InterContinental Hotels UK Pension Plan
September 2009 Newsletter

Welcome to this year's Pension Newsletter, which includes the latest Summary Funding Statement and a summary of the Plan's Accounts for the year to 31 March 2009.

The Summary Funding Statement provides an update to the results of the 2006 actuarial valuation and indicates the value of the Plan's assets and liabilities as at 31 March 2009.

A full set of the Report and Accounts is available on request from the Company Management Team or can be viewed or downloaded from the IHG pensions website at **www.pensions.ichotelsgroup.com**

Changes to the Trustee Board

The Trustee Board is made up of nine Directors: three nominated by the Company, three Independent Directors and three nominated and selected from the Plan's membership. Since last year's newsletter, Sam Dow, who has been an Independent Director since 2004, was appointed as Chairman on 1 May 2009 following the retirement of Trevor Jones, who has been replaced as an Independent Director by Nita Tinn. Keith Reed and Tony Bainbridge resigned as Employer-Nominated Directors, with Jerry Sykes appointed as a replacement for one of the vacant positions and the other position will be filled in due course.

David Coles Vice President Pensions

IHG offer to deferred members

An offer was made last autumn to deferred members to enhance their transfer value by 25% if they transferred their benefits out of the Plan. There was a high level of take up, despite the global financial crisis occurring in the middle of the offer period.

In the end, everyone who wished to take up the offer was allowed to do so. 823 members (about 30% of those eligible) transferred out of the Plan and either received an additional transfer value or a lump sum, subject to tax and National Insurance.

The Trustee reviewed the Company's offer and was content that it conformed to the Pensions Regulator's guidelines. Free advice for members was made available from an independent financial adviser.

The Company contributed £11.7m, including expenses and National Insurance contributions, and £40.7m of transfer values came from Plan funds.

2009 Budget – impact on pensions

In the Chancellor's April Budget it was announced that:

- Tax relief on pensions savings for high earners will be reduced to the basic rate from 6 April 2011.
- There will be new tax charges up to 5 April 2011 for high earners with a 'changed pattern of pensions savings'.
- These 'changed pattern of pensions savings' tax charges are designed to prevent pensions savings being brought forward to avoid the post 2011 taxes.

Impact on IHG employees

Those earