of the Panel on Takeovers and Mergers.

The Chairman has responsibility for ensuring the efficient operation of the Board and its Committees, for seeing that corporate governance matters are addressed, and for representing the Group externally and communicating particularly with shareholders. He also ensures that Directors receive a full, formal and tailored induction to the Group and its businesses and that all Directors are fully informed of relevant matters, working closely with the Chief Executive and the Company Secretary. The Chairman also meets with the Non-Executive Directors, without Executive Directors present.

Chief Executive

Andrew Cosslett was Chief Executive throughout the year. He has responsibility to recommend to the Board and to implement the Group's strategic objectives. He is responsible for the executive management of the Group. Andrew Cosslett is Non-Executive Chairman of Duchy Originals Limited. He receives no remuneration for this role. The Board is satisfied that this additional commitment has no adverse impact on the successful fulfilment of his duties to IHG.

Senior Independent Director

David Kappler was Senior Independent Director throughout the year. His responsibilities include being available to liaise with shareholders who have issues to raise and leading the performance evaluation of the Chairman.

Non-Executive Directors

A team of experienced independent Non-Executive Directors represents a strong source of advice and judgement. There are currently seven such Directors, in addition to the Non-Executive Chairman, each of whom has significant external commercial experience. The Non-Executive Directors, including the Chairman, meet during the year to consider the Group's business and management.

Robert C Larson was first appointed to the Board of the Group's predecessor parent company, Bass PLC, in 1996. He may therefore be regarded as having served for over nine years as a Director. The Combined Code requires such Directors to be subject to rigorous performance review, and to be subject to election annually. The formal performance evaluation referred to above has confirmed Mr Larson's valuable contribution during 2007 and he is seeking re-election by shareholders at the 2008 Annual General Meeting. The transformed structure of the Group, and of the parent company Board, since 1996, have ensured that the length of Mr Larson's service has no bearing on his independence. Mr Larson will be retiring from the Board on 31 December 2008.

Non-Executive Directors have the opportunity of continuing professional development during the year and of gaining further insight into the Group's business. During 2007, visits to operating premises, including hotels across the brand portfolio, were undertaken. In addition, the training requirements of the Non-Executive Directors are kept under review.

Company Secretary

All Directors have access to the advice and services of the Company Secretary, Richard Winter. His responsibilities include ensuring good information flows to the Board and its Committees and between senior management and the Non-Executive Directors. He facilitates the induction of Directors, the regular updating and refreshing of their skills and knowledge, and he assists them in fulfilling their duties and responsibilities. Through the Chairman, he is responsible for advising the Board on corporate governance and generally for keeping the Board up to date on all legal, regulatory and other developments. He also has responsibility for developing the Group's position on corporate responsibility. The Company Secretary acts as secretary to each of the main Board Committees.

Committees

Each Committee of the Board has written terms of reference which have been approved by the Board and which are subject to review every year.

Audit Committee

The Audit Committee is chaired by David Kappler who has significant recent and relevant financial experience and is the Committee's financial expert. Throughout 2007, the other Committee members were Sir David Prosser, Ralph Kugler and Jennifer Laing. The Committee is scheduled to meet at least four times a year. The Committee met six times in the year. These meetings were attended by all Committee members, with the exception that Jennifer Laing and Ralph Kugler could not attend one meeting each. The Audit Committee's role is described on page 35.

Remuneration Committee

The Remuneration Committee, chaired by Sir David Prosser, also comprises the following Non-Executive Directors: David Kappler, Robert C Larson, Jonathan Linen and, from 1 December 2007, Ying Yeh. It meets at least three times a year. Its role is described on page 36. The Committee met six times during the year. All Directors who were Committee members throughout the year attended all these meetings. Ying Yeh attended the meeting held in December 2007 following her appointment.

Nomination Committee

The Nomination Committee comprises any three Non-Executive Directors although, where possible, all Non-Executive Directors are present. It is chaired by the Chairman of the Company. Its terms of reference reflect the principal duties proposed as good practice and referred to in the Combined Code. The Committee nominates, for approval by the Board, candidates for appointment to the Board. The Committee generally engages external consultants to advise on candidates for Board appointments and did so in connection with the appointment of Ying Yeh. Candidate profiles and objective selection criteria are prepared in advance of any engagements. The Committee also has responsibility for succession planning and assists in identifying and developing the role of the Senior Independent Director. The Committee met seven times during the year. Jennifer Laing and Jonathan Linen were unable to attend one meeting each. Ralph Kugler was unable to attend two meetings.

Executive Committee

This Committee is chaired by the Chief Executive. It consists of the Executive Directors and senior executives from the Group and the regions and usually meets monthly. Its role is to consider and manage a range of important strategic and business issues facing the Group. It is responsible for monitoring the performance of the regional Hotels businesses. It is authorised to approve capital and revenue investment within levels agreed by the Board. It reviews and recommends to the Board the most significant investment proposals.

Disclosure Committee

The Disclosure Committee, chaired by the Group's Financial Controller, and comprising the Company Secretary and other senior executives, reports to the Chief Executive and the Finance Director, and to the Audit Committee. Its duties include ensuring that information required to be disclosed in reports pursuant to UK and US accounting, statutory or listing requirements, fairly represents the Group's position in all material respects.

General Purposes Committee

The General Purposes Committee comprises any one Executive Committee member together with a senior officer from an agreed and restricted list of senior executives. It is always chaired by an Executive Committee member. It attends to business of a routine nature and to the administration of matters, the principles of which have been agreed previously by the Board or an appropriate Committee.

Election and re-election of Directors

The Company's Articles provide that only those Directors who have not been subject to election by shareholders within the last three years, need retire and stand for re-election at the next Annual General Meeting. In 2008, three Directors fall into this category. Therefore Andrew Cosslett, David Kappler and Ralph Kugler will retire by rotation and offer themselves for re-election at the Annual General Meeting on 30 May 2008.

In addition, Robert C Larson, in accordance with the provisions of the Combined Code, is subject to annual retirement and re-election, if he wishes to continue to serve as a Director. Mr Larson has expressed his wish to continue to serve as a Director until his planned retirement on 31 December 2008 and a resolution to propose his re-election will therefore be put to the Annual General Meeting.

Ying Yeh, having been appointed as a Director since the last Annual General Meeting, will also retire and stand for election at the next Annual General Meeting.

The Notice of Annual General Meeting, sent to shareholders with this Report, provides further information about the Directors standing for election and re-election. Information on Executive Directors' service contracts is set out on page 39. The Non-Executive Chairman and the seven independent Non-Executive Directors have letters of appointment.

Independent advice

There is an agreed procedure by which members of the Board may take independent professional advice in the furtherance of their duties and they have access to the advice and services of the Company Secretary.

Shareholder relations

The Group reports formally to shareholders twice a year when its half-year and full-year results are announced. The Chief Executive and the Finance Director give presentations on these results to institutional investors, analysts and the media. Telephone dial-in facilities and live audio webcasts enable access to these presentations for all shareholders. In addition, there are telephone conferences after the release of the first and third quarter results. The data used in these presentations and conferences may be found at www.ihg.com/investors under financial library/presentations.

IHG also has a programme of meetings throughout the year with its major institutional shareholders, which provides an opportunity to discuss, using publicly available information, the progress of the business, its performance, plans and objectives. The Chairman, the Senior Independent Director and other Non-Executive Directors are available to meet with major shareholders to understand their issues and concerns and to discuss governance and strategy. Any new Director is available for meetings with major shareholders as a matter of course.

Additionally, the Annual General Meeting provides a useful interface with private shareholders, many of whom are also customers. The Chairmen of the Audit, Remuneration and Nomination Committees are available at the Annual General Meeting to answer questions. Information about the Group is maintained and available to shareholders through the website.

A formal external review of shareholder opinion is presented to the Board on an annual basis and both the Executive Committee and the Board receive regular updates on shareholder relations activities.

Further information

The terms of reference of all the Committees were reviewed during the year and it was confirmed that they continue to reflect best practice. Main Committee terms of reference are available on the Company's website www.ihg.com/investors under corporate governance/committees or from the Company Secretary's office on request. The terms and conditions of appointment of Non-Executive Directors are also available on request.

Richard Winter
Company Secretary
18 February 2008

Audit Committee report

The Audit Committee assists the Board in meeting its responsibilities in relation to the integrity of the Group's financial statements and associated announcements, the adequacy of internal control and risk management systems and the appointment and work of the internal and external auditors. The role of the Audit Committee is summarised below and in full in its terms of reference, a copy of which is available on the Company's website or in writing on request.

The Committee's composition, and the attendance of its members, all of whom served throughout 2007, are set out on page 32.

The Committee's Chairman and financial expert, David Kappler, is a chartered management accountant and until April 2004 was Chief Financial Officer of Cadbury Schweppes plc. He also chairs the Audit Committee of another UK FTSE 100 company.

The Committee's principal responsibilities are to:

- review the Group's public statements on internal control and corporate governance compliance prior to their consideration by the Board;
- review the Group's processes for detecting and addressing fraud, misconduct and control weaknesses and to consider the response to any such occurrence, including overseeing the process enabling the anonymous submission of concerns;
- review reports from management, internal audit and external audit concerning the effectiveness of internal control, financial reporting and risk management processes;
- review with management and the external auditor any financial statements required under UK or US legislation before submission to the Board;
- establish, review and maintain the role and effectiveness of the internal audit function, including overseeing the appointment of the Head of Internal Audit;
- assume responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the external auditor, including review of the external audit, its cost and effectiveness;
- pre-approve non-audit work to be carried out by the external auditor, and the fees to be paid for that work, along with the monitoring of the external auditor's independence; and
- oversee the Group's Code of Ethics and Business Conduct and associated procedures for monitoring adherence.

The Committee discharges its responsibilities through a series of Audit Committee meetings during the year, at which detailed reports are presented for review. The Committee commissions reports, either from external advisers, the Head of Internal Audit, or Group management, after consideration of the major risks to the Group or in response to developing issues. The external auditor attends its meetings as does the Head of Internal Audit, both of whom have the opportunity to meet privately with the Committee, in the absence of Group management, at the conclusion of each meeting.

All proposals for the provision of non-audit services by the external auditor are pre-approved by the Audit Committee or its delegated member, the overriding consideration being to ensure that the provision of non-audit services does not impact the external auditor's independence and objectivity.

During the year, the Committee's deliberations included the following matters:

- quarterly, interim and full-year financial results. These public financial statements are reviewed by the Committee in advance of their consideration by the Board. Adequate time is allowed between the Committee's review and the Board's approval for any actions or further work requested by the Committee to be completed;
- the scope and cost of the external audit;
- any non-audit work carried out by the Group's external auditor (and trends in the non-audit fees) in accordance with the Committee's policy to ensure the safeguarding of audit independence and objectivity;
- the external auditor's quarterly, interim and full-year reports;
- the effectiveness of the external auditor and consideration of their objectivity, independence and reappointment;
- the scope of the annual internal audit plan, the internal audit department's approach to delivering assurance, its resourcing and the results of its reviews;
- the effectiveness of the internal audit function and its compliance with professional standards;
- any major changes in the Group's internal controls;
- the co-ordination of the internal and external audit functions;
- the Group's framework for the identification and control of major risks, and the results of the Group's risk review process;
- corporate governance developments in the UK and the US;
- reports from the Head of Group Risk Management on the activities of that function;
- consideration of the results of the Group's tangible asset impairment review;
- overseeing the Group's Sarbanes-Oxley Act compliance work;
- the disclosure controls and procedures operated by the Group, with reference to periodic reports from the Chairman of the Disclosure Committee;
- reviewing the Group's approach to managing tax risk;
- consideration of the Group's treasury objectives and policies;
- a review of changes to the Group's policy on delegation of authority;
- a review of the funding position and governance of the Group's main pension plan;
- periodic reports on any significant incidents of fraud or any allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures;
- any material litigation involving the Group; and
- consideration of the effectiveness of the Audit Committee and the continuing appropriateness of its terms of reference.

David Kappler
Chairman of the Audit Committee
18 February 2008

Remuneration report

This report has been prepared by the Remuneration Committee and has been approved by the Board. It complies with Schedule 7A to the Companies Act 1985, which incorporates the Directors' Remuneration Report Regulations 2002, and also with the Combined Code applicable for the 2007 financial year. This report will be put to shareholders for approval at the forthcoming Annual General Meeting.

1 The Remuneration Committee

During the year, the Committee comprised the following Non-Executive Directors:

Sir David Prosser – Chairman
David Kappler
Robert C Larson
Jonathan Linen
Ying Yeh (from 1 December 2007)

Sir David Prosser will retire from the Board and as Chairman of the Committee on 31 May 2008. He will be succeeded as Chairman by Ralph Kugler, who previously served on the Committee from 2003 until May 2005.

No member of the Committee has any personal financial interest, other than as a shareholder, in the matters to be decided by the Committee. The Committee met six times in the year. All meetings were fully attended by Committee members.

The Committee advises the Board on overall remuneration policy. The Committee also determines, on behalf of the Board, and with the benefit of advice from external consultants and members of the Human Resources department, the remuneration of the Executive Directors and other members of the Executive Committee.

During 2007, with the assistance of PricewaterhouseCoopers LLP (PWC), the Committee also undertook a review of executive remuneration arrangements and, as a consequence of this, made some changes which are described later in this report.

Those who provided material advice or services to the Committee during the year were:

David Webster – Chairman
Andrew Cosslett – Chief Executive
Tracy Robbins – Executive Vice President, Global Human Resources
Lori Gaytan – Senior Vice President, Global Human Resources
Linklaters
Towers Perrin
PricewaterhouseCoopers LLP

The Executive Vice President, Global Human Resources has direct access to the Chairman of the Committee. Ms Robbins and Ms Gaytan, who are human resource professionals and employees, advised the Committee on all aspects of the Group's reward policies and structures. PWC advised the Committee on remuneration issues, having been formally appointed by the Committee in May 2007. PWC also provided additional services to IHG with regard to employer and employee tax compliance processes for expatriate employees and on tax withholding obligations in relation to employee share plans. Towers Perrin, an external consultancy, also advised the Committee on reward structures and levels applicable in the markets relevant to the Group. Towers Perrin did not provide any other services to the Group. Linklaters provided other legal services to the Group.

Ms Robbins and Ms Gaytan, Linklaters and Towers Perrin were originally appointed by the Group. PWC were appointed by the Committee. The terms of engagement for PWC and Towers Perrin are available from the Company Secretary's office on request.

2 Policy on remuneration of Executive Directors and senior executives

The following policy has applied throughout the year and, except where stated, will apply in future years, subject to regular review.

2.1 Total level of remuneration

The Committee aims to ensure that overall remuneration is offered which:

- attracts high-quality executives in an environment where compensation levels are based on global market practice;
- provides appropriate retention strength against loss of key executives;
- drives aligned focus and attention to key business initiatives and appropriately rewards their achievement;
- supports equitable treatment between members of the same executive team; and
- facilitates global assignments and relocation.

The Committee is aware that, as its primary listing is on the London Stock Exchange, IHG's incentive arrangements may be expected to recognise UK investor guidelines. However, given the global nature of the Hotels business, an appropriate balance needs to be drawn in the design of relevant remuneration between domestic and international expectations.

2.2 Key developments

During 2007, the Committee undertook a major review of the executive remuneration structure. The purpose of the review was to ensure that executive remuneration arrangements are simple, relevant to participants and easily understood.

The review resulted in two main amendments to the executive incentives:

- restructuring of the Short Term Incentive Plan and the Short Term Deferred Incentive Plan into a single plan, renamed the Annual Bonus Plan; and
- a change to the Total Shareholder Return (TSR) performance measure linked to the Performance Restricted Share Plan, which has been renamed the Long Term Incentive Plan.

Further details of the changes are included in the relevant sections below.

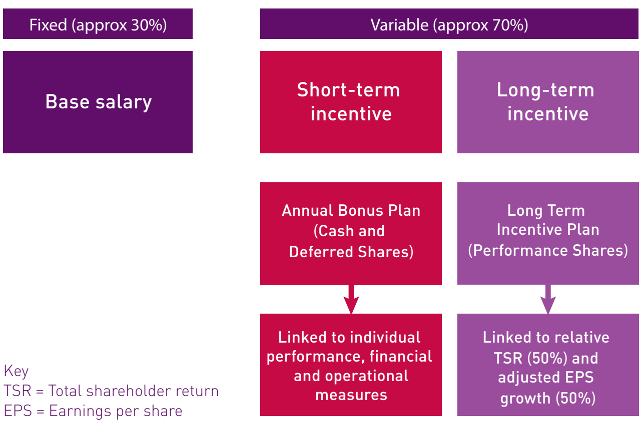
The Committee believes that the changes will enhance the effectiveness of the arrangements in support of the aims of attracting, retaining, and motivating high-quality executives in the highly competitive global environment in which the Company operates. The greater simplification introduced will make overall reward more transparent and motivational to executives. The changes to the performance measures are intended to generate a more robust alignment between reward and performance.

2.3 Main components

The components of overall reward place a strong emphasis on performance-related reward. The individual elements are designed to provide the appropriate balance between fixed remuneration and variable 'risk' reward, which is linked to the performance of both the Group and the individual. Group performance-related measures are chosen carefully to ensure a strong link between reward and true underlying financial performance, and emphasis is placed on particular areas requiring executive focus.

The normal policy for all Executive Directors is that, using 'target' or 'expected value' calculations, their performance-related incentives will equate to approximately 70% of total annual remuneration (excluding pensions and benefits).

A summary of the fixed and variable elements of executive remuneration is shown below:



The main components of remuneration are as follows:

Base salary and benefits

The salary for each Executive Director is reviewed annually and based on both individual performance and on the most recent relevant market information provided from independent professional sources on comparable salary levels. Internal relativities and salary levels in the wider employment market are also taken into account. Base salary is the only element of remuneration which is pensionable.

In addition, benefits are provided to Executive Directors in accordance with the policy applying to other executives in their geographic location.

In assessing levels of pay and benefits, IHG analyses those offered by different groups of comparator companies. These groups are chosen having regard to participants':

- size – turnover, profits and the number of people employed;
- diversity and complexity of businesses;
- geographical spread of businesses; and
- relevance to the hotel industry.

Annual bonus

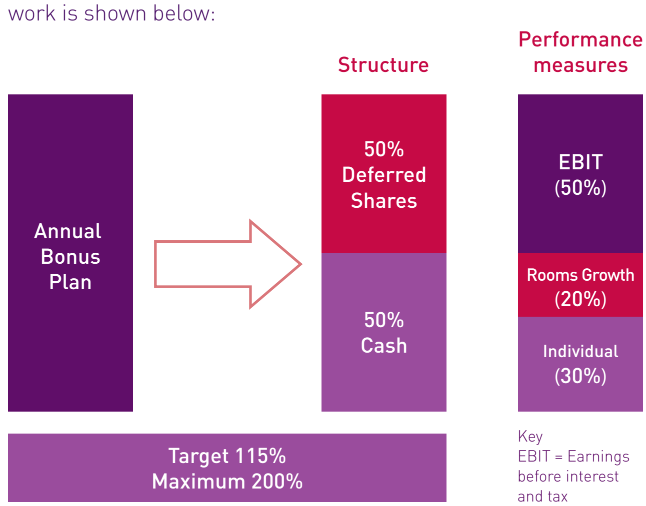
During 2007, and in previous years, the annual performance bonus consisted of two elements, the Short Term Incentive Plan (STI) and the Short Term Deferred Incentive Plan (STDIP). Both elements required the achievement of challenging performance goals before target bonus is payable.

Any bonus for 2007 earned under the STI arrangement is payable in cash in 2008, based on individual performance relative to personal objectives and leadership competencies.

100% of any bonus earned under the STDIP for 2007 is payable in 2008 in shares and deferred on a mandatory basis. Participants could also receive matching shares up to half of the total deferred amount. This matching award was taken into account when the Committee decided the basic level of payment under the STDIP. Therefore, there is no separate performance test governing the vesting of matching awards. Such awards are, however, conditional on the Directors' continued employment with the Group until the release date. The shares will normally be released at the end of the three years following deferral.

For awards to be made in respect of financial year 2008 onwards, the STI and STDIP will be combined, so that all Executive Directors will participate in the Annual Bonus Plan. Cash bonuses will no longer be payable under the STI. Existing powers within the STDIP, renamed the Annual Bonus Plan, will be used to pay both cash and share bonuses. The maximum bonus amount a participant can receive in any one year is 200% of salary. The target award level will be 115% of salary. Half of any bonus earned will be deferred in the form of shares for three years. Matching shares will no longer be awarded. The first cash and share awards will be made under the new arrangements in 2009, in respect of the 2008 financial year.

A summary of the way in which the new bonus arrangements work is shown below:



Awards under the Annual Bonus Plan will be linked to individual performance (30% of total award), EBIT (50% of total award) and net annual rooms additions (20% of total award). Individual performance is measured by the achievement of specific Key Performance Objectives that are linked directly to the Group's strategic priorities, and an assessment of performance against leadership competencies and behaviours.

Under the financial measure (EBIT), threshold payout is 90% of target performance, with maximum payout at 110% of target. If performance under the financial measure in any year is below threshold, payouts on all other measures are reduced by half.

Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) was formerly called the Performance Restricted Share Plan. It allows Executive Directors and eligible employees to receive share awards, subject to the satisfaction of a performance condition, set by the Committee, which is normally measured over a three-year period. Awards are normally made annually and, other than in exceptional circumstances, will not exceed three times annual salary for Executive Directors.

For the 2007/09 LTIP cycle, performance will be measured by reference to:

- the increase in IHG's Total Shareholder Return (TSR) over the performance period relative to eight* identified comparator companies: Accor, Choice, Marriott Hotels, Millennium & Copthorne, NH Hotels, Sol Melia, Starwood Hotels and Wyndham Worldwide; and
- growth in adjusted Earnings Per Share (EPS) over the period.

* Following the delisting of Hilton Hotels Corp. shares in October 2007.

In respect of TSR performance, 10% of the award will be released for the achievement of median performance and 50% of the award will be released for the achievement of first place only (previously first or second place). In respect of EPS performance, 10% of the award will be released if adjusted EPS growth is 10% per annum and 50% of the award will be released if adjusted EPS growth is 20% per annum or more.

Vesting between all stated points will continue to be on a straight-line basis. Awards under the LTIP lapse if the performance conditions are not met – there is no retesting.

For the 2008/10 cycle, the performance measures for the LTIP will be as follows:

- 50% of the award will be based on IHG's TSR relative to the Dow Jones World Hotels index. 10% of the award will be released for the achievement of growth equal to the index and 50% of the award will be released for the out-performance of the index by 8% per annum. Vesting between all stated points will continue to be on a straight-line basis; and
- the other 50% of the award will depend on growth in adjusted EPS over the period. 10% of the award will be released for threshold performance and 50% of the award will be released for superior performance. The Committee reviews the EPS targets each year and, at the time of this report, the target had not yet been determined. It will be disclosed when awards are made in due course. In setting the target, the Committee will take into account a range of factors, including IHG's strategic plans, City analysts' expectations for IHG's performance and for the industry as a whole, the historical performance of the industry and FTSE 100 market practice.

Executive share options

Since 2006, executive share options have not formed part of the Group's remuneration strategy. Details of prior share option grants are given in the table on page 43.

For options granted in 2005, a performance condition has to be met before options can be exercised. The Company's adjusted EPS over a three-year period must increase by at least nine percentage points over the increase in the UK Retail Price Index (RPI) for the same period for one-third of the options granted to vest; 12 percentage points over the increase in RPI for the same period for two-thirds of the options granted to vest; and 15 percentage points over the increase in RPI for the same period for the full award to vest.

Share capital

During 2007, no awards or grants over shares were made that would be dilutive of the Company's ordinary share capital. Current policy is to settle all awards or grants under any of the Company's share plans with shares purchased in the market, with the exception of a number of options granted before 2005, which are yet to be exercised and settled with the issue of new shares.

Share ownership

The Committee believes that share ownership by Executive Directors and senior executives strengthens the link between the individual's personal interest and that of the shareholders.

The Executive Directors are expected to hold all shares earned (net of any share sales required to meet personal tax liabilities) from the Group's remuneration plans while the value of their holding is less than twice their base salary or three times in the case of the Chief Executive.

2.4 Policy on external appointments

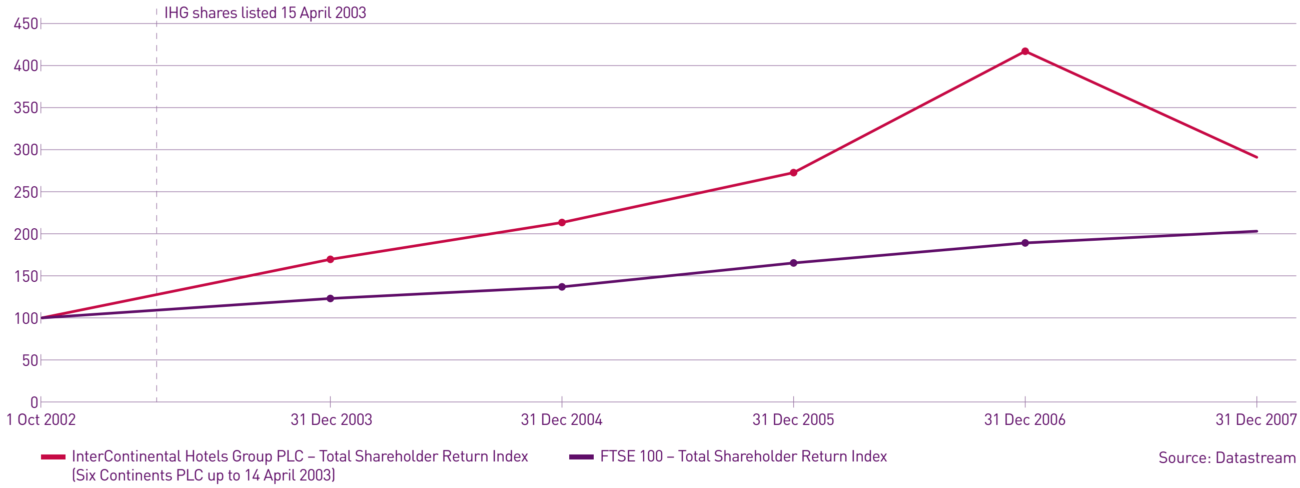
The Company recognises that its Directors may be invited to become Non-Executive Directors of other companies and that such duties can broaden experience and knowledge, and benefit the business. Executive Directors are, therefore, allowed to accept one non-executive appointment (not including positions where the Director is appointed as the Group's representative), subject to Board approval, as long as this is not likely to lead to a conflict of interest, and to retain the fees received.

Andrew Cosslett is Non-Executive Chairman of Duchy Originals Limited, for which he receives no remuneration.

2.5 Performance graph

Throughout the year, the Company has been a member of the FTSE 100 index. Accordingly, the Committee has determined that this is the most appropriate market index against which to test the Company's performance. The graph below shows the TSR performance of Six Continents PLC from 1 October 2002 up to 14 April 2003, and subsequently the performance of InterContinental Hotels Group PLC, assuming dividends are reinvested, compared with the TSR performance achieved by the FTSE 100 index.

Total Shareholder Return: InterContinental Hotels Group PLC v FTSE 100



Source: Datastream

2.6 Contracts of service

a) Policy

The Remuneration Committee's policy is for Executive Directors to have rolling contracts with a notice period of 12 months. Andrew Cosslett, Stevan Porter and Richard Solomons have service agreements with a notice period of 12 months. All new appointments are intended to have 12-month notice periods. However, on occasion, to complete an external recruitment successfully, a longer initial period reducing to 12 months may be used, following guidance in the Combined Code.

No provisions for compensation for termination following change of control, or for liquidated damages of any kind, are included in the current Directors' contracts. In the event of any early termination of an Executive Director's contract, the policy is to seek to minimise any liability.

Non-Executive Directors have letters of appointment. David Webster's appointment as Non-Executive Chairman, effective from 1 January 2004, is subject to six months' notice. The dates of appointment of the other Non-Executive Directors are set out on page 31.

All Directors' appointments and subsequent reappointments are subject to election and re-election by shareholders.

b) Directors' contracts

Director	Contract effective date[1]	Unexpired term/ notice period
Andrew Cosslett	03.02.05	12 months
Richard Hartman[2]	15.04.03	N/A
Stevan Porter	15.04.03	12 months
Richard Solomons	15.04.03	12 months

1 Each of the Executive Directors signed a letter of appointment, effective from completion of the June 2005 capital reorganisation of the Group on the same terms as their original service agreements.

2 Richard Hartman retired in September 2007, at which point his rolling contract with 12 months' notice expired.

2.7 Policy regarding pensions

Andrew Cosslett, Richard Solomons and other senior UK-based employees participate on the same basis in the executive section of the registered InterContinental Hotels UK Pension Plan and, if appropriate, the InterContinental Executive Top-Up Scheme. The latter is an unfunded arrangement, but with appropriate security provided via a fixed charge on a hotel asset. As an alternative to these arrangements, a cash allowance may be taken.

Stevan Porter and senior US-based executives participate in US retirement benefits plans.

With effect from 30 January 2006, Richard Hartman ceased to be an active member of the InterContinental Hotels UK Pension Plan and InterContinental Executive Top-Up Scheme, and from that date up to his retirement on 25 September 2007, he participated in the InterContinental Hotels Group International Savings and Retirement Plan.

Executives in other countries participate in these plans or local plans.

3 Policy on remuneration of Non-Executive Directors

Non-Executive Directors are paid a fee which is approved by the Board on the recommendation of the Executive Directors, having taken account of the fees paid in other companies of a similar complexity, and the skills and experience of the individual. Higher fees are payable to the Chairman of the Remuneration Committee and to the Senior Independent Director, who chairs the Audit Committee, reflecting the additional responsibilities of these roles.

Non-Executive Directors' fee levels were last established by the Board on 1 January 2007. Having taken into account the global nature, scale and complexity of the Group's business, and current competitive fee levels, the following annual fee rates apply:

Role	Fee
Chairman	£390,000
Senior Independent Director & Chairman of Audit Committee	£95,000
Chairman of Remuneration Committee	£80,000
Other Non-Executive Directors	£60,000

The information provided in the following pages of this report has been audited by Ernst & Young LLP.

4 Directors' emoluments

	Base salaries and fees £000	Performance payments[1] £000	Benefits[2] £000	Total emoluments excluding pensions: 1 Jan 2007 to 31 Dec 2007 £000	Total emoluments excluding pensions: 1 Jan 2006 to 31 Dec 2006 £000
Executive Directors					
Andrew Cosslett	732	519	25	**1,276**	1,268
Richard Hartman[3]	398	201	247	**846**	1,005
Stevan Porter[4]	416	253	8	**677**	726
Richard Solomons	468	285	18	**771**	806
Non-Executive Directors					
David Webster	390	–	2	**392**	354
David Kappler	95	–	–	**95**	80
Ralph Kugler[5]	60	–	–	**60**	50
Jennifer Laing	60	–	–	**60**	50
Robert C Larson	60	–	–	**60**	50
Jonathan Linen	60	–	–	**60**	50
Sir David Prosser	80	–	–	**80**	65
Sir Howard Stringer[6]	–	–	–	**–**	43
Ying Yeh[7]	5	–	–	**5**	–
Former Directors[8]	–	–	1	**1**	1
Total	**2,824**	**1,258**	**301**	**4,383**	**4,548**

1 Performance payments include bonus awards in cash in respect of participation in the Short Term Incentive Plan (STI) and the Short Term Deferred Incentive Plan (STDIP) but exclude bonus awards in deferred shares and any matching shares, details of which are set out in the STDIP table on page 41.

2 Benefits incorporate all tax assessable benefits arising from the individual's employment. For Messrs Cosslett, Hartman and Solomons, this relates in the main to the provision of a fully expensed company car and private healthcare cover. In addition, Mr Hartman received housing, child education and other expatriate benefits. For Stevan Porter, benefits relate in the main to private healthcare cover and financial counselling.

3 Richard Hartman retired as a Director on 25 September 2007.

4 Emoluments for Stevan Porter include £79,051 that was chargeable to UK income tax.

5 All fees due to Ralph Kugler were paid to Unilever.

6 Sir Howard Stringer resigned as a Director on 10 November 2006.

7 Ying Yeh was appointed as a Director on 1 December 2007.

8 Sir Ian Prosser retired as a Director on 31 December 2003. However, he had an ongoing healthcare benefit of £1,150 during the year.

5 Long-term reward

Short Term Deferred Incentive Plan (STDIP) – now called the Annual Bonus Plan

Messrs Cosslett, Hartman, Porter and Solomons participated in the STDIP during the year ended 31 December 2007, and are expected to receive an award on 25 February 2008. Directors' pre-tax interests during the year were:

Directors	STDIP shares held at 1 Jan 2007	STDIP shares awarded during the year 1 Jan 2007 to 31 Dec 2007	Award date	Market price per share at award	STDIP shares vested during the year 1 Jan 2007 to 31 Dec 2007	Vesting date	Market price per share at vesting	Value at vesting £	STDIP shares held at 31 Dec 2007	Planned vesting date	Value based on share price of 884.0p at 31 Dec 07 £
Andrew Cosslett	39,916[1]		1.4.05	617.5p	39,916	1.4.07	1260.0p	502,942	–		
	32,168[3]		8.3.06	853.67p	32,168	8.3.07	1239.6p	398,755	–		
	32,167[3,8]		8.3.06	853.67p					28,877	8.3.08	255,273
	32,168[3,8]		8.3.06	853.67p					28,878	8.3.09	255,282
		62,575[4,8,9]	26.2.07	1235p					55,870	26.2.10	493,891
Total									**113,625**		**1,004,446**
Richard Hartman	29,447[2]		16.3.05	653.67p	29,447	16.3.07	1210.5p	356,456	–		
	29,447[2]		16.3.05	653.67p					29,447	16.3.08	260,312
	19,714[3]		8.3.06	853.67p	19,714	8.3.07	1239.6p	244,375	–		
	19,714[3,8]		8.3.06	853.67p					17,698	8.3.08	156,451
	19,713[3,8]		8.3.06	853.67p					17,696	8.3.09	156,433
		51,281[5,9]	26.2.07	1235p					51,281	26.2.10	453,325
Total									**116,122**		**1,026,521**
Stevan Porter	26,978[2]		16.3.05	653.67p	26,978	16.3.07	1210.5p	326,569[10]	–		
	26,978[2]		16.3.05	653.67p					26,978	16.3.08	238,486
	20,643[3]		8.3.06	853.67p	20,643	8.3.07	1239.6p	255,891[10]	–		
	20,642[3,8]		8.3.06	853.67p					18,531	8.3.08	163,815
	20,642[3,8]		8.3.06	853.67p					18,530	8.3.09	163,806
		33,352[6,8,9]	26.2.07	1235p					29,778	26.2.10	263,238
Total									**93,817**		**829,345**
Richard Solomons	29,020[2]		16.3.05	653.67p	29,020	16.3.07	1210.5p	351,287	–		
	29,021[2]		16.3.05	653.67p					29,021	16.3.08	256,546
	20,563[3]		8.3.06	853.67p	20,563	8.3.07	1239.6p	254,899	–		
	20,562[3,8]		8.3.06	853.67p					18,459	8.3.08	163,178
	20,563[3,8]		8.3.06	853.67p					18,459	8.3.09	163,178
		40,048[7,8,9]	26.2.07	1235p					35,757	26.2.10	316,092
Total									**101,696**		**898,994**

1 This special award was made to Andrew Cosslett as part of his overall recruitment terms. The shares were to vest in equal portions on the first and second anniversary of the award date, subject to his continued employment until that time. The second half of the award vested on 1 April 2007.

2 This award was based on financial year 2004 performance where the performance measures were related to earnings per share (EPS), earnings before interest and tax (EBIT) and personal performance. Total shares held include matching shares.

3 This award was based on financial year 2005 performance where the performance measures were related to EPS, EBIT and personal performance. Total shares held include matching shares.

4 This award was based on financial year 2006 performance and the bonus target was 50% of base salary. Andrew Cosslett was awarded 50% for EPS performance and 42% for Group EBIT performance. Andrew Cosslett's total bonus was therefore 92% of his base salary. One matching share was awarded for every two bonus shares earned.

5 This award was based on financial year 2006 performance and the bonus target was 50% of base salary. Richard Hartman was awarded 50% for EPS performance and 34.3% for EMEA EBIT performance. Richard Hartman's total bonus was therefore 84.3% of his base salary. One matching share was awarded for every two bonus shares earned.

6 This award was based on financial year 2006 performance and the bonus target was 50% of base salary. Stevan Porter was awarded 50% for EPS performance and 33.8% for Americas EBIT performance. Stevan Porter's total bonus was therefore 83.8% of his base salary. One matching share was awarded for every two bonus shares earned.

7 This award was based on financial year 2006 performance and the bonus target was 50% of base salary. Richard Solomons was awarded 50% for EPS performance and 42% for Group EBIT performance. Richard Solomons' total bonus was therefore 92% of his base salary. One matching share was awarded for every two bonus shares earned.

8 A proportion of these share interests were in InterContinental Hotels Group PLC 11$\frac{3}{7}$p ordinary shares which were subject to the share consolidation effective from 4 June 2007. For every 56 existing InterContinental Hotels Group PLC shares held on 1 June 2007, shareholders received 47 new ordinary shares of 13 $\frac{29}{47}$p each and a special dividend of 200p per existing ordinary share. As a consequence, shares held at 31 December 2007 have been reduced accordingly.

9 Under the financial year 2006 STDIP, paid in 2007, 80% of the bonus award was paid in shares and deferred for a full three-year period. Participants could also defer the remaining 20% of bonus on the same terms.

10 The value of Stevan Porter's shares at vesting includes £67,953 that was chargeable to UK income tax.

Long Term Incentive Plan (LTIP) – previously called the Performance Restricted Share Plan

In 2007, there were three cycles in operation and one cycle which vested.

The awards made in respect of cycles ending on 31 December 2006, 2007, 2008 and 2009 and the maximum pre-tax number of ordinary shares due if performance targets are achieved in full are set out in the table below. In respect of the cycle ending on 31 December 2007, the Company finished in fourth place in the TSR group and achieved a relative cumulative annual rooms growth (CAGR) of 3.1%. Accordingly, 55.3% of the award will vest on 20 February 2008.

Directors	Maximum LTIP shares held at 1 Jan 2007	Maximum LTIP shares awarded during the year 1 Jan 2007 to 31 Dec 2007	Award date	Market price per share at award	LTIP shares vested during the year 1 Jan 2007 to 31 Dec 2007	Market price per share at vesting	Value at vesting £	Actual/ planned vesting date	Maximum LTIP shares held at 31 Dec 2007	Maximum value based on share price of 884.0p at 31 Dec 2007 £	Expected value based on share price of 884.0p at 31 Dec 2007 £
Andrew Cosslett	136,432[1]		1.4.05	617.5p	85,133	1249p	1,063,311	21.2.07	–		
	276,200[2]		29.6.05	706p	–			20.2.08	276,200	2,441,608	1,350,010[8]
	200,740[3]		3.4.06	941.5p	–			18.2.09	200,740	1,774,542	
		159,506[4]	2.4.07	1256p	–			17.2.10	159,506	1,410,034	
Total									**636,446**	**5,626,184**	
Richard Hartman	165,130[1]		24.6.04	549.5p	103,041	1249p	1,286,982	21.2.07	–		
	214,870[2]		29.6.05	706p	–			20.2.08	196,964[5]	1,741,162	962,863[8]
	146,110[3]		3.4.06	941.5p	–			18.2.09	85,230[5]	753,434	
		113,731[4]	2.4.07	1256p	–			17.2.10	28,432[5]	251,339	
Total									**310,626**	**2,745,935**	
Stevan Porter	142,290[1]		24.6.04	549.5p	88,788	1249p	1,108,962[6]	21.2.07	–		
	174,900[2]		29.6.05	706p	–			20.2.08	174,900	1,546,116	855,003[8]
	132,240[3]		3.4.06	941.5p	–			18.2.09	132,240	1,169,002	
		92,667[4]	2.4.07	1256p	–			17.2.10	92,667	819,177	
Total									**399,807**	**3,534,295**	
Richard Solomons	144,990[1]		24.6.04	549.5p	90,473	1249p	1,130,008	21.2.07	–		
	176,550[2]		29.6.05	706p	–			20.2.08	176,550	1,560,702	863,069[8]
	128,470[3]		3.4.06	941.5p	–			18.2.09	128,470	1,135,675	
		102,109[4]	2.4.07	1256p	–			17.2.10	102,109	902,644	
Total									**407,129**	**3,599,021**	
Former Directors											
Richard North	144,993[1,7]		24.6.04	549.5p	90,475	1249p	1,130,033	21.2.07	–		
Total									**–**		

1 This award was based on performance to 31 December 2006 where the performance measure related to both the Company's TSR against a group of eight other comparator companies and growth in return on capital employed (ROCE). The number of shares released was graded, according to a) where the Company finished in the TSR comparator group, with 50% of the award being released for first or second position and 10% of the award being released for fifth place; and b) growth in ROCE, with 50% of the award being released for 141.6% growth and 10% of the award being released for 70% growth. The Company finished in third place in the TSR group and achieved ROCE growth of 98.2%. Accordingly, 62.4% of the award vested on 21 February 2007.

2 This award is based on performance to 31 December 2007 where the performance measure relates to both the Company's TSR against a group of seven other comparator companies and the cumulative annual growth rate (CAGR) of rooms in the IHG system relative to a group of five other comparator companies. The number of shares released is graded, according to a) where the Company finished in the TSR comparator group, with 50% of the award being released for first or second position and 10% of the award being released for median position; and b) relative CAGR with 50% of the award being released for 3.4% (upper quartile) CAGR and 10% of the award being released for 2.4% (median) CAGR.

3 This award is based on performance to 31 December 2008 where the performance measure relates to both the Company's TSR against a group of eight other comparator companies and the relative CAGR of rooms in the IHG system.

4 This award is based on performance to 31 December 2009 where the performance measure relates to both the Company's TSR against a group of eight other comparator companies and the compound annual growth rate in earnings per share (EPS) over the performance period.

5 Richard Hartman's awards were pro-rated to reflect his contractual service during the applicable performance periods.

6 The value of Stevan Porter's shares at vesting includes £129,378 that was chargeable to UK income tax.

7 Richard North's award was pro-rated to reflect his contractual service during the applicable performance period.

8 The Company finished in fourth place in the TSR group and achieved CAGR of 3.1%. Accordingly, 55.3% of the award will vest on 20 February 2008.

Share options

Between 2003 and 2005, grants of options were made under the IHG Executive Share Option Plan. No executive share options have been granted since 2005. In 2003, a grant of options was made under the IHG all-employee Sharesave Plan.

	Ordinary shares under option						
Directors	Options held at 1 Jan 2007	Granted during the year	Lapsed during the year	Exercised during the year	Options held at 31 Dec 2007	Weighted average option price (p)	Option price (p)
Andrew Cosslett	157,300						
B					157,300		619.83
Total	**157,300**	**–**	**–**	**–**	**157,300**	**619.83**	
Richard Hartman	337,760						
				218,950			494.17
B					118,810		619.83
Total	**337,760**	**–**	**–**	**218,950**	**118,810**	**619.83**	
Stevan Porter	321,630						
A					225,260		494.17
B					96,370		619.83
Total	**321,630**	**–**	**–**	**–**	**321,630**	**531.82**	
Richard Solomons	334,639						
A					230,320		494.17
B					100,550		619.83
C					3,769		420.50
Total	**334,639**	**–**	**–**	**–**	**334,639**	**531.10**	

A Where options are exercisable at 31 December 2007. Executive share options granted in 2004 are exercisable up to April 2014.

B Where options are not yet exercisable at 31 December 2007. Executive share options granted in 2005 are exercisable up to April 2015. The performance condition relating to the 2005 grant of executive share options is set out on page 38.

C Sharesave options granted in 2003. These are exercisable between March and September 2009.

Option prices range from 420.50p to 619.83p per IHG share. The closing market value share price on 31 December 2007 was 884.00p and the range during the year was 873.50p to 1413.00p per share.

No serving Director exercised options during the year; therefore there is no disclosable gain by Directors in aggregate for the year ended 31 December 2007 (2006 £6,662,750).

Richard Hartman was a Director until his retirement on 25 September 2007. He subsequently exercised options at an option price of 494.17p per share. The market value share price on exercise was 911.78p per share.

6 Directors' shareholdings

	31 December 2007 InterContinental Hotels Group PLC ordinary shares of 13 29/47p[2]	1 January 2007 InterContinental Hotels Group PLC ordinary shares of 11 3/7p[1]
Executive Directors		
Andrew Cosslett	133,101	42,063
Stevan Porter	168,162	114,446
Richard Solomons	156,810	104,247
Non-Executive Directors		
David Kappler	1,400	1,669
Ralph Kugler	1,169	572
Jennifer Laing	1,404	875
Robert C Larson	10,269[3]	6,874[3]
Jonathan Linen	7,343[3]	8,750[3]
Sir David Prosser	2,402	2,863
David Webster	31,938	31,975
Ying Yeh	–	–

1 These share interests were in InterContinental Hotels Group PLC 11 3/7p ordinary shares prior to the share consolidation effective from 4 June 2007. For every 56 existing InterContinental Hotels Group PLC shares held on 1 June 2007, shareholders received 47 new ordinary shares of 13 29/47p each and 200p per existing ordinary share.

2 These shareholdings are all beneficial interests and include shares held by Directors' spouses and other connected persons. None of the Directors has a beneficial interest in the shares of any subsidiary.

3 Held in the form of American Depositary Receipts.

THE BOARD, SENIOR MANAGEMENT AND THEIR RESPONSIBILITIES

7 Directors' pensions

The following information relates to the pension arrangements provided for Messrs Cosslett, Hartman and Solomons under the executive section of the InterContinental Hotels UK Pension Plan (the IC Plan) and the unfunded InterContinental Executive Top-Up Scheme (ICETUS).

The executive section of the IC Plan is a funded, registered, final salary, occupational pension scheme. The main features applicable to the Executive Directors are: a normal pension age of 60; pension accrual of 1/30th of final pensionable salary for each year of pensionable service; life assurance cover of four times pensionable salary; pensions payable in the event of ill health; and spouses', partners' and dependants' pensions on death. When benefits would otherwise exceed a member's lifetime allowance under the post-April 2006 pensions regime, these benefits are limited in the IC Plan, but the balance is provided instead by ICETUS.

Richard Hartman, who reached the IC Plan normal pension age of 60 on 30 January 2006, ceased to be an active member of the IC Plan and ICETUS with effect from that date, and, up to his retirement on 25 September 2007, instead participated in the InterContinental Hotels Group International Savings and Retirement Plan (IS&RP), which is a Jersey-based defined contribution plan to which the Company contributes.

Stevan Porter has retirement benefits provided via the 401(k) Retirement Plan for employees of Six Continents Hotels Inc. (401(k)) and the Six Continents Hotels Inc. Deferred Compensation Plan (DCP).

The 401(k) is a tax qualified plan providing benefits on a defined contribution basis, with the member and the relevant company both contributing. The DCP is a non-tax qualified plan, providing benefits on a defined contribution basis, with the member and the relevant company both contributing.

Directors' pension benefits

Directors	Age at 31 Dec 2007	Directors' contributions in the year[1] £	Transfer value of accrued benefits 1 Jan 2007 £	Transfer value of accrued benefits **31 Dec 2007 £**	Increase/(decrease) in transfer value over the year, less Directors' contributions £	Increase/(decrease) in accrued pension[2] £ pa	Increase/(decrease) in accrued pension[3] £ pa	Accrued pension at 31 Dec 2007[4] £ pa
Andrew Cosslett	52	34,400	595,300	**1,184,200**	554,500	27,100	25,300	70,900
Richard Hartman	61	–	1,935,400	**1,812,600**	(122,800)	(19,300)	(23,300)	75,400[5]
Richard Solomons	46	22,000	1,470,500	**2,371,600**	879,100	24,900	18,700	168,700

1 Contributions paid in the year by the Directors under the terms of the plans. Contributions have been 5% of full pensionable salary.

2 The absolute increase or decrease in accrued pension during the year.

3 The increase or decrease in accrued pension during the year, excluding any increase for inflation, on the basis that increases or decreases to accrued pensions are applied at 1 October.

4 Accrued pension is that which would be paid annually on retirement at 60, based on service to 31 December 2007.

5 When Richard Hartman retired on 25 September 2007, his pension was £97,600 per annum pre-commutation. He took a tax-free cash sum of £385,400, leaving a residual pension of £75,400 per annum.

The figures shown in the above table relate to the final salary plans only. For defined contribution plans, the contributions made by and in respect of Stevan Porter during the year are:

	Director's contribution to DCP £	Director's contribution to 401(k) £
Stevan Porter	105,000	5,600

	Company contribution to DCP £	Company contribution to 401(k) £
Stevan Porter	74,700	4,500

The Company contributions made in respect of Richard Hartman to the IS&RP during the year were £159,300. He made no contributions.

By order of the Board

Richard Winter
Company Secretary
18 February 2008

Group financial statements

In this section we present the statement of Directors' responsibilities, the independent auditor's report and the consolidated financial statements of the Group for 2007.

Group financial statements

Notes to the Group financial statements

Statement of Directors' responsibilities

In relation to the Group financial statements

The following statement, which should be read in conjunction with the independent auditor's report set out opposite, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditor in relation to the Group financial statements.

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The Directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period.

The Directors consider that in preparing the Group financial statements on pages 48 to 88 inclusive, the Group has used appropriate accounting policies, applied in a consistent manner and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The Directors have responsibility for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of InterContinental Hotels Group PLC

In relation to the Group financial statements

We have audited the Group financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2007 which comprise the Group income statement, Group statement of recognised income and expense, Group cash flow statement, Group balance sheet, corporate information and accounting policies and the related notes 1 to 35. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2007 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group 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 Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information that is cross referred from the Business review, Directors and Employees sections of the Directors' Report.

In addition we report to you if, in our opinion we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not.

We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Highlights, Message from the Chairman and Chief Executive, Business Review, Directors' Report, Corporate Governance Statement, Audit Committee Report and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

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 Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Group 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 Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Ernst & Young LLP,
Registered auditor, London.
18 February 2008

GROUP INCOME STATEMENT

For the year ended 31 December 2007	Note	2007 Before exceptional items £m	2007 Exceptional items (note 5) £m	2007 Total £m	2006 Before exceptional items £m	2006 Exceptional items (note 5) £m	2006 Total £m
Revenue	2	883	–	883	786	–	786
Cost of sales		(411)	–	(411)	(355)	–	(355)
Administrative expenses		(188)	(7)	(195)	(180)	–	(180)
Other operating income and expenses		8	38	46	4	27	31
		292	31	323	255	27	282
Depreciation and amortisation	2	(55)	(1)	(56)	(55)	–	(55)
Operating profit	2	237	30	267	200	27	227
Financial income	6	9	–	9	26	–	26
Financial expenses	6	(54)	–	(54)	(37)	–	(37)
Profit before tax		192	30	222	189	27	216
Tax	7	(42)	30	(12)	(41)	94	53
Profit for the year from continuing operations		150	60	210	148	121	269
Profit for the year from discontinued operations	11	5	16	21	19	117	136
Profit for the year attributable to the equity holders of the parent		155	76	231	167	238	405
Earnings per ordinary share	9						
Continuing operations:							
Basic				65.6p			69.1p
Diluted				63.8p			67.4p
Adjusted		46.9p			38.0p		
Adjusted diluted		45.6p			37.1p		
Total operations:							
Basic				72.2p			104.1p
Diluted				70.2p			101.5p
Adjusted		48.4p			42.9p		
Adjusted diluted		47.1p			41.8p		

Notes on pages 52 to 88 form an integral part of these financial statements.

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2007	2007 £m	2006 £m
Income and expense recognised directly in equity		
Gains on valuation of available-for-sale assets	**4**	16
(Losses)/gains on cash flow hedges	**(1)**	1
Exchange differences on retranslation of foreign operations	**10**	(30)
Actuarial gains/(losses) on defined benefit pension plans	**12**	(2)
	25	(15)
Transfers to the income statement		
On cash flow hedges: interest payable	**(1)**	(1)
On disposal of foreign operations: gain on disposal of assets	**–**	4
On disposal of available-for-sale assets: other operating income and expenses	**(10)**	(14)
	(11)	(11)
Tax		
Tax on items above taken directly to or transferred from equity	**(3)**	4
Tax related to share schemes recognised directly in equity	**(2)**	26
	(5)	30
Net income recognised directly in equity	**9**	4
Profit for the year	**231**	405
Total recognised income and expense for the year attributable to the equity holders of the parent	**240**	409

Notes on pages 52 to 88 form an integral part of these financial statements.

GROUP FINANCIAL STATEMENTS

Group financial statements continued

GROUP CASH FLOW STATEMENT

For the year ended 31 December 2007	2007 £m	2006 £m
Profit for the year	**231**	405
Adjustments for:		
Net financial expense	**45**	11
Income tax charge/(credit)	**15**	(41)
Exceptional operating items before depreciation	**(31)**	(27)
Gain on disposal of assets, net of tax	**(16)**	(117)
Depreciation and amortisation	**58**	64
Equity-settled share-based cost, net of payments	**24**	14
Other non-cash items	**(2)**	–
Operating cash flow before movements in working capital	**324**	309
Increase in trade and other receivables	**(15)**	(31)
Increase in trade and other payables	**26**	10
Retirement benefit contributions, net of charge	**(33)**	–
Cash flow from operations	**302**	288
Interest paid	**(42)**	(33)
Interest received	**9**	24
Tax paid on operating activities	**(37)**	(43)
Net cash from operating activities	**232**	236
Cash flow from investing activities		
Purchases of property, plant and equipment	**(57)**	(87)
Purchases of intangible assets	**(20)**	(23)
Purchases of associates and other financial assets	**(16)**	(8)
Acquisition of subsidiary, net of cash acquired	**–**	(6)
Disposal of assets, net of costs and cash disposed of	**49**	620
Proceeds from associates and other financial assets	**57**	124
Tax paid on disposals	**(32)**	(6)
Net cash from investing activities	**(19)**	614
Cash flow from financing activities		
Proceeds from the issue of share capital	**16**	20
Purchase of own shares	**(81)**	(260)
Purchase of own shares by employee share trusts	**(69)**	(47)
Proceeds on release of own shares by employee share trusts	**10**	19
Dividends paid to shareholders	**(773)**	(561)
Dividends paid to minority interests	**–**	(1)
Increase/(decrease) in borrowings	**553**	(172)
Net cash from financing activities	**(344)**	(1,002)
Net movement in cash and cash equivalents in the year	**(131)**	(152)
Cash and cash equivalents at beginning of the year	**179**	324
Exchange rate effects	**4**	7
Cash and cash equivalents at end of the year	**52**	179

Notes on pages 52 to 88 form an integral part of these financial statements.

GROUP BALANCE SHEET

31 December 2007	Note	2007 £m	2006 £m
ASSETS			
Property, plant and equipment	10	**962**	997
Goodwill	12	**110**	109
Intangible assets	13	**167**	154
Investment in associates	14	**33**	32
Retirement benefit assets	24	**32**	–
Other financial assets	15	**93**	96
Total non-current assets		**1,397**	1,388
Inventories	16	**3**	3
Trade and other receivables	17	**235**	237
Current tax receivable		**54**	23
Cash and cash equivalents	18	**52**	179
Other financial assets	15	**9**	13
Total current assets		**353**	455
Non-current assets classified as held for sale	11	**57**	50
Total assets	2	**1,807**	1,893
LIABILITIES			
Loans and other borrowings	20	**(8)**	(10)
Trade and other payables	19	**(390)**	(402)
Current tax payable		**(212)**	(231)
Total current liabilities		**(610)**	(643)
Loans and other borrowings	20	**(869)**	(303)
Retirement benefit obligations	24	**(55)**	(71)
Trade and other payables	19	**(139)**	(109)
Deferred tax payable	26	**(82)**	(79)
Total non-current liabilities		**(1,145)**	(562)
Liabilities classified as held for sale	11	**(3)**	(2)
Total liabilities	2	**(1,758)**	(1,207)
Net assets		**49**	686
EQUITY			
Equity share capital	28	**81**	66
Capital redemption reserve	28	**5**	4
Shares held by employee share trusts	28	**(41)**	(17)
Other reserves	28	**(1,528)**	(1,528)
Unrealised gains and losses reserve	28	**19**	27
Currency translation reserve	28	**6**	(3)
Retained earnings	28	**1,504**	2,129
IHG shareholders' equity		**46**	678
Minority equity interest	29	**3**	8
Total equity		**49**	686

Signed on behalf of the Board

Richard Solomons
18 February 2008

Notes on pages 52 to 88 form an integral part of these financial statements.

GROUP FINANCIAL STATEMENTS

Corporate information and accounting policies

Corporate information

The consolidated financial statements of InterContinental Hotels Group PLC (the Group or IHG) for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Directors on 18 February 2008. InterContinental Hotels Group PLC (the Company) is incorporated in Great Britain and registered in England and Wales.

Summary of significant accounting policies

Basis of preparation

The consolidated financial statements are presented in sterling and all values are rounded to the nearest million (£m) except where otherwise indicated.

Statement of compliance

The consolidated financial statements of IHG have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985.

The Group has early adopted International Financial Reporting Interpretations Committee 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (IFRIC 14). IFRIC 14 provides guidance on assessing the limit in International Accounting Standard 19 'Employee Benefits' (IAS 19) on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. Under IFRIC 14, the Group has recognised retirement benefit assets of £32m on the balance sheet at 31 December 2007.

The Group has also adopted International Financial Reporting Standard 7 'Financial Instruments: Disclosures' (IFRS 7) for the first time in these financial statements. This is a disclosure standard only which has had no impact on the Group's results or net assets. The new disclosures are included throughout the financial statements.

Other new accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), becoming effective during the year, have not had a material impact on the Group's financial statements.

The principal accounting policies of the Group are set out below.

Basis of consolidation

The Group financial statements comprise the financial statements of the parent company and entities controlled by the Company. All inter-company balances and transactions have been eliminated.

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

Foreign currencies

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

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

Derivative financial instruments and hedging

Derivatives designated as hedging instruments are accounted for in line with the nature of the hedging arrangement. The Group's detailed accounting policies with respect to hedging instruments are set out in note 21. Documentation outlining the measurement and effectiveness of the hedging arrangement is maintained throughout the life of the hedge relationship. Any ineffective element of a hedge arrangement is recognised in financial income or expense.

Interest arising from currency swap agreements is taken to financial income or expense on a gross basis over the term of the relevant agreements. Interest arising from other currency derivatives and interest rate swaps is taken to financial income or expense on a net basis over the term of the agreement.

Foreign exchange gains and losses on currency instruments are recognised in financial income and expense unless they form part of effective hedge relationships.

The fair value of derivatives is calculated by discounting the expected future cash flows at prevailing interest rates.

Property, plant and equipment

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

Borrowing costs are not capitalised. Repairs and maintenance costs are expensed as incurred.

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

buildings – lesser of 50 years and unexpired term of lease; and

fixtures, fittings and equipment – 3 to 25 years.

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

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

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

Goodwill

Goodwill arises on consolidation and is recorded at cost, being the excess of the cost of acquisition over the fair value at the date of acquisition of the Group's share of identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment at least annually by comparing carrying values of cash-generating units with their recoverable amounts.

Intangible assets

Software

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

Management contracts

When assets are sold and a purchaser enters into a management or franchise contract with the Group, the Group capitalises as part of the gain or loss on disposal an estimate of the fair value of the contract entered into. The value of management contracts is amortised over the life of the contract which ranges from six to 50 years on a straight-line basis.

Other intangible assets

Amounts paid to hotel owners to secure management contracts and franchise agreements are capitalised and amortised over the shorter of the contracted period and 10 years on a straight-line basis.

Internally generated development costs are expensed unless forecast revenues exceed attributable forecast development costs, at which time they are capitalised and amortised over the life of the asset.

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

Associates

An associate is an entity over which the Group has the ability to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the entity.

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

Financial assets

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

Financial assets are tested for impairment at each balance sheet date. If an available-for-sale financial asset is impaired, the difference between original cost and fair value is transferred from equity to the income statement to the extent of any cumulative loss recorded in equity, with any excess charged directly to the income statement.

Financial liabilities

Financial liabilities are measured at amortised cost using the effective interest rate method. A financial liability is derecognised when the obligation under the liability expires, is discharged or cancelled.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Trade receivables

Trade receivables are recorded at their original amount less provision for impairment. It is the Group's policy to provide for 100% of the previous month's aged receivables balances which are more than 180 days past due. Adjustments to the policy may be made due to specific or exceptional circumstances when collection is no longer considered probable. The carrying amount of the receivable is reduced through the use of a provision account and movements in the provision are recognised in the income statement within cost of sales. When a previously provided trade receivable is uncollectable, it is written off against the provision.

Corporate information and accounting policies continued

Cash and cash equivalents
Cash comprises cash in hand and demand deposits.

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

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

Assets held for sale
Non-current assets and associated liabilities are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is highly probable.

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

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

Trade payables
Trade payables are non interest bearing and are stated at their nominal value.

Loyalty programme
The hotel loyalty programme, Priority Club Rewards, enables members to earn points, funded through hotel assessments, during each stay at an IHG hotel and redeem the points at a later date for free accommodation or other benefits. The future redemption liability is included in trade and other payables and is estimated using eventual redemption rates determined by actuarial methods and points values.

The Group pays interest to the loyalty programme on the accumulated cash received in advance of redemption of the points awarded.

Self insurance
The Group is self insured for various insurable risks including general liability, workers' compensation and employee medical and dental coverage. Insurance reserves include projected settlements for known and incurred but not reported claims. Projected settlements are estimated based on historical trends and actuarial data.

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that a payment will be made and a reliable estimate of the amount payable can be made. If the effect of the time value of money is material, the provision is discounted.

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

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

Retirement benefits
Defined contribution plans
Payments to defined contribution schemes are charged to the income statement as they fall due.

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

The service cost of providing pension benefits to employees for the year is charged to the income statement. The cost of making improvements to pensions is recognised in the income statement on a straight-line basis over the period during which any increase in benefits vests. To the extent that improvements in benefits vest immediately, the cost is recognised immediately as an expense.

Actuarial gains and losses may result from: differences between the expected return and the actual return on plan assets; differences between the actuarial assumptions underlying the plan liabilities and actual experience during the year; or changes in the actuarial assumptions used in the valuation of the plan liabilities. Actuarial gains and losses, and taxation thereon, are recognised in the Group statement of recognised income and expense.

Actuarial valuations are normally carried out every three years and are updated for material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the balance sheet date.

Taxes
Current tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities including interest. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax
Deferred tax assets and liabilities are recognised in respect of temporary differences between the tax base and carrying value of assets and liabilities, including accelerated capital allowances, unrelieved tax losses, unremitted profits from overseas where the Group does not control remittance, gains rolled over into replacement assets, gains on previously revalued properties and other short-term temporary differences.

Deferred tax assets are recognised to the extent that it is regarded as probable that the deductible temporary differences can be realised. The recoverability of all deferred tax assets is reassessed at each balance sheet date.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the asset or liability will be settled, based on rates enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is derived from the following sources: owned and leased properties; management fees; franchise fees and other revenues which are ancillary to the Group's operations.

Generally, revenue represents sales (excluding VAT and similar taxes) of goods and services, net of discounts, provided in the normal course of business and recognised when services have been rendered. The following is a description of the composition of revenues of the Group.

Owned and leased – primarily derived from hotel operations, including the rental of rooms and food and beverage sales from owned and leased hotels operated under the Group's brand names. Revenue is recognised when rooms are occupied and food and beverages are sold.

Management fees – earned from hotels managed by the Group, usually under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and an incentive fee, which is generally based on the hotel's profitability or cash flows. Revenue is recognised when earned and realised or realisable under the terms of the contract.

Franchise fees – received in connection with the license of the Group's brand names, usually under long-term contracts with the hotel owner. The Group charges franchise royalty fees as a percentage of room revenue. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

Share-based payments

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

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

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

The Group has taken advantage of the transitional provisions of IFRS 2 'Share-based Payments' in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

Leases

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

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

Disposal of non-current assets

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

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

Discontinued operations

Discontinued operations are those relating to hotels sold or those classified as held for sale when the results relate to a separate line of business, geographical area of operations, or where there is a co-ordinated plan to dispose of a separate line of business or geographical area of operations.

Exceptional items

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

Amounts that have previously been disclosed as special items have now been called exceptional items in accordance with market practice. There has been no change to the Group's accounting policy for identifying these items.

Use of accounting estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions and conditions.

The estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements are:

Impairment – the Group determines whether goodwill is impaired on an annual basis or more frequently if there are indicators of impairment. Other non-current assets, including property, plant and equipment, are tested for impairment if there are indicators of impairment. Impairment testing requires an estimate of future cash flows and the choice of a suitable discount rate and, in the case of hotels, an assessment of recoverable amount based on comparable market transactions.

Retirement and other post-employment benefits – the cost of defined benefit pension plans and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.

Tax – provisions for tax accruals require judgements on the interpretation of tax legislation, developments in tax case law and the potential outcomes of tax audits and appeals. In addition, deferred tax assets are recognised for unused tax attributes to the extent that it is probable that taxable profit will be available against which they can be utilised. Judgement is required as to the amount that can be recognised based on the likely amount and timing of future taxable profits, taking into account expected tax planning.

Loyalty programme – the future redemption liability included in trade and other payables is estimated using actuarial methods based on statistical formulae that project the timing of future point redemptions based on historical levels to give eventual redemption rates and points values.

Trade receivables – a provision for impairment of trade receivables is made on the basis of historical experience and other factors considered relevant by management.

Other – the Group also makes estimates and judgements in the valuation of management and franchise agreements acquired on asset disposals, the valuation of financial assets classified as available-for-sale, the outcome of legal proceedings and claims and in the valuation of share-based payment costs.

New standards and interpretations

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements. They have not been adopted early by the Group and the Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's reported income or net assets in the period of adoption.

IFRS 3R	Business Combinations Effective from 1 July 2009
IFRS 8	Operating Segments Effective from 1 January 2009
IAS 23	Borrowing Costs (Amendment) Effective from 1 January 2009
IAS 27R	Consolidated and Separate Financial Statements Effective from 1 July 2009
IFRIC 11	Group and Treasury Share Transactions Effective from 1 March 2007
IFRIC 13	Customer Loyalty Programmes Effective from 1 July 2008

Note: the effective dates are in respect of accounting periods beginning on or after the date.

Notes to the Group financial statements

1 EXCHANGE RATES

The results of foreign operations have been translated into sterling at the weighted average rates of exchange for the period. In the case of the US dollar, the translation rate is £1=$2.01 (2006 £1=$1.84). In the case of the euro, the translation rate is £1=€1.46 (2006 £1=€1.47).

Foreign currency denominated assets and liabilities have been translated into sterling at the rates of exchange on the balance sheet date. In the case of the US dollar, the translation rate is £1=$2.01 (2006 £1=$1.96). In the case of the euro, the translation rate is £1=€1.36 (2006 £1=€1.49).

2 SEGMENTAL INFORMATION

The primary segmental reporting format is determined to be three main geographical regions:

Americas;

Europe, Middle East and Africa (EMEA); and

Asia Pacific.

These, together with Central functions, form the principal format by which management is organised and makes operational decisions.

The Group further breaks each geographical region into three distinct business models which offer different growth, return, risk and reward opportunities:

Franchised
Where Group companies neither own nor manage the hotel, but license the use of a Group brand and provide access to reservation systems, loyalty schemes and know-how. The Group derives revenues from a brand royalty or licensing fee, based on a percentage of room revenue.

Managed
Where, in addition to licensing the use of a Group brand, a Group company manages the hotel for third party owners. The Group derives revenues from base and incentive management fees and provides the system infrastructure necessary for the hotel to operate. Management contract fees are generally a percentage of hotel revenue and may have an additional incentive fee linked to profitability or cash flow. The terms of these agreements vary, but are often long term (for example, 10 years or more). The Group's responsibilities under the management agreement typically include hiring, training and supervising the managers and employees that operate the hotels under the relevant brand standards. In order to gain access to central reservation systems, global and regional brand marketing and brand standards and procedures, owners are typically required to make a further contribution.

Owned and leased
Where a Group company both owns (or leases) and operates the hotel and, in the case of ownership, takes all the benefits and risks associated with ownership.

Segmental results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

2 SEGMENTAL INFORMATION (CONTINUED)

Year ended 31 December 2007	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Group £m
Revenue					
Owned and leased	128	121	73	–	322
Managed	78	84	49	–	211
Franchised	244	40	8	–	292
Central	–	–	–	58	58
Continuing operations	450	245	130	58	883
Discontinued operations – owned and leased	31	9	–	–	40
	481	**254**	**130**	**58**	**923**

	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Group £m
Segmental result					
Owned and leased	20	17	18	–	55
Managed	21	43	23	–	87
Franchised	212	29	3	–	244
Regional and central	(33)	(22)	(13)	(81)	(149)
Continuing operations	220	67	31	(81)	237
Discontinued operations – owned and leased	8	–	–	–	8
	228	67	31	(81)	245
Exceptional operating items	9	10	8	3	30
Operating profit	**237**	**77**	**39**	**(78)**	**275**

	Continuing £m	Discontinued £m	Group £m
Operating profit	267	8	275
Net finance costs	(45)	–	(45)
Profit before tax	222	8	230
Tax	(12)	(3)	(15)
Profit after tax	210	5	215
Gain on disposal of assets, net of tax	–	16	16
Profit for the year	**210**	**21**	**231**

2 SEGMENTAL INFORMATION (CONTINUED)

Year ended 31 December 2007	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Group £m
Assets and liabilities					
Segment assets	614	613	334	83	1,644
Non-current assets classified as held for sale	57	–	–	–	57
	671	613	334	83	1,701
Unallocated assets:					
Current tax receivable					54
Cash and cash equivalents					52
Total assets					**1,807**
Segment liabilities	(280)	(237)	(67)	–	(584)
Liabilities classified as held for sale	(3)	–	–	–	(3)
	(283)	(237)	(67)	–	(587)
Unallocated liabilities:					
Current tax payable					(212)
Deferred tax payable					(82)
Loans and other borrowings					(877)
Total liabilities					**(1,758)**

	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Group £m
Other segmental information					
Continuing operations:					
Capital expenditure[a]	29	20	20	23	92
Additions to:					
Property, plant and equipment	16	14	14	10	54
Intangible assets	4	5	3	13	25
Depreciation and amortisation[b]	16	18	11	11	56
Reversal of previously recorded impairment	–	–	3	–	3
Discontinued operations:					
Capital expenditure[a]	1	–	–	–	1
Depreciation and amortisation[b]	1	1	–	–	2

a Comprises purchases of property, plant and equipment, intangible assets and other financial assets and acquisitions of subsidiaries as included in the Group cash flow statement.

b Included in the £58m of depreciation and amortisation is £20m relating to administrative expenses and £38m relating to cost of sales.

Notes to the Group financial statements continued

2 SEGMENTAL INFORMATION (CONTINUED)

Year ended 31 December 2006	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Group £m
Revenue					
Owned and leased	104	92	71	–	267
Managed	77	71	36	–	184
Franchised	241	35	4	–	280
Central	–	–	–	55	55
Continuing operations	422	198	111	55	786
Discontinued operations – owned and leased	41	133	–	–	174
	463	331	111	55	960

	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Group £m
Segmental result					
Owned and leased	12	(4)	17	–	25
Managed	27	37	21	–	85
Franchised	208	24	3	–	235
Regional and central	(32)	(20)	(12)	(81)	(145)
Continuing operations	215	37	29	(81)	200
Discontinued operations – owned and leased	6	25	–	–	31
	221	62	29	(81)	231
Exceptional operating items	25	2	–	–	27
Operating profit	246	64	29	(81)	258

	Continuing £m	Discontinued £m	Group £m
Operating profit	227	31	258
Net finance costs	(11)	–	(11)
Profit before tax	216	31	247
Tax	53	(12)	41
Profit after tax	269	19	288
Gain on disposal of assets, net of tax	–	117	117
Profit for the year	269	136	405

2 SEGMENTAL INFORMATION (CONTINUED)

Year ended 31 December 2006	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Group £m
Assets and liabilities					
Segment assets	647	583	338	73	1,641
Non-current assets classified as held for sale	40	10	–	–	50
	687	593	338	73	1,691
Unallocated assets:					
Current tax receivable					23
Cash and cash equivalents					179
Total assets					1,893
Segment liabilities	(295)	(234)	(53)	–	(582)
Liabilities classified as held for sale	(2)	–	–	–	(2)
	(297)	(234)	(53)	–	(584)
Unallocated liabilities:					
Current tax payable					(231)
Deferred tax payable					(79)
Loans and other borrowings					(313)
Total liabilities					(1,207)

	Americas £m	EMEA £m	Asia Pacific £m	Central £m	Group £m
Other segmental information					
Continuing operations:					
Capital expenditure[a]	34	49	17	15	115
Additions to:					
Property, plant and equipment	116	53	9	4	182
Intangible assets	10	31	1	11	53
Depreciation and amortisation[b]	15	17	10	13	55
Reversal of previously recorded impairment	–	2	–	–	2
Discontinued operations:					
Capital expenditure[a]	1	8	–	–	9
Additions to property, plant and equipment	–	4	–	–	4
Depreciation and amortisation[b]	4	5	–	–	9
Impairment of assets held for sale	3	–	–	–	3

a Comprises purchases of property, plant and equipment, intangible assets and other financial assets and acquisitions of subsidiaries as included in the Group cash flow statement.

b Included in the £64m of depreciation and amortisation is £21m relating to administrative expenses and £43m relating to cost of sales.

Notes to the Group financial statements continued

3 STAFF COSTS AND DIRECTORS' EMOLUMENTS

	2007 £m	2006 £m
Staff		
Costs:		
Wages and salaries	**292**	301
Social security costs	**31**	38
Pension and other post-retirement benefits:		
Defined benefit plans (note 24)	**4**	6
Defined contribution plans	**12**	11
	339	356

	2007	2006
Average number of employees, including part-time employees:		
Americas	**3,761**	3,771
EMEA	**2,739**	4,437
Asia Pacific	**2,716**	2,225
Central	**1,150**	1,023
	10,366	11,456

	2007 £m	2006 £m
Directors' emoluments		
Base salaries, fees, performance payments and benefits	**4.4**	4.5
Gains on exercise of share options	**–**	6.7

More detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration Report on pages 36 to 44.

4 AUDITOR'S REMUNERATION PAID TO ERNST & YOUNG LLP

	2007 £m	2006 £m
Group audit fees	**0.8**	0.9
Audit fees in respect of subsidiaries	**1.3**	1.4
Tax fees	**0.4**	0.7
Fees in respect of reporting under Sarbanes Oxley Act	**0.6**	1.0
Interim review fees	**0.2**	0.2
Other services pursuant to legislation	**0.1**	0.1
Corporate finance fees	**–**	0.1
Other	**1.2**	0.8
	4.6	5.2

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

The Audit Committee has a process to ensure that any non-audit services do not compromise the independence and objectivity of the external auditor and that relevant UK and US professional and regulatory requirements are met. A number of criteria are applied when deciding whether pre-approval for such services should be given. These include the nature of the service, the level of fees and the practicality of appointing an alternative provider, having regard to the skills and experience required to supply the service effectively. Cumulative fees for audit and non-audit services are presented to the Audit Committee on a quarterly basis for review. The Audit Committee is responsible for monitoring adherence to the pre-approval policy.

5 EXCEPTIONAL ITEMS

	Note	2007 £m	2006 £m
Exceptional operating items*			
Gain on sale of associate investments**		11	–
Gain of sale of investment in FelCor Lodging Trust, Inc.**		–	25
Gain on sale of other financial assets**		18	–
Reversal of previously recorded impairment**		3	2
Office reorganisations	a	(2)	–
		30	27
Tax*			
Tax charge on exceptional operating items		–	(6)
Exceptional tax credit	b	30	100
		30	94
Gain on disposal of assets (note 11)			
Gain on disposal of assets		20	123
Tax charge		(4)	(6)
		16	117

* Relates to continuing operations.

** Included within other operating income and expenses.

The above items are treated as exceptional by reason of their size or nature.

a Profit on sale and leaseback of new head office less costs incurred to date on the office move and closure of the Group's Aylesbury facility. Costs will continue to be incurred during the first half of 2008. Costs of £7m are included in administrative expenses and £1m in depreciation and amortisation. Income of £6m is included in other operating income and expenses.

b The exceptional tax credit relates to the release of provisions which are exceptional by reason of their size or nature relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired, together with, in 2006, a credit in respect of previously unrecognised losses.

6 FINANCE COSTS

	2007 £m	2006 £m
Financial income		
Interest income	8	21
Fair value gains	1	5
	9	26
Financial expenses		
Interest expense	45	33
Finance charge payable under finance leases	9	4
	54	37

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

Included within interest expense is £10m (2006 £10m) payable to the Group's loyalty programme relating to interest on the accumulated balance of cash received in advance of the redemption of points awarded.

7 TAX

	2007 £m	2006 £m
Income tax		
UK corporation tax at 30% (2006 30%):		
Current period	23	16
Benefit of tax reliefs on which no deferred tax previously recognised	(1)	(10)
Adjustments in respect of prior periods	(16)	(4)
	6	2
Foreign tax:		
Current period	100	72
Benefit of tax reliefs on which no deferred tax previously recognised	(8)	(1)
Adjustments in respect of prior periods	(50)	(94)
	42	(23)
Total current tax	48	(21)
Deferred tax:		
Origination and reversal of temporary differences	(34)	27
Changes in tax rates	(2)	(4)
Adjustments to estimated recoverable deferred tax assets	3	(13)
Adjustments in respect of prior periods	4	(24)
Total deferred tax	(29)	(14)
Total income tax charge/(credit) on profit for the year	19	(35)
Further analysed as tax relating to:		
Profit before exceptional items	45	53
Exceptional items (note 5):		
Exceptional operating items	–	6
Exceptional tax credit*	(30)	(100)
Gain on disposal of assets	4	6
	19	(35)
The total tax charge/(credit) can be further analysed as relating to:		
Profit on continuing operations	12	(53)
Profit on discontinued operations	3	12
Gain on disposal of assets	4	6
	19	(35)

* Represents the release of provisions which are exceptional by reason of their size or nature relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired, together with, in 2006, a credit in respect of previously unrecognised losses.

	2007 %	2006 %
Reconciliation of tax charge/(credit) on total profit, including gain on disposal of assets		
UK corporation tax at standard rate	30.0	30.0
Permanent differences	5.6	3.7
Net effect of different rates of tax in overseas businesses	1.8	3.5
Effect of changes in tax rates	(1.0)	(1.0)
Benefit of tax reliefs on which no deferred tax previously recognised	(3.3)	(3.0)
Effect of adjustments to estimated recoverable deferred tax assets	1.3	(0.2)
Adjustment to tax charge in respect of prior periods	(11.0)	(6.9)
Other	0.4	0.4
Exceptional items and gain on disposal of assets	(16.3)	(36.1)
	7.5	(9.6)

Tax paid

Total tax paid during the year of £69m (2006 £49m) comprises £37m (2006 £43m) in respect of operating activities and £32m (2006 £6m) in respect of investing activities.

8 DIVIDENDS PAID AND PROPOSED

	2007 pence per share	2006 pence per share	2007 £m	2006 £m
Paid during the year:				
Final (declared in previous year)	**13.3**	10.7	**47**	46
Interim	**5.7**	5.1	**17**	18
Special interim	**200.0**	118.0	**709**	497
	219.0	133.8	**773**	561
Proposed for approval at the Annual General Meeting (not recognised as a liability at 31 December):				
Final	**14.9**	13.3	**44**	47

The proposed final dividend is payable on the shares in issue at 28 March 2008.

9 EARNINGS PER ORDINARY SHARE

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

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

On 1 June 2007, shareholders approved a share capital consolidation on the basis of 47 new ordinary shares for every 56 existing ordinary shares, together with a special dividend of 200p per existing ordinary share. The overall effect of the transaction was that of a share repurchase at fair value, therefore no adjustment has been made to comparative data.

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

	2007		2006	
	Continuing operations	Total	Continuing operations	Total
Basic earnings per share				
Profit available for equity holders (£m)	**210**	**231**	269	405
Basic weighted average number of ordinary shares (millions)	**320**	**320**	389	389
Basic earnings per share (pence)	**65.6**	**72.2**	69.1	104.1
Diluted earnings per share				
Profit available for equity holders (£m)	**210**	**231**	269	405
Diluted weighted average number of ordinary shares (millions)	**329**	**329**	399	399
Diluted earnings per share (pence)	**63.8**	**70.2**	67.4	101.5

	2007 millions	2006 millions
Diluted weighted average number of ordinary shares is calculated as:		
Basic weighted average number of ordinary shares	**320**	389
Dilutive potential ordinary shares – employee share options	**9**	10
	329	399

Notes to the Group financial statements continued

9 EARNINGS PER ORDINARY SHARE (CONTINUED)

	2007		2006	
	Continuing operations	**Total**	Continuing operations	Total
Adjusted earnings per share				
Profit available for equity holders (£m)	**210**	**231**	269	405
Less adjusting items (note 5):				
Exceptional operating items (£m)	**(30)**	**(30)**	(27)	(27)
Tax on exceptional operating items (£m)	**–**	**–**	6	6
Exceptional tax credit (£m)	**(30)**	**(30)**	(100)	(100)
Gain on disposal of assets, net of tax (£m)	**–**	**(16)**	–	(117)
Adjusted earnings (£m)	**150**	**155**	148	167
Basic weighted average number of ordinary shares (millions)	**320**	**320**	389	389
Adjusted earnings per share (pence)	**46.9**	**48.4**	38.0	42.9
Adjusted earnings (£m)	**150**	**155**	148	167
Diluted weighted average number of ordinary shares (millions)	**329**	**329**	399	399
Adjusted diluted earnings per share (pence)	**45.6**	**47.1**	37.1	41.8

10 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost			
At 1 January 2006	1,155	615	1,770
Additions	104	82	186
Transfers to non-current assets classified as held for sale	(363)	(118)	(481)
Disposals	(2)	(31)	(33)
Exchange and other adjustments	(73)	(42)	(115)
At 31 December 2006	821	506	1,327
Additions	5	49	54
Reclassifications	15	(20)	(5)
Net transfers to non-current assets classified as held for sale	(38)	(44)	(82)
Disposals	(7)	(19)	(26)
Exchange and other adjustments	3	3	6
At 31 December 2007	**799**	**475**	**1,274**
Depreciation			
At 1 January 2006	(101)	(313)	(414)
Provided	(7)	(41)	(48)
Transfers to non-current assets classified as held for sale	17	55	72
On disposals	2	28	30
Exchange and other adjustments	7	23	30
At 31 December 2006	(82)	(248)	(330)
Provided	(6)	(33)	(39)
Net transfers to non-current assets classified as held for sale	17	15	32
Reversal of impairment	–	3	3
On disposals	7	18	25
Exchange and other adjustments	–	(3)	(3)
At 31 December 2007	**(64)**	**(248)**	**(312)**
Net book value			
At 31 December 2007	**735**	**227**	**962**
At 31 December 2006	739	258	997
At 1 January 2006	1,054	302	1,356

At 31 December 2007, a previously recorded impairment charge of £3m was reversed following an impairment review of hotel assets based on current market conditions. No impairment charge, or subsequent reversal, was required at 31 December 2006.

The carrying value of land and buildings held under finance leases at 31 December 2007 was £104m (2006 £93m).

11 HELD FOR SALE AND DISCONTINUED OPERATIONS

During the year ended 31 December 2007, the Group sold three hotels (2006 32 hotels) and two associates (2006 nil), continuing the asset disposal programme commenced in 2003. An additional three hotels were classified as held for sale during the year, whilst one hotel previously classified as held for sale was reclassified as property, plant and equipment. At 31 December 2007, three hotels (2006 four hotels and two associates) were classified as held for sale.

At 31 December 2006, an impairment loss of £3m was recognised on the remeasurement of a property that was classified as held for sale. The loss, which reduced the carrying amount of the asset to fair value less costs to sell, was recognised in the income statement in gain on disposal of assets. Fair value was determined by an independent property valuation. No impairment losses have been recognised at 31 December 2007.

	2007 £m	2006 £m
Net assets of hotels sold		
Property, plant and equipment	35	648
Net working capital	1	(22)
Cash and cash equivalents	–	31
Loans and other borrowings	–	(10)
Deferred tax	–	(117)
Minority equity interest	(6)	(13)
Group's share of net assets disposed of	30	517
Consideration		
Current year disposals:		
Cash consideration, net of costs paid	47	628
Deferred consideration	–	10
Management contract value	3	30
Other	–	(14)
	50	654
Net assets disposed of	(30)	(517)
Provision against deferred consideration	–	(10)
Other, including impairment of held for sale asset	–	(4)
Tax	(4)	(6)
Gain on disposal of assets, net of tax*	16	117
Net cash inflow		
Current year disposals:		
Cash consideration, net of costs paid	47	628
Cash disposed of	–	(31)
Prior year disposals	2	23
	49	620
Assets and liabilities held for sale		
Non-current assets classified as held for sale:		
Property, plant and equipment	57	40
Associates	–	10
	57	50
Liabilities classified as held for sale:		
Deferred tax	(3)	(2)

* Reported within discontinued operations.

Notes to the Group financial statements continued

11 HELD FOR SALE AND DISCONTINUED OPERATIONS (CONTINUED)

	2007 £m	2006 £m
Results of discontinued operations		
Revenue	**40**	174
Cost of sales	**(30)**	(134)
	10	40
Depreciation and amortisation	**(2)**	(9)
Operating profit	**8**	31
Tax	**(3)**	(12)
Profit after tax	**5**	19
Gain on disposal of assets, net of tax (note 5)	**16**	117
Profit for the year from discontinued operations	**21**	136

	2007 pence per share	2006 pence per share
Earnings per share from discontinued operations		
Basic	**6.6**	35.0
Diluted	**6.4**	34.1

	2007 £m	2006 £m
Cash flows attributable to discontinued operations		
Operating profit before interest, depreciation and amortisation	**10**	40
Investing activities	**(1)**	(9)
Financing activities	**–**	(25)

The effect of discontinued operations on segmental results is shown in note 2.

12 GOODWILL

	2007 £m	2006 £m
At 1 January	**109**	118
Acquisition of subsidiary (note 34)	**–**	2
Exchange and other adjustments	**1**	(11)
At 31 December	**110**	109

Goodwill arising on business combinations that occurred before 1 January 2005 was not restated on adoption of IFRS as permitted by IFRS 1.

Goodwill has been allocated to cash-generating units (CGUs) for impairment testing as follows:

	2007 £m	2006 £m
Americas managed operations	**70**	72
Asia Pacific managed and franchised operations	**40**	37
	110	109

The Group tests goodwill for impairment annually, or more frequently if there are any indications that an impairment may have arisen. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates and growth rates. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Growth rates are based on management expectations and industry growth forecasts. The growth rates used to determine cash flows beyond five years do not exceed the average long-term growth rate for the relevant markets.

12 GOODWILL (CONTINUED)

Americas managed operations

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolates cash flows for the following four years based on an estimated growth rate of 4.0% (2006 4.0%). After this period, the terminal value of future cash flows is calculated based on a perpetual growth rate of approximately 2.7% (2006 3.0%). The rate used to discount the forecast cash flows is 10.0% (2006 10.5%).

Asia Pacific managed and franchised operations

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolates cash flows for the following four years based on an estimated growth rate of 15.0% (2006 15.0%). After this period, the terminal value of future cash flows is calculated based on a perpetual growth rate of approximately 4.0% (2006 4.0%). The rate used to discount the forecast cash flows is 11.0% (2006 11.0%).

With regard to the assessment of value in use, management believe that the carrying values of the CGUs would only exceed their recoverable amounts in the event of highly unlikely changes in the key assumptions.

13 INTANGIBLE ASSETS

	Software £m	Management contracts £m	Other intangibles £m	Total £m
Cost				
At 1 January 2006	38	84	28	150
Additions	10	30	13	53
Acquisition of subsidiary	1	7	–	8
Disposals	–	–	(2)	(2)
Exchange and other adjustments	(6)	(4)	(3)	(13)
At 31 December 2006	43	117	36	196
Additions	13	5	7	25
Reclassification	5	–	–	5
Disposals	–	–	(1)	(1)
Exchange and other adjustments	(1)	2	–	1
At 31 December 2007	**60**	**124**	**42**	**226**
Amortisation				
At 1 January 2006	(17)	(3)	(10)	(30)
Provided	(9)	(4)	(3)	(16)
Exchange and other adjustments	3	–	1	4
At 31 December 2006	(23)	(7)	(12)	(42)
Provided	(9)	(6)	(4)	(19)
Disposals	–	–	1	1
Exchange and other adjustments	1	–	–	1
At 31 December 2007	**(31)**	**(13)**	**(15)**	**(59)**
Net book value				
At 31 December 2007	**29**	**111**	**27**	**167**
At 31 December 2006	20	110	24	154
At 1 January 2006	21	81	18	120

The weighted average remaining amortisation period for management contracts is 24 years (2006 24 years).

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14 INVESTMENTS IN ASSOCIATES

The Group holds seven investments (2006 six) accounted for as associates. The following table summarises the financial information of the associates.

	2007 £m	2006 £m
Share of associates' balance sheet		
Current assets	3	2
Non-current assets	52	50
Current liabilities	(8)	(5)
Non-current liabilities	(14)	(15)
Net assets	33	32
Share of associates' revenue and profit		
Revenue	16	22
Net profit	1	2
Related party transactions		
Revenue from related parties	3	4
Amounts owed by related parties	1	1

15 OTHER FINANCIAL ASSETS

	2007 £m	2006 £m
Non-current		
Equity securities available-for-sale	46	48
Other	47	48
	93	96
Current		
Equity securities available-for-sale	–	9
Derivatives	–	4
Other	9	–
	9	13

Available-for-sale financial assets, which are held on the balance sheet at fair value, consist of equity investments in listed and unlisted shares. Of the total amount of equity investments at 31 December 2007, £2m (2006 £nil) were listed securities and £44m (2006 £57m) unlisted; £28m (2006 £27m) were denominated in US dollars, £8m (2006 £11m) in Hong Kong dollars and £10m (2006 £19m) in other currencies. Unlisted equity shares are mainly investments in entities that own hotels which the Group manages. The fair value of unlisted equity shares has been estimated using valuation guidelines issued by the British Venture Capital Association and is based on assumptions regarding expected future earnings. Listed equity share valuation is based on observable market prices. Dividend income from available-for-sale equity securities of £8m (2006 £4m) is reported as other operating income and expenses in the Group income statement.

Other financial assets consist of trade deposits, restricted cash and deferred consideration on asset disposals. These amounts have been designated as 'loans and receivables' and are held at amortised cost. Restricted cash of £27m (2006 £25m) relates to cash held in bank accounts which is pledged as collateral to insurance companies for risks retained by the Group.

Derivatives, including those within trade and other payables, are held on the balance sheet at fair value. Fair value is estimated using discounted future cash flows taking into consideration interest and exchange rates prevailing at the balance sheet date.

15 OTHER FINANCIAL ASSETS (CONTINUED)

The movement in the provision for impairment of other financial assets during the year is as follows:

	2007 £m	2006 £m
At 1 January	**(21)**	(16)
Provided and charged to gain on disposal of assets	**–**	(10)
Recoveries	**2**	3
Disposals	**3**	–
Amounts written off against the financial asset	**12**	1
Exchange and other adjustments	**–**	1
At 31 December	**(4)**	(21)

The provision is used to record impairment losses unless the Group is satisfied that no recovery of the amount is possible; at that point the amount considered irrecoverable is written off against the financial asset directly with no impact on the income statement.

16 INVENTORIES

	2007 £m	2006 £m
Finished goods	**1**	1
Consumable stores	**2**	2
	3	3

17 TRADE AND OTHER RECEIVABLES

	2007 £m	2006 £m
Trade receivables	**180**	163
Other receivables	**29**	51
Prepayments	**26**	23
	235	237

Trade and other receivables are designated as 'loans and receivables' and are held at amortised cost.

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

The maximum exposure to credit risk for trade and other receivables, excluding prepayments, at the balance sheet date by geographic region is:

	2007 £m	2006 £m
Americas	**115**	105
Europe, Middle East and Africa	**70**	78
Asia Pacific	**24**	31
	209	214

The aging of trade and other receivables, excluding prepayments, at the balance sheet date is:

			2007			2006
	Gross £m	Provision £m	Net £m	Gross £m	Provision £m	Net £m
Not past due	**141**	**(1)**	**140**	118	–	118
Past due 1 to 30 days	**37**	**(1)**	**36**	62	(1)	61
Past due 31 to 180 days	**39**	**(8)**	**31**	49	(16)	33
More than 180 days	**40**	**(38)**	**2**	28	(26)	2
	257	**(48)**	**209**	257	(43)	214

GROUP FINANCIAL STATEMENTS

Notes to the Group financial statements continued

17 TRADE AND OTHER RECEIVABLES (CONTINUED)

The movement in the provision for impairment of trade and other receivables during the year is as follows:

	2007 £m	2006 £m
At 1 January	(43)	(47)
Provided	(12)	(16)
Amounts written off	6	15
Exchange and other adjustments	1	5
At 31 December	(48)	(43)

18 CASH AND CASH EQUIVALENTS

	2007 £m	2006 £m
Cash at bank and in hand	26	30
Short-term deposits	26	149
	52	179

Short-term deposits are highly liquid investments with an original maturity of three months or less, in various currencies.

19 TRADE AND OTHER PAYABLES

	2007 £m	2006 £m
Current		
Trade payables	49	47
Other tax and social security payable	19	26
Other payables	172	190
Accruals	148	139
Derivatives	2	–
	390	402
Non-current		
Other payables	139	109

Trade payables are non-interest bearing and are normally settled within 45 days.

Other payables include £212m (2006 £180m) relating to the future redemption liability of the Group's loyalty programme, of which £84m (2006 £83m) is classified as current and £128m (2006 £97m) as non-current.

20 LOANS AND OTHER BORROWINGS

			2007			2006
	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Secured bank loans	–	3	3	4	3	7
Finance leases	8	92	100	3	94	97
Unsecured bank loans	–	774	774	3	206	209
Total borrowings	8	869	877	10	303	313
Denominated in the following currencies:						
Pounds sterling	–	275	275	–	102	102
US dollars	8	425	433	10	145	155
Euro	–	121	121	–	54	54
Other	–	48	48	–	2	2
	8	869	877	10	303	313

20 LOANS AND OTHER BORROWINGS (CONTINUED)

Secured bank loans

These mortgages are secured on the hotel properties to which they relate. The rates of interest and currencies of these loans vary.

Finance leases

Finance lease obligations, which relate to the 99 year lease on the InterContinental Boston, are payable as follows:

	2007		2006	
	Minimum lease payments £m	Present value of payments £m	Minimum lease payments £m	Present value of payments £m
Less than one year	8	8	3	3
Between one and five years	32	24	33	24
More than five years	1,689	68	1,745	70
	1,729	100	1,781	97
Less: amount representing finance charges	(1,629)	–	(1,684)	–
	100	100	97	97

The Group has the option to extend the term of the lease for two additional 20 year terms. Payments under the lease step up at regular intervals over the lease term.

Unsecured bank loans

Unsecured bank loans are borrowings under the Group's 2009 £1.1bn Syndicated Facility and its short-term bilateral loan facilities. Amounts are classified as non-current when the facilities have more than 12 months to expiry. These facilities contain financial covenants and as at the balance sheet date the Group was not in breach of these covenants, nor had any breaches or defaults occurred during the year.

	2007			2006		
Facilities provided by banks	Utilised £m	Unutilised £m	Total £m	Utilised £m	Unutilised £m	Total £m
Committed	777	377	1,154	213	944	1,157
Uncommitted	–	25	25	3	36	39
	777	402	1,179	216	980	1,196

	2007 £m	2006 £m
Unutilised facilities expire:		
Within one year	75	86
After one but before two years	327	–
After two years	–	894
	402	980

21 FINANCIAL RISK MANAGEMENT POLICIES

Overview

The Group's treasury policy is to manage financial risks that arise in relation to underlying business needs. The activities of the treasury function are carried out in accordance with Board approved policies and are subject to regular audit. The treasury function does not operate as a profit centre.

The treasury function seeks to reduce the financial risk of the Group and manages liquidity to meet all foreseeable cash needs. Treasury activities include money market investments, spot and forward foreign exchange instruments, currency options, currency swaps, interest rate swaps and options and forward rate agreements. One of the primary objectives of the Group's treasury risk management policy is to mitigate the adverse impact of movements in interest rates and foreign exchange rates.

Market risk exposure

The US dollar is the predominant currency of the Group's revenue and cash flows. Movements in foreign exchange rates, particularly the US dollar and euro, can affect the Group's reported profit, net assets and interest cover. To hedge this translation exposure the Group matches the currency of its debt (either directly or via derivatives) to the currency of its net assets, whilst maximising the amount of US dollars borrowed.

Foreign exchange transaction exposure is managed by the forward purchase or sale of foreign currencies or the use of currency options. Most significant exposures of the Group are in currencies that are freely convertible.

21 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

Market risk exposure (continued)
Interest rate exposure is managed within parameters that stipulate that fixed rate borrowings should normally account for no less than 25% and no more than 75% of net borrowings for each major currency. This is achieved through the use of interest rate swaps and options and forward rate agreements.

Based on the year end net debt position and given the underlying maturity profile of investments, borrowings and hedging instruments at that date, a one percentage point rise in US dollar interest rates would increase the annual net interest charge by approximately £2.9m (2006 £1.4m). A similar rise in euro and sterling interest rates would increase the annual net interest charge by approximately £0.6m (2006 £0.4m) and £1.6m (2006 £1.0m) respectively.

A general weakening of the US dollar (specifically a five cent rise in the sterling:US dollar rate) would reduce the Group's profit before tax by an estimated £4.2m (2006 £4.9m) and increase net assets by an estimated £4.4m (2006 £2.6m). Similarly, a general weakening of the euro (specifically a five cent rise in the sterling: euro rate) would reduce the Group's profit before tax by an estimated £0.8m (2006 £0.9m) and decrease net assets by an estimated £3.0m (2006 £4.0m).

Liquidity risk exposure
The treasury function ensures that the Group has access to sufficient funds to allow the implementation of the strategy set by the Board. At the year end, the Group had access to £377m of undrawn committed facilities. Medium and long-term borrowing requirements are met through the £1.1bn Syndicated Facility and short-term borrowing requirements are met from drawings under bilateral bank facilities. The Group is in compliance with all of the financial covenants in its loan documents, none of which is expected to present a material restriction on funding or investment policy in the near future.

At the year end, the Group had surplus cash of £52m which is held in short-term deposits and cash funds which allow daily withdrawals of cash. Most of the Group's surplus funds are held in the UK or US and there are no material funds where repatriation is restricted as a result of foreign exchange regulations.

Credit risk exposure
Credit risk on treasury transactions is minimised by operating a policy on the investment of surplus cash that generally restricts counterparties to those with an A credit rating or better or those providing adequate security.

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

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

Capital risk management
The Group manages its capital to ensure that it will be able to continue as a going concern. The capital structure consists of net debt, issued share capital and reserves. The structure is managed to minimise the Group's cost of capital, to provide ongoing returns to shareholders and to service debt obligations, whilst maintaining maximum operational flexibility. Surplus cash is either reinvested in the business, used to repay debt or returned to shareholders. The Group maintains a conservative level of debt. The level of debt is monitored on the basis of a cash flow leverage ratio, which is net debt divided by EBITDA. Net debt is calculated as total borrowings less cash and cash equivalents. EBITDA is earnings before interest, tax, depreciation and amortisation.

Hedging

Interest rate risk
The Group hedges its interest rate risk by taking out interest rate swaps to fix the interest flows on between 25% and 75% of its net borrowings in major currencies. At 31 December 2007, the Group held interest rate swaps with notional principals of USD100m, GBP150m and EUR75m (2006 USD100m and EUR80m). The interest rate swaps are designated as cash flow hedges of borrowings under the syndicated loan facility and they are held on the balance sheet at fair value in other financial assets and other payables.

Changes in the fair value of cash flow hedges are recognised in the unrealised gains and losses reserve to the extent that the hedges are effective. When the hedged item is recognised, the cumulative gains and losses on the hedging instrument are recycled to the income statement. No ineffectiveness was recognised during the current or prior year.

Foreign currency risk
The Group is exposed to foreign currency risk on income streams denominated in foreign currencies. When appropriate, the Group hedges a portion of forecast foreign currency income by taking out forward exchange contracts. The designated risk is the spot foreign exchange risk. Forward contracts are held at fair value on the balance sheet as other financial assets and other payables.

During the year, a £nil (2006 £3m) foreign exchange gain was recognised in financial income, relating to gains on forward contracts that were not classified as hedging instruments under IAS 39.

Hedge of net investment in foreign operations
The Group designates its foreign currency bank borrowings and currency derivatives as net investment hedges of foreign operations. The designated risk is the spot foreign exchange risk; the interest on these financial instruments is taken through financial income or expense and the derivatives are held on the balance sheet at fair value in other financial assets and other payables.

Hedge effectiveness is measured at calendar quarter ends. Variations in fair value due to changes in the underlying exchange rates are taken to the currency translation reserve until an operation is sold, at which point the cumulative currency gains and losses are recycled against the gain or loss on sale. No ineffectiveness was recognised on net investment hedges during the current or prior year.

At 31 December 2007, the Group held foreign exchange derivatives with a principal of £6m (2006 £220m) and a fair value of £nil (2006 £3.5m). The maximum amount of foreign exchange derivatives held during the year as net investment hedges and measured at calendar quarter ends had a principal of £272m (2006 £220m) and a fair value of £1.6m (2006 £3.5m).

22 FINANCIAL INSTRUMENTS

Liquidity risk

The following are the undiscounted contractual cash flows of financial liabilities, including interest payments.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m	Total £m
31 December 2007					
Secured bank loans	**1**	**1**	**4**	**–**	**6**
Finance lease obligations	**8**	**8**	**24**	**1,689**	**1,729**
Unsecured bank loans	**781**	**–**	**–**	**–**	**781**
Trade and other payables	**388**	**64**	**50**	**55**	**557**
Derivatives	**6**	**–**	**–**	**–**	**6**

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m	Total £m
31 December 2006					
Secured bank loans	4	1	5	–	10
Finance lease obligations	3	8	25	1,745	1,781
Unsecured bank loans	214	–	–	–	214
Trade and other payables	402	47	36	53	538
Derivatives	57	–	–	–	57

Cash flows relating to unsecured bank loans are classified according to the maturity date of the loan drawdown rather than the facility maturity date.

Credit risk

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

	2007 £m	2006 £m
Equity securities available-for-sale	**46**	57
Loans and receivables:		
Cash and cash equivalents	**52**	179
Other financial assets	**56**	48
Trade and other receivables, excluding prepayments	**209**	214
Derivatives	**–**	4
	363	502

Interest rate risk

For each class of interest bearing financial asset and financial liability, the following table indicates the range of interest rates effective at the balance sheet date, the carrying amount on the balance sheet and the periods in which they reprice, if earlier than the maturity date.

			Repricing analysis			
	Effective interest rate %	Total carrying amount £m	Less than 6 months £m	Between 6 months and 1 year £m	Between 1 and 2 years £m	More than 5 years £m
31 December 2007						
Cash and cash equivalents	**0.0-5.9**	**(52)**	**(52)**	**–**	**–**	**–**
Secured bank loans	**8.2**	**3**	**3**	**–**	**–**	**–**
Finance lease obligations*	**9.7**	**100**	**–**	**–**	**–**	**100**
Unsecured bank loans:						
Euro floating rate	**5.3**	**121**	**121**	**–**	**–**	**–**
– effect of euro interest rate swaps*	**(0.6)**	**–**	**(55)**	**–**	**55**	**–**
US dollar floating rate	**5.5**	**333**	**333**	**–**	**–**	**–**
– effect of US dollar interest rate swaps*	**(0.4)**	**–**	**(50)**	**50**	**–**	**–**
Sterling floating rate	**6.9**	**275**	**275**	**–**	**–**	**–**
– effect of sterling interest rate swaps	**0.0**	**–**	**(75)**	**–**	**75**	**–**
HK dollar floating rate	**4.5**	**45**	**45**	**–**	**–**	**–**
Net debt		**825**	**545**	**50**	**130**	**100**

* These items bear interest at a fixed rate.

22 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (continued)

	Effective interest rate %	Total carrying amount £m	Repricing analysis: Less than 6 months £m	Between 6 months and 1 year £m	Between 1 and 2 years £m	More than 5 years £m
31 December 2006						
Cash and cash equivalents	0.0 – 5.2	(179)	(179)	–	–	–
Secured bank loans	8.5	7	7	–	–	–
Finance lease obligations*	9.7	97	–	–	–	97
Unsecured bank loans:						
Euro floating rate	4.0	54	54	–	–	–
– effect of euro interest rate swaps*	(1.0)	–	(54)	–	54	–
US dollar floating rate	5.7	53	53	–	–	–
– effect of US dollar interest rate swaps*	(1.2)	–	(51)	–	51	–
Sterling floating rate	5.6	102	102	–	–	–
Net debt		134	(68)	–	105	97
Foreign exchange contracts		(4)	(4)	–	–	–
		130	(72)	–	105	97

* These items bear interest at a fixed rate.

Interest rate swaps are included in the above tables to the extent that they affect the Group's interest rate repricing risk. The swaps hedge the floating rate debt by fixing the interest rate. The effect shown above is their impact on the debt's floating rate, for an amount equal to their notional principal (principal and maturity of swap is shown in repricing analysis). The fair values of derivatives are recorded in other financial assets and other payables.

Trade and other receivables and trade and other payables are not included above as they are not interest bearing.

Fair values

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

	Note	2007 Carrying value £m	2007 Fair value £m	2006 Carrying value £m	2006 Fair value £m
Financial assets					
Equity securities available-for-sale	15	**46**	**46**	57	57
Loans and receivables:					
Cash and cash equivalents	18	**52**	**52**	179	179
Other financial assets	15	**56**	**56**	48	48
Trade and other receivables, excluding prepayments	17	**209**	**209**	214	214
Derivatives	15	**–**	**–**	4	4
Financial liabilities					
Borrowings, excluding finance lease obligations	20	**(777)**	**(777)**	(216)	(216)
Finance lease obligations	20	**(100)**	**(126)**	(97)	(97)
Trade and other payables	19	**(527)**	**(527)**	(511)	(511)
Derivatives	19	**(2)**	**(2)**	–	–

The fair value of cash and cash equivalents approximates book value due to the short maturity of the investments and deposits. Equity securities available-for-sale and derivatives are held on the balance sheet at fair value as set out in note 15. The fair value of other financial assets approximates book value based on prevailing market rates. The fair value of borrowings, excluding finance lease obligations, approximates book value as interest rates reset to market rates on a frequent basis. The fair value of the finance lease obligation is calculated by discounting future cash flows at prevailing interest rates. The fair value of trade and other receivables and trade and other payables approximates to their carrying value, including the future redemption liability of the Group's loyalty programme.

23 NET DEBT

	2007 £m	2006 £m
Cash and cash equivalents	52	179
Loans and other borrowings – current	(8)	(10)
– non-current	(869)	(303)
Net debt	(825)	(134)
Movement in net debt		
Net decrease in cash and cash equivalents	(131)	(152)
Add back cash flows in respect of other components of net debt:		
(Increase)/decrease in borrowings	(553)	172
(Increase)/decrease in net debt arising from cash flows	(684)	20
Non-cash movements:		
Finance lease liability	(9)	(103)
Exchange and other adjustments	2	37
Increase in net debt	(691)	(46)
Net debt at beginning of the year	(134)	(88)
Net debt at end of the year	(825)	(134)

24 RETIREMENT BENEFITS

Retirement and death in service benefits are provided for eligible Group employees in the UK principally by the InterContinental Hotels UK Pension Plan. The plan, which is funded and HM Revenue & Customs registered, covers approximately 440 (2006 410) employees, of which 200 (2006 220) are in the defined benefit section which provides pensions based on final salaries and 240 (2006 190) are in the defined contribution section. The defined benefit section of the plan closed to new entrants during 2002 with new members provided with defined contribution arrangements. The assets of the plan are held in self-administered trust funds separate from the Group's assets. In addition, there are unfunded UK pension arrangements for certain members affected by the lifetime allowance. The Group also maintains the following US-based defined benefit plans; the funded InterContinental Hotels Pension Plan, unfunded InterContinental Hotels non-qualified pension plans and post-employment benefits schemes. These plans are now closed to new members. The Group also operates a number of minor pension schemes outside the UK, the most significant of which is a defined contribution scheme in the US; there is no material difference between the pension costs of, and contributions to, these schemes.

The amounts recognised in the Group income statement in respect of the defined benefit plans are:

	Pension plans				Post-employment benefits		Total	
	UK		US and other					
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Recognised in administrative expenses								
Current service cost	5	5	–	–	–	–	5	5
Interest cost on benefit obligation	15	13	5	5	1	1	21	19
Expected return on plan assets	(17)	(14)	(5)	(4)	–	–	(22)	(18)
	3	4	–	1	1	1	4	6

The amounts recognised in the Group statement of recognised income and expense are:

	Pension plans				Post-employment benefits		Total	
	UK		US and other					
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Actuarial gains and losses								
Actual return on plan assets	14	21	5	6	–	–	19	27
Less: expected return on plan assets	(17)	(14)	(5)	(4)	–	–	(22)	(18)
	(3)	7	–	2	–	–	(3)	9
Other actuarial gains and losses	15	(12)	–	–	–	1	15	(11)
	12	(5)	–	2	–	1	12	(2)

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24 RETIREMENT BENEFITS (CONTINUED)

The assets and liabilities of the schemes and the amounts recognised in the Group balance sheet are:

	Pension plans UK		Pension plans US and other		Post-employment benefits		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Schemes in surplus								
Fair value of plan assets	**304**	–	**7**	–	**–**	–	**311**	–
Present value of benefit obligations	**(274)**	–	**(5)**	–	**–**	–	**(279)**	–
Retirement benefit assets	**30**	–	**2**	–	**–**	–	**32**	–
Schemes in deficit								
Fair value of plan assets	**–**	269	**65**	56	**–**	–	**65**	325
Present value of benefit obligations	**(23)**	(298)	**(87)**	(89)	**(10)**	(9)	**(120)**	(396)
Retirement benefit obligations	**(23)**	(29)	**(22)**	(33)	**(10)**	(9)	**(55)**	(71)
Total fair value of plan assets	**304**	269	**72**	56	**–**	–	**376**	325
Total present value of benefit obligations	**(297)**	(298)	**(92)**	(89)	**(10)**	(9)	**(399)**	(396)

The 'US and other' surplus of £2m relates to a defined benefit pension scheme in Hong Kong.

Assumptions

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

	Pension plans UK		Pension plans US		Post-employment benefits	
	2007 %	2006 %	**2007 %**	2006 %	**2007 %**	2006 %
Wages and salaries increases	**4.9**	4.6	**–**	–	**4.0**	4.0
Pensions increases	**3.4**	3.1	**–**	–	**–**	–
Discount rate	**5.5**	5.0	**5.8**	5.8	**5.8**	5.8
Inflation rate	**3.4**	3.1	**–**	–	**–**	–
Healthcare cost trend rate assumed for next year					**10.0**	10.0
Ultimate rate that the cost trend rate trends to					**5.0**	5.0

Mortality is the most significant demographic assumption. In respect of the UK plans, the specific mortality rates used are in line with the PA92 medium cohort tables, with age rated down by one year, implying the following life expectancies at retirement. In the US, life expectancy is determined by reference to the RP-2000 healthy tables.

		Pension plans UK		Pension plans US	
		2007 Years	2006 Years	**2007 Years**	2006 Years
Current pensioners at 65[a]	– male	**23**	23	**18**	18
	– female	**26**	26	**20**	20
Future pensioners at 65[b]	– male	**24**	24	**18**	18
	– female	**27**	27	**20**	20

a Relates to assumptions based on longevity (in years) following retirement at the balance sheet date.

b Relates to assumptions based on longevity (in years) relating to an employee retiring in 2027.

The assumptions allow for expected increases in longevity.

24 RETIREMENT BENEFITS (CONTINUED)

Sensitivities

The value of plan assets is sensitive to market conditions, particularly equity values. Changes in assumptions used for determining retirement benefit costs and obligations may have a material impact on the income statement and the balance sheet. The main assumptions are the discount rate, the rate of inflation and the assumed mortality rate. The following table provides an estimate of the potential impact of each of these variables on the principal pension plans.

	UK		US	
	Higher/(lower) pension cost £m	Increase/(decrease) in liabilities £m	Higher/(lower) pension cost £m	Increase/(decrease) in liabilities £m
Discount rate – 0.25% decrease	0.4	15.6	–	2.4
– 0.25% increase	(0.4)	(14.7)	–	(2.3)
Inflation rate – 0.25% increase	0.9	14.6	–	–
– 0.25% decrease	(0.9)	(13.8)	–	–
Mortality rate – one year increase	0.6	6.8	–	2.7

In 2018 the healthcare cost trend rate reaches the assumed ultimate rate. A one percentage point increase/(decrease) in assumed healthcare costs trend rate would increase/(decrease) the accumulated post-employment benefit obligations as of 31 December 2007 and 2006 by approximately £1m and would increase/(decrease) the total of the service and interest cost components of net post-employment healthcare cost for the period then ended by approximately £nil.

	Pension plans UK		Pension plans US and other		Post-employment benefits		Total	
Movement in benefit obligation	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Benefit obligation at beginning of year	**298**	274	**89**	103	**9**	11	**396**	388
Current service cost	**5**	5	**–**	–	**–**	–	**5**	5
Members' contributions	**1**	1	**–**	–	**–**	–	**1**	1
Interest expense	**15**	13	**5**	5	**1**	1	**21**	19
Benefits paid	**(7)**	(7)	**(5)**	(6)	**(1)**	(1)	**(13)**	(14)
Reclassification*	**–**	–	**5**	–	**–**	–	**5**	–
Actuarial (gain)/loss arising in the year	**(15)**	12	**–**	–	**–**	(1)	**(15)**	11
Exchange adjustments	**–**	–	**(2)**	(13)	**1**	(1)	**(1)**	(14)
Benefit obligation at end of year	**297**	298	**92**	89	**10**	9	**399**	396
Comprising:								
Funded plans	**274**	275	**70**	65	**–**	–	**344**	340
Unfunded plans	**23**	23	**22**	24	**10**	9	**55**	56
	297	298	**92**	89	**10**	9	**399**	396

	Pension plans UK		Pension plans US and other		Post-employment benefits		Total	
Movement in plan assets	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Fair value of plan assets at beginning of year	**269**	250	**56**	62	**–**	–	**325**	312
Company contributions	**27**	4	**10**	1	**1**	1	**38**	6
Members' contributions	**1**	1	**–**	–	**–**	–	**1**	1
Benefits paid	**(7)**	(7)	**(5)**	(6)	**(1)**	(1)	**(13)**	(14)
Reclassification*	**–**	–	**7**	–	**–**	–	**7**	–
Expected return on plan assets	**17**	14	**5**	4	**–**	–	**22**	18
Actuarial (loss)/gain arising in the year	**(3)**	7	**–**	2	**–**	–	**(3)**	9
Exchange adjustments	**–**	–	**(1)**	(7)	**–**	–	**(1)**	(7)
Fair value of plan assets at end of year	**304**	269	**72**	56	**–**	–	**376**	325

* Relates to the recognition of the gross assets and obligations of the Hong Kong pension scheme.

Normal company contributions are expected to be £8m in 2008. In addition, the Group has agreed to pay further special contributions of £20m to the UK pension plan; £10m in 2008 and £10m in 2009.

Notes to the Group financial statements continued

24 RETIREMENTS BENEFITS (CONTINUED)

The combined assets of the principal plans and expected rate of return are:

	2007		2006	
	Long-term rate of return expected %	Value £m	Long-term rate of return expected %	Value £m
UK pension plans				
Equities	**7.9**	**109**	7.9	128
Bonds	**4.8**	**179**	4.6	123
Other	**7.9**	**16**	7.9	18
Total market value of assets		**304**		269
US pension plans				
Equities	**9.5**	**39**	9.5	34
Fixed income	**5.5**	**26**	5.5	22
Total market value of assets		**65**		56

The expected rate of return on assets has been determined following advice from the plans' independent actuaries and is based on the expected return on each asset class together with consideration of the long-term asset strategy.

History of experience gains and losses

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
UK pension plans					
Fair value of plan assets	**304**	269	250	470	353
Present value of benefit obligations	**(297)**	(298)	(274)	(600)	(477)
Surplus/(deficit) in the plans	**7**	(29)	(24)	(130)	(124)
Experience adjustments arising on plan liabilities	**15**	(12)	(67)	(60)	
Experience adjustments arising on plan assets	**(3)**	7	47	14	

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
US pension plans					
Fair value of plan assets	**65**	56	62	56	48
Present value of benefit obligations	**(87)**	(89)	(103)	(88)	(91)
Deficit in the plans	**(22)**	(33)	(41)	(32)	(43)
Experience adjustments arising on plan liabilities	**–**	–	(3)	(5)	
Experience adjustments arising on plan assets	**–**	2	(1)	1	

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
US post-employment benefits					
Present value of benefit obligations	**(10)**	(9)	(11)	(11)	(11)
Experience adjustments arising on plan liabilities	**–**	1	1	(1)	

The cumulative amount of actuarial gains and losses recognised since 1 January 2004 in the Group statement of recognised income and expense is £64m (2006 £76m). The Group is unable to determine how much of the pension scheme deficit recognised on transition to IFRS of £178m and taken directly to total equity is attributable to actuarial gains and losses since inception of the schemes. Therefore, the Group is unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of recognised income and expense before 1 January 2004.

25 SHARE-BASED PAYMENTS

Short Term Deferred Incentive Plan

The IHG Short Term Deferred Incentive Plan (STDIP), now called the Annual Bonus Plan, enables eligible employees, including Executive Directors, to receive all or part of their bonus in the form of shares together with, in certain cases, a matching award of free shares up to half the deferred amount. The bonus and matching shares in the 2004 and 2005 plans are deferred and released in three equal tranches on the first, second and third anniversaries of the award date. The bonus and matching shares in the 2006 and 2007 plans are released on the third anniversary of the award date. Under the 2006 and 2007 plans a percentage of the award (Board members – 100% (2006 80%); other eligible employees – 50%) must be taken in shares and deferred. Participants may defer the remaining amount on the same terms or take it in cash. The awards in all of the plans are conditional on the participants remaining in the employment of a participating company. Participation in the STDIP is at the discretion of the Remuneration Committee. The number of shares is calculated by dividing a specific percentage of the participant's annual performance related bonus by the middle market quoted prices on the three consecutive dealing days immediately preceding the date of grant. A number of executives participated in the plan during the year and conditional rights over 675,515 (2006 606,573) shares were awarded to participants.

Long Term Incentive Plan

The Long Term Incentive Plan (LTIP), previously called the Performance Restricted Share Plan (PRSP), allows Executive Directors and eligible employees to receive share awards, subject to the satisfaction of a performance condition, set by the Remuneration Committee, which is normally measured over a three year period. Awards are normally made annually and, except in exceptional circumstances, will not exceed three times salary for Executive Directors and four times salary in the case of other eligible employees. During the year, conditional rights over 3,538,535 (2006 4,277,550) shares were awarded to employees under the plan. The plan provides for the grant of 'nil cost options' to participants as an alternative to conditional share awards.

Executive Share Option Plan

For options granted, the option price is not less than the market value of an ordinary share, or the nominal value if higher. The market value is the quoted price on the business day preceding the date of grant, or the average of the middle market quoted prices on the three consecutive dealing days immediately preceding the date of grant. A performance condition has to be met before options can be exercised. The performance condition is set by the Remuneration Committee. The plan was not operated during 2007 and no options were granted in the year under the plan. The latest date that any options may be exercised is April 2015.

Sharesave Plan

The Sharesave Plan is a savings plan whereby employees contract to save a fixed amount each month with a savings institution for three or five years. At the end of the savings term, employees are given the option to purchase shares at a price set before savings began. The Sharesave Plan is available to all UK employees (including Executive Directors) employed by participating Group companies provided that they have been employed for at least one year. The plan provides for the grant of options to subscribe for ordinary shares at the higher of nominal value and not less than 80% of the middle market quotations of the ordinary shares on the three dealing days immediately preceding the invitation date. The plan was not operated during 2007 and no options were granted in the year under the plan. The latest date that any options may be exercised under the three-year plan is 29 February 2008 and under the five-year plan is 28 February 2010.

US Employee Stock Purchase Plan

The US Employee Stock Purchase Plan will allow eligible employees resident in the US an opportunity to acquire Company American Depositary Shares (ADSs) on advantageous terms. The plan, when operational, will comply with Section 423 of the US Internal Revenue Code of 1986. The option to purchase ADSs may be offered only to employees of designated subsidiary companies. The option price may not be less than the lesser of either 85% of the fair market value of an ADS on the date of grant or 85% of the fair market value of an ADS on the date of exercise. Options granted under the plan must generally be exercised within 27 months from the date of grant. The plan was not operated during 2007 and at 31 December 2007 no options had been granted under the plan.

Former Six Continents Share Schemes

Under the terms of the separation of Six Continents PLC in 2003, holders of options under the Six Continents Executive Share Option Schemes were given the opportunity to exchange their Six Continents PLC options for equivalent value new options over IHG shares. As a result of this exchange, 23,195,482 shares were put under option at prices ranging from 308.5p to 593.3p. The exchanged options were immediately exercisable and are not subject to performance conditions. During 2007, 1,358,791 (2006 3,678,239) such options were exercised, leaving a total of 2,696,883 (2006 4,055,674) such options outstanding at prices ranging from 308.5p to 593.3p. The latest date that any options may be exercised is October 2012.

25 SHARE-BASED PAYMENTS (CONTINUED)

The Group recognised a cost of £30m (2006 £18m) in operating profit related to equity-settled share-based payment transactions during the year.

The aggregate consideration in respect of ordinary shares issued under option schemes during the year was £16m (2006 £20m).

The following table sets forth awards and options granted during 2007. No awards were granted under the Executive Share Option Plan, Sharesave Plan or US Employee Stock Purchase Plan during the year.

	Short Term Deferred Incentive Plan	Long Term Incentive Plan
Number of shares awarded in 2007	675,515	3,538,535

In 2007 and 2006, the Group used separate option pricing models and assumptions for each plan. The following tables set forth information about how the fair value of each option grant is calculated:

	Short Term Deferred Incentive Plan	Long Term Incentive Plan
2007		
Valuation model	Binomial	Monte Carlo Simulation and Binomial
Weighted average share price	1252.0p	1262.0p
Expected dividend yield	2.13%	2.13%
Risk-free interest rate		5.40%
Volatility*		19%
Term (years)	3.0	3.0

	Short Term Deferred Incentive Plan	Long Term Incentive Plan
2006		
Valuation model	Binomial	Monte Carlo Simulation and Binomial
Weighted average share price	831.0p	946.0p
Expected dividend yield		2.32%
Risk-free interest rate		4.90%
Volatility*		20%
Term (years)	2.0	3.0

* The expected volatility was determined by calculating the historical volatility of the Company's share price corresponding to the expected life of the option or share award.

25 SHARE-BASED PAYMENTS (CONTINUED)

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

	Short Term Deferred Incentive Plan Number of shares thousands	**Long Term Incentive Plan** Number of shares thousands
Outstanding at 1 January 2006	829	10,634
Granted	607	4,277
Vested	(328)	(1,395)
Share capital consolidation	(50)	–
Lapsed or cancelled	(57)	(2,191)
Outstanding at 31 December 2006	1,001	11,325
Granted	675	3,539
Vested	(418)	(1,694)
Share capital consolidation	(68)	–
Lapsed or cancelled	(86)	(1,707)
Outstanding at 31 December 2007	**1,104**	**11,463**
Fair value of awards granted during the year		
2007	**1190.6p**	**453.8p**
2006	894.5p	287.0p
Weighted average remaining contract life (years)		
At 31 December 2007	**1.5**	**1.1**
At 31 December 2006	1.0	1.3

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

	Sharesave Plan			**Executive Share Option Plan**		
	Number of shares thousands	Range of option prices pence	Weighted average option price pence	Number of shares thousands	Range of option prices pence	Weighted average option price pence
Options outstanding at 1 January 2006	864	420.5	420.5	22,619	308.5-619.8	465.4
Exercised	(389)	420.5	420.5	(8,365)	308.5-619.8	438.7
Lapsed or cancelled	(310)	420.5	420.5	(175)	345.6-619.8	404.6
Options outstanding at 31 December 2006	165	420.5	420.5	14,079	308.5-619.8	482.2
Exercised	(101)	420.5	420.5	(5,568)	308.5-619.8	471.9
Lapsed or cancelled	(7)	420.5	420.5	(317)	438.0-619.8	526.8
Options outstanding at 31 December 2007	**57**	**420.5**	**420.5**	**8,194**	**308.5-619.8**	**487.4**
Options exercisable						
At 31 December 2007	**–**	**–**	**–**	**6,583**	**308.5-619.8**	**455.0**
At 31 December 2006	–	–	–	6,002	308.5-619.8	430.2

Included within the options outstanding of the Executive Share Option Plan are options over 2,696,883 (2006 4,055,674; 2005 7,909,002) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options, relating to former Six Continents share schemes, have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The weighted average share price at the date of exercise for share options vested during the year was 1259.0p. The closing share price on 31 December 2007 was 884.0p and the range during the year was 873.5p to 1413.0p per share.

25 SHARE-BASED PAYMENTS (CONTINUED)

Summarised information about options outstanding at 31 December 2007 under the share option schemes is as follows:

	Options outstanding			Options exercisable	
Range of exercise prices (pence)	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence	Number exercisable thousands	Weighted average option price pence
Sharesave Plan					
420.5	57	1.0	420.5	–	–
Executive Share Option Plan					
308.5 to 349.1	565	2.3	347.7	565	347.7
349.2 to 498.0	5,905	5.3	462.6	5,905	462.6
498.1 to 619.8	1,724	6.8	618.1	113	593.7
	8,194	5.4	487.4	6,583	455.0

26 DEFERRED TAX PAYABLE

	Property, plant and equipment £m	Deferred gains on loan notes £m	Losses £m	Employee benefits £m	Intangible assets £m	Other short-term temporary differences* £m	Total £m
At 1 January 2006	256	122	(123)	(16)	(1)	6	244
Disposals	(126)	–	2	–	–	7	(117)
Income statement	(2)	(26)	31	(1)	16	(32)	(14)
Statement of recognised income and expense	–	–	–	1	–	(27)	(26)
Acquisition of subsidiary (note 34)	–	–	–	–	1	–	1
Exchange and other adjustments	(9)	(4)	1	2	1	2	(7)
At 31 December 2006	119	92	(89)	(14)	17	(44)	81
Income statement	1	(4)	(2)	3	3	(30)	(29)
Statement of recognised income and expense	–	–	–	3	–	27	30
Exchange and other adjustments	3	(1)	(3)	–	1	3	3
At 31 December 2007	**123**	**87**	**(94)**	**(8)**	**21**	**(44)**	**85**

* Other short-term temporary differences relate primarily to provisions and accruals and share-based payments.

	2007 £m	2006 £m
Analysed as:		
Deferred tax payable	**82**	79
Liabilities classified as held for sale	**3**	2
At 31 December	**85**	81

The deferred tax asset of £94m (2006 £89m) recognised in respect of losses includes £60m (2006 £64m) of capital losses available to be utilised against the realisation of capital gains which are recognised as a deferred tax liability and £34m (2006 £25m) in respect of revenue tax losses. Revenue losses include £3m (2006 £1m) in respect of losses which arose during a period of hotel refurbishment and which are expected to be utilised against future operating profit.

26 DEFERRED TAX PAYABLE (CONTINUED)

Tax losses with a value of £191m (2006 £192m), including capital losses with a value of £109m (2006 £87m), have not been recognised as their use is uncertain or not currently anticipated. These losses may be carried forward indefinitely with the exception of £1m (2006 £nil) which expires after five years, £nil (2006 £1m) which expires after seven years and £nil (2006 £1m) which expires after 15 years.

Deferred tax assets of £4m (2006 £6m) in respect of share-based payments, £7m (2006 £7m) in respect of employee benefits and £13m (2006 £17m) in respect of other items have not been recognised as the timing of their realisation and consequent use is uncertain or not currently anticipated and, in part, is dependent upon the outcome of EU case law. Other items include £nil (2006 £7m) which expire after nine years.

At 31 December 2007, the Group has not provided deferred tax in relation to temporary differences associated with undistributed earnings of subsidiaries. Quantifying the temporary differences is not practical. However, based on current enacted law and on the basis that the Group is in a position to control the timing and realisation of these temporary differences, no material tax consequences are expected to arise.

27 AUTHORISED AND ISSUED SHARE CAPITAL

Authorised (ordinary shares and redeemable preference share)

At 31 December 2007, the authorised share capital was £160,050,000, comprising 1,175,000,000 ordinary shares of 13 29/47p each and one redeemable preference share of £50,000.

	Note	Number of shares millions	£m
Allotted, called up and fully paid (ordinary shares)			
At 1 January 2006		433	43
Share capital consolidation	a	(53)	–
Issued under option schemes		4	1
Repurchased and cancelled under repurchase programmes	b	(28)	(3)
At 31 December 2006		356	41
Share capital consolidation	c	(57)	–
Issued under option schemes		4	–
Repurchased and cancelled under repurchase programmes	b	(8)	(1)
At 31 December 2007		**295**	**40**

a On 1 June 2006, shareholders approved a share capital consolidation on the basis of seven new ordinary shares for every eight existing ordinary shares. This provided for all the authorised ordinary shares of 10p each (whether issued or unissued) to be consolidated into new ordinary shares of 11 3/7p each. The share capital consolidation became effective on 12 June 2006.

b During 2004 and 2005, the Company undertook to return funds of up to £750m to shareholders by way of three consecutive £250m share repurchase programmes, the third of which was completed in the first half of 2007. In June 2007, a further £150m share repurchase programme commenced. During the year, 7,724,844 (2006 28,409,753) ordinary shares were repurchased and cancelled under the authorities granted by shareholders at an Extraordinary General Meeting held on 1 June 2006 and at the Annual and Extraordinary General Meetings held on 1 June 2007. Of these, 2,237,264 were 11 3/7p shares and 5,487,580 were 13 29/47p shares.

c On 1 June 2007, shareholders approved a share capital consolidation on the basis of 47 new ordinary shares for every 56 existing ordinary shares. This provided for all the authorised ordinary shares of 11 3/7p each (whether issued or unissued) to be consolidated into new ordinary shares of 13 29/47p each. The share capital consolidation became effective on 4 June 2007.

d Whilst the authorised share capital comprises one redeemable preference share of £50,000, following its redemption in September 2005, this redeemable preference share has not been re-issued.

The authority given to the Company at the Annual General Meeting on 1 June 2007 to purchase its own shares was still valid at 31 December 2007. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 30 May 2008.

28 IHG SHAREHOLDERS' EQUITY

	Equity share capital £m	Capital redemption reserve £m	Shares held by employee share trusts £m	Other reserves £m	Unrealised gains and losses reserve £m	Currency translation reserve £m	Retained earnings £m	IHG shareholders' equity £m
At 1 January 2006	49	1	(22)	(1,528)	23	19	2,542	1,084
Total recognised income and expense for the year	–	–	–	–	4	(22)	427	409
Issue of ordinary shares	20	–	–	–	–	–	–	20
Repurchase of shares	(3)	–	–	–	–	–	(257)	(260)
Transfer to capital redemption reserve	–	3	–	–	–	–	(3)	–
Purchase of own shares by employee share trusts	–	–	(47)	–	–	–	–	(47)
Release of own shares by employee share trusts	–	–	52	–	–	–	(37)	15
Equity-settled share-based cost	–	–	–	–	–	–	18	18
Equity dividends paid	–	–	–	–	–	–	(561)	(561)
At 31 December 2006	66	4	(17)	(1,528)	27	(3)	2,129	678
Total recognised income and expense for the year	–	–	–	–	(8)	9	239	240
Issue of ordinary shares	16	–	–	–	–	–	–	16
Repurchase of shares	(1)	–	–	–	–	–	(80)	(81)
Transfer to capital redemption reserve	–	1	–	–	–	–	(1)	–
Purchase of own shares by employee share trusts	–	–	(69)	–	–	–	–	(69)
Release of own shares by employee share trusts	–	–	45	–	–	–	(40)	5
Equity-settled share-based cost	–	–	–	–	–	–	30	30
Equity dividends paid	–	–	–	–	–	–	(773)	(773)
At 31 December 2007	**81**	**5**	**(41)**	**(1,528)**	**19**	**6**	**1,504**	**46**

Equity share capital

The balance classified as share capital includes the total net proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising 13 29/47p shares.

Shares held by employee share trusts

Comprises £41.1m (2006 £16.8m) in respect of 3.4m (2006 1.7m) InterContinental Hotels Group PLC ordinary shares held by employee share trusts, with a market value at 31 December 2007 of £30m (2006 £21m).

Other reserves

Comprises the revaluation reserve previously recognised under UK GAAP and the merger reserve.

Unrealised gains and losses reserve

This reserve records movements for available-for-sale financial assets to fair value and the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments related to hedged transactions that have not yet occurred.

The fair value of cash flow hedging instruments outstanding at 31 December 2007 was a £2m liability (2006 £1m asset).

Currency translation reserve

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

During the year ended 31 December 2007, the impact of hedging net investments in foreign operations was to reduce the amount recorded in the currency translation reserve by £7m (2006 £32m). The fair value of derivative instruments designated as hedges of net investments in foreign operations outstanding at 31 December 2007 was £nil (2006 £3m net asset).

29 MINORITY EQUITY INTEREST

	2007 £m	2006 £m
At 1 January	8	20
Dividends paid to minority interests	–	(1)
Disposal of hotels (note 11)	(6)	(13)
Acquisition of subsidiary (note 34)	–	3
Exchange and other adjustments	1	(1)
At 31 December	3	8

30 OPERATING LEASES

During the year ended 31 December 2007, £32m (2006 £39m) was recognised as an expense in the income statement in respect of operating leases.

Total commitments under non-cancellable operating leases are as follows:

	2007 £m	2006 £m
Due within one year	28	27
One to two years	19	21
Two to three years	16	19
Three to four years	14	14
Four to five years	11	9
More than five years	108	100
	196	190

The average remaining term of these leases, which generally contain renewal options, is approximately 17 years. No material restrictions or guarantees exist in the Group's lease obligations.

31 CAPITAL AND OTHER COMMITMENTS

	2007 £m	2006 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	10	24

On 24 October 2007, the Group announced a worldwide relaunch of its Holiday Inn brand family. In support of this relaunch, IHG will make a non-recurring revenue investment of up to £30m which it is anticipated will be charged to the income statement as an exceptional item during 2008.

32 CONTINGENCIES

	2007 £m	2006 £m
Contingent liabilities not provided for in the financial statements relating to guarantees	5	11

In limited cases, the Group may provide performance guarantees to third-party owners to secure management contracts. The maximum exposure under such guarantees is £121m (2006 £142m). It is the view of the Directors that, other than to the extent that liabilities have been provided for in these financial statements, such guarantees are not expected to result in financial loss to the Group.

The Group has given warranties in respect of the disposal of certain of its former subsidiaries and hotels. It is the view of the Directors that, other than to the extent that liabilities have been provided for in these financial statements, such warranties are not expected to result in financial loss to the Group.

33 RELATED PARTY DISCLOSURES

Key management personnel comprises the Board and Executive Committee.

Total compensation of key management personnel	2007 £m	2006 £m
Short-term employment benefits	**9.4**	9.5
Post-employment benefits	**0.5**	0.5
Equity compensation benefits	**9.1**	7.9
	19.0	17.9

There were no transactions with key management personnel during the year ended 31 December 2007 or the previous year.

34 ACQUISITION OF SUBSIDIARY

On 1 December 2006, the Group acquired a 75% interest in ANA Hotels & Resorts Co., Ltd (subsequently renamed IHG ANA Hotels Group Japan LLC), a hotel management company based in Japan.

	Carrying values pre-acquisition £m	Fair value £m
Intangible assets	1	8
Current assets (excluding cash and cash equivalents)	4	4
Cash and cash equivalents	4	4
Trade and other payables	(3)	(3)
Current tax payable	(1)	(1)
Deferred tax payable	–	(1)
	5	11
Minority interest		(3)
Net assets acquired		8
Goodwill on acquisition		2
Consideration, satisfied in cash (including costs of £2m)		10
Cash and cash equivalents acquired		(4)
Net cash outflow		6

Management contracts acquired were recognised as intangible assets at their fair value. The residual excess over the net assets acquired was recognised as goodwill.

35 PRINCIPAL OPERATING SUBSIDIARY UNDERTAKINGS

InterContinental Hotels Group PLC was the beneficial owner of all (unless specified) of the equity share capital, either itself or through subsidiary undertakings, of the following companies during the year:

Six Continents Limited[a]

Hotel Inter-Continental London Limited[a]

Six Continents Hotels, Inc.[b]

InterContinental Hotels Corporation[b]

Barclay Operating Corporation[b]

IHG Resources Inc.[b]

InterContinental Hong Kong Limited[c]

Société Nouvelle du-Grand Hotel, SA[d]

The companies listed above include those which principally affect the amount of profit and assets of the Group.

a Incorporated in Great Britain and registered in England and Wales.

b Incorporated in the United States.

c Incorporated in Hong Kong.

d Incorporated in France.

Parent company financial statements

In this section we present the balance sheet of our parent company, InterContinental Hotels Group PLC, and the related notes supporting the parent company balance sheet for 2007.

Statement of Directors' responsibilities

In relation to the parent company financial statements

The following statement, which should be read in conjunction with the independent auditor's report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditor in relation to the Company financial statements.

The Directors are responsible for preparing the parent company financial statements and Remuneration Report in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice (UK GAAP).

The Directors are required to prepare Company financial statements for each financial year which present fairly the financial position of the Company and the financial performance of the Company for that period.

The Directors consider that, in preparing the Company financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed. The Company financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the Company financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of InterContinental Hotels Group PLC

In relation to the parent company financial statements

We have audited the parent company financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2007 which comprise the Company balance sheet and related notes 1 to 10. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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 parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information that is cross referred from the Business review, Directors and Employees sections of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Highlights, Message from the Chairman and Chief Executive, Business Review, Directors' Report, Corporate Governance Statement, Audit Committee Report and the unaudited part of the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

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 parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company'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 parent company financial statements and the part of the Directors' Remuneration Report to be audited 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Ernst & Young LLP,
Registered auditor, London.
18 February 2008

Parent company financial statements

PARENT COMPANY BALANCE SHEET

31 December 2007	Note	2007 £m	2006 £m
Fixed assets			
Investments	3	**2,767**	2,767
Current assets			
Debtors	4	**207**	29
Creditors: amounts falling due within one year	5	**(2,631)**	(1,624)
Net current liabilities		**(2,424)**	(1,595)
Creditors: amounts due after more than one year	6	**–**	(102)
Net assets		**343**	1,070
Capital and reserves			
Called up share capital	7	**40**	41
Share premium account	8	**41**	25
Capital redemption reserve	8	**5**	4
Profit and loss account	8	**257**	1,000
Equity shareholders' funds		**343**	1,070

Signed on behalf of the Board

Richard Solomons
18 February 2008

No profit and loss account is presented for InterContinental Hotels Group PLC as permitted by Section 230 of the Companies Act 1985. Profit on ordinary activities after taxation amounts to £111m (2006 £53m).

Notes on pages 93 to 94 form an integral part of these financial statements.

Notes to the parent company financial statements

1 ACCOUNTING POLICIES

Basis of accounting
The financial statements are prepared under the historical cost convention. They have been drawn up to comply with applicable accounting standards in the United Kingdom (UK GAAP). These accounts are for the Company and are not consolidated financial statements.

Fixed asset investments
Fixed asset investments are stated at cost less any provision for impairment.

Bank and other borrowings
Bank and other borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. Finance costs are charged to the profit and loss account using the effective interest rate method.

Borrowings are classified as due after more than one year when the repayment date is more than 12 months from the balance sheet date or where they are drawn on a facility with more than 12 months to expiry.

2 EMPLOYEES AND DIRECTORS

	2007	2006
Average number of employees (Non-Executive Directors)	7	8

	2007 £m	2006 £m
Staff costs	1	1

Detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration Report on pages 36 to 44.

3 INVESTMENTS

	£m
At 1 January 2007 and 31 December 2007	2,767

The Company is the beneficial owner of all of the equity share capital of InterContinental Hotels Limited. The principal operating subsidiary undertakings of that company are listed in note 35 of the Group financial statements.

4 DEBTORS

	2007 £m	2006 £m
Amounts due from subsidiary undertakings	166	8
Corporate taxation	41	21
	207	29

5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £m	2006 £m
Amounts due to subsidiary undertakings	2,631	1,624

6 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2007 £m	2006 £m
Unsecured bank loan	–	102

The unsecured bank borrowings were drawn under a 2009 £1.1bn Syndicated Facility. Covenants exist on this facility and as at the balance sheet date the Group and the Company were not in breach of these covenants.

Notes to the parent company financial statements continued

7 SHARE CAPITAL

	Note	Number of shares millions	£m
Authorised (ordinary shares)			
At 31 December 2006 (1,400,000,000 shares of 11 3/7p each)		1,400	160
Share capital consolidation	a	(225)	–
At 31 December 2007 (1,175,000,000 shares of 13 29/47p each)		**1,175**	**160**
Authorised (preference shares)			
One redeemable preference share (£50,000)		–	–
Allotted, called up and fully paid (ordinary shares)			
At 31 December 2006 (11 3/7p each)		356	41
Share capital consolidation	a	(57)	–
Issued under option schemes		4	–
Repurchase of shares	b	(8)	(1)
At 31 December 2007 (13 29/47p each)		**295**	**40**

a On 1 June 2007, shareholders approved a share capital consolidation on the basis of 47 new ordinary shares for every 56 existing ordinary shares. This provided for all the authorised ordinary shares of 11 3/7p each (whether issued or unissued) to be consolidated into new ordinary shares of 13 29/47p each. The share capital consolidation became effective on 4 June 2007.

b During the year, 7,724,844 (2006 28,409,753) ordinary shares were repurchased and cancelled under the authorities granted by shareholders at an Extraordinary General Meeting held on 1 June 2006 and at the Annual and Extraordinary General Meetings held on 1 June 2007. Of these, 2,237,264 were 11 3/7p shares and 5,487,580 were 13 29/47p shares.

The aggregate consideration in respect of ordinary shares issued under option schemes during the year was £16m (2006 £20m).

	Thousands
Options to subscribe for ordinary shares	
At 31 December 2006	14,244
Exercised	(5,669)
Lapsed or cancelled	(324)
At 31 December 2007	**8,251**
Option exercise price per ordinary share (pence)	308.5-619.8
Final exercise date	4 April 2015

The authority given to the Company at the Annual General Meeting on 1 June 2007 to purchase its own shares was still valid at 31 December 2007. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 30 May 2008.

8 MOVEMENTS IN RESERVES

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
At 31 December 2006	25	4	1,000
Premium on allotment of ordinary shares	16	–	–
Repurchase of shares	–	–	(80)
Transfer to capital redemption reserve	–	1	(1)
Profit after tax	–	–	111
Dividends	–	–	(773)
At 31 December 2007	**41**	**5**	**257**

9 PROFIT AND DIVIDENDS

Profit on ordinary activities after tax amounts to £111m (2006 £53m).

A final dividend, declared in the previous year, of 13.3p (2006 10.7p) per share was paid during the year, amounting to £47m (2006 £46m). A special interim dividend of 200.0p (2006 118.0p) per share was paid during the year, amounting to £709m (2006 £497m). An interim dividend of 5.7p (2006 5.1p) per share was paid during the year, amounting to £17m (2006 £18m). A final dividend of 14.9p (2006 13.3p) per share, amounting to £44m (2006 £47m), is proposed for approval at the Annual General Meeting. The proposed final dividend is payable on shares in issue at 28 March 2008.

The audit fee for both years was borne by a subsidiary undertaking.

10 CONTINGENCIES

Contingent liabilities of £840m (2006 £169m) in respect of guarantees of the liabilities of subsidiaries have not been provided for in the financial statements.

Useful information

In this section we present a glossary of terms used in the Annual Report and Financial Statements 2007 and some analyses of our share ownership at the end of 2007.

We also provide a range of information designed to be helpful to shareholders, and contact details for the Company and for a number of service providers.

Glossary

Adjusted excluding the effect of exceptional items, gain/loss on disposal of assets and any relevant tax.

Average daily rate room revenue divided by the number of room nights sold. Also known as average room rate.

Basic earnings per share profit available for IHG equity holders divided by the weighted average number of ordinary shares in issue during the year.

Capital expenditure cash expended on purchases of property, plant and equipment and purchases of intangible assets, associates and other financial assets.

Cash-generating unit a portfolio of similar assets that are subject to the same economic and commercial influences.

Comparable RevPAR a comparison for a grouping of hotels that have traded in all months in both financial years being compared. Principally excludes new hotels, hotels closed for major refurbishment and hotels sold in either of the two years.

Contingent liability a liability that is contingent upon the occurrence of one or more uncertain future events.

Continuing operations operations not classified as discontinued and including acquisitions made during the year.

Currency swap an exchange of a deposit and a borrowing, each denominated in a different currency, for an agreed period of time.

Derivatives a financial instrument used to reduce risk, the price of which is derived from an underlying asset, index or rate.

Discontinued operations operations that have been sold and assets classified as held for sale when the results relate to a separate line of business, geographical area of operations, or where there is a coordinated plan to dispose of a separate line of business or geographical area of operations.

Exceptional items items which are disclosed separately because of their size or nature.

Extended-stay hotel a hotel designed for guests staying for periods of time longer than a few nights and tending to have a higher proportion of suites than normal hotels (eg Staybridge Suites, Candlewood Suites).

Franchisee operator who uses a brand under licence from the brand owner (eg IHG).

Franchisor brand owner (eg IHG) who licenses brands for use by operators.

Goodwill the difference between the consideration given for a business and the total of the fair values of the separable assets and liabilities comprising that business.

Hedging the reduction of risk, normally in relation to foreign currency or interest rate movements, by making offsetting commitments.

Holidex fees charges to hotels under management and franchise agreements for the use of Holidex, IHG's proprietory reservation system.

IFRS International Financial Reporting Standards.

Interest rate swap an agreement to exchange fixed for floating interest rate streams (or vice versa) on a notional principal.

Management contract a contract to operate a hotel on behalf of the hotel owner.

Market capitalisation the value attributed to a listed company by multiplying its share price by the number of shares in issue.

Midscale hotel a hotel in the three/four star category (eg Holiday Inn, Holiday Inn Express).

Net debt borrowings less cash and cash equivalents.

Occupancy rate rooms occupied by hotel guests, expressed as a percentage of rooms that are available.

Operating profit margin operating profit before exceptional operating items expressed as a percentage of revenue.

Pipeline signed/executed agreements, including franchises and management contracts, for hotels which will enter the Group's system at a future date.

Revenue per available room (RevPAR) room revenue divided by the number of room nights that are available (can be mathematically derived from occupancy rate multiplied by average daily rate).

Room count number of rooms owned, managed or franchised by IHG.

Room revenue revenue generated from the sale of room nights.

Royalty rate the percentage of room revenue that a franchisee pays to the brand owner for use of the brand name.

Subsidiary undertaking a company in which the Group holds an equity stake and over which it exercises control.

System size the number of hotels/rooms owned, managed or franchised by IHG.

Total gross revenue total room revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels.

Total Shareholder Return (TSR) the theoretical growth in value of a shareholding over a period, by reference to the beginning and ending share price, and assuming that gross dividends, including special dividends, are reinvested to purchase additional units of the equity.

Upscale hotel a four/five star full-service hotel characterised by superior service (eg InterContinental, Crowne Plaza).

UK GAAP United Kingdom generally accepted accounting practice.

Weighted average exchange rate the average of the monthly exchange rates, weighted by reference to monthly operating profit.

Working capital the sum of inventories, receivables and payables of a trading nature, excluding financing items such as corporate taxation.

Shareholder profiles

Shareholder profile as at 31 December 2007 by type

	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
Category of holdings				
Private individuals	57,992	92.92	20,584,116	6.99
Nominee companies	3,887	6.24	267,864,281	90.92
Limited and public limited companies	345	0.56	1,551,687	0.53
Other corporate bodies	176	0.28	2,546,987	0.86
Pension funds, insurance companies and banks	19	0.00	2,076,237	0.70
Total	**62,419**	**100**	**294,623,308**	**100**

Shareholder profile as at 31 December 2007 by size

	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
Range of holdings				
1 – 199	37,081	59.41	2,481,005	0.84
200 – 499	13,234	21.20	4,248,148	1.44
500 – 999	6,584	10.55	4,609,712	1.56
1,000 – 4,999	4,580	7.34	8,392,813	2.86
5,000 – 9,999	287	0.46	1,953,592	0.66
10,000 – 49,999	330	0.53	7,457,794	2.53
50,000 – 99,999	76	0.12	5,402,215	1.83
100,000 – 499,999	157	0.25	37,385,619	12.69
500,000 – 999,999	40	0.06	26,086,281	8.85
1,000,000 – highest	50	0.08	196,606,129	66.74
Total	**62,419**	**100**	**294,623,308**	**100**

Shareholder profile as at 31 December 2007 by geographical location

	Percentage of issued share capital[1]
Country/Jurisdiction	
England and Wales	65.12
Scotland	3.72
Rest of Europe	6.66
USA (including ADRs)	21.23
Japan	0.48
Rest of World	2.79
Total	**100**

1 The geographical distribution presented is based on an analysis of shareholdings of 150,000 or above where geographical ownership is known. These holdings account for 76.97% of total issued share capital.

USEFUL INFORMATION

Investor information

Registrar

Following a change in its ownership, approved by the Financial Services Authority in 2007, the Company's Registrar is now called Equiniti. Shareholders have access to the full range of services previously provided. For information on these services, and for enquiries concerning individual shareholdings, please contact the Company's Registrar, Equiniti (details shown on page 100).

Electronic communication

The Company has given email notification, to those shareholders who have requested it, of the availability of this Annual Report and Financial Statements, the Annual Review and Summary Financial Statement, and the Notice of Annual General Meeting, on the Company's website at www.ihg.com/investors under financial library.

Shareholders may appoint electronically a proxy to vote on their behalf on any poll that may be held at the forthcoming Annual General Meeting. Shareholders who hold their shares through CREST may appoint proxies through the CREST electronic proxy appointment service, by using the procedures described in the CREST manual.

Dividend Reinvestment Plan

The Company offers a Dividend Reinvestment Plan (DRIP). This provides the opportunity for shareholders to use their cash dividends to buy more IHG shares. For further information about the DRIP, please contact our Registrar, Equiniti (details shown on page 100).

Special dividend and share consolidation 2007

On 15 June 2007, the Company paid a special dividend of 200p per ordinary share to shareholders on the Register at the close of business on 1 June 2007. The special dividend was accompanied by a consolidation of the Company's share capital, effective from 4 June 2007, whereby shareholders received 47 new ordinary shares of 13 $^{29}/_{47}$p each for every 56 existing ordinary shares of 11 $^{3}/_{7}$p each held on 1 June 2007.

Changes to the base cost of IHG shares

Details of all the changes to the base cost of IHG shares held since April 2003 up to September 2007, for UK Capital Gains Tax purposes, may be found on the Company's website at www.ihg.com/cgt

These cover changes associated with:

- the separation of Six Continents PLC in April 2003;
- the share consolidation associated with the special dividend paid in December 2004;
- the capital reorganisation of the Group completed in June 2005;
- the share consolidation associated with the special dividend paid in June 2006; and
- the share consolidation associated with the special dividend paid in June 2007.

Share price information

Share price 2006 and 2007: InterContinental Hotels Group PLC v FTSE 100

Further details of IHG's share price may be found on the Company's website at www.ihg.com/investors under share price.

Interim results

The Company does not intend to publish future interim results in hard copy. The interim results will be available online at www.ihg.com/investors under financial library.

Corporate Responsibility Report

IHG has published its first online Corporate Responsibility Report covering progress on a range of environmental, social and community issues. This is available on our corporate website and can be downloaded directly at www.ihg.com/responsibility

American Depositary Receipts (ADRs)

The Company's shares are listed on the New York Stock Exchange in the form of American Depositary Shares, evidenced by ADRs and traded under the symbol 'IHG'. Each ADR represents one ordinary share. All enquiries regarding ADR holder accounts and payment of dividends should be directed to JPMorgan, the authorised depositary bank (details shown on page 100).

Form 20-F

The Company is subject to the reporting requirements of the Securities and Exchange Commission (SEC) in the US and files with the SEC an Annual Report on Form 20-F. The Form 20-F can be found on the Company's website www.ihg.com/investors under shareholder services/adr or by visiting the SEC's website at www.sec.gov/edgar.shtml

Financial calendar

		2007
Payment of special interim dividend of 200p per share		15 June
Payment of interim dividend of 5.7p per share		5 October
Financial year end		31 December

		2008
Preliminary announcement of annual results		19 February
Final dividend of 14.9p per share	Ex-dividend date	26 March
	Record date	28 March
Announcement of first quarter results		7 May
Annual General Meeting		30 May
Final dividend of 14.9p per share	Payment date	6 June
Announcement of interim results		12 August
Interim dividend	Payment date	October
Announcement of third quarter results		11 November
Financial year end		31 December

		2009
Preliminary announcement of annual results		February

For further investor information visit

www.ihg.com/investors

Contacts

Registered office

67 Alma Road
Windsor
Berkshire
SL4 3HD
Telephone +44 (0)1753 410 100
Fax +44 (0)1753 410 101

For general information about the Group's business please contact the Corporate Affairs department and for all other enquiries please contact the Company Secretary – both at the above address.

Registrar

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Telephone 0871 384 2132*† (UK callers)
+44 121 415 7034 (non-UK callers)
www.shareview.co.uk

* For those with hearing difficulties a text phone is available on 0871 384 2255† for UK callers with compatible equipment.

† Telephone calls to these numbers are currently charged at 8p per minute if using a BT landline. Other telephone service providers may charge different rates.

ADR depositary

JPMorgan
JPMorgan Service Center
PO Box 3408
South Hackensack
NJ 07606-3408
USA
Telephone 1 800 990 1135
(US callers – toll free)
+1 201 680 6630 (non-US callers)
Email jpmorganadr@mellon.com
www.adr.com

Stockbrokers

JPMorgan Cazenove Limited
Merrill Lynch International

Auditors

Ernst & Young LLP

Investment bankers

Citi

Solicitors

Linklaters

Forward-looking statements

Both the Annual Report and Financial Statements 2007 and the Annual Review and Summary Financial Statement 2007 contain certain forward-looking statements as defined under US legislation (Section 21E of the Securities Exchange Act of 1934) with respect to the financial condition, results of operations and business of InterContinental Hotels Group and certain plans and objectives of the Board of Directors of InterContinental Hotels Group PLC with respect thereto. Such statements include, but are not limited to, statements made in the Message from the Chairman and Chief Executive. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. These statements are based on assumptions and assessments made by InterContinental Hotels Group's management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed in, or implied by, such forward-looking statements, including, but not limited to: the risks involved with the Group's reliance on the reputation of its brands and protection of its intellectual property rights; the risks relating to identifying, securing and retaining management and franchise agreements; the effect of political and economic developments; the ability to recruit and retain key personnel; events that adversely impact domestic or international travel, including terrorist incidents; the risks involved in the Group's reliance upon its proprietary reservation system and increased competition in reservation infrastructure; the risks involved with the Group's reliance on technologies and systems; the risks of the hotel industry supply and demand cycle; the possible lack of selected development opportunities; the risks related to corporate responsibility; the risk of litigation; the risks associated with the Group's ability to maintain adequate insurance; the Group's ability to borrow and satisfy debt covenants; compliance with data privacy regulations; and the risks associated with funding the defined benefits under its pension plans.

The main factors that could affect the business and financial results are described in the Business Review of the Annual Report and Financial Statements 2007 and also in any Annual Report of InterContinental Hotels Group PLC on Form 20-F for 2007 and for any subsequent year.

Design and production Corporate Edge www.corporateedge.com

Photography VisualMedia

Print Royle Print

This Report is printed on Revive 50:50 silk, which is made up of 25% post-consumer waste, 25% pre-consumer waste and 50% virgin fibre. Both mill and printer are certified with environmental management system ISO 14001 and the Forest Stewardship Council. Royle Print is also a 'Carbon Neutral Company'.

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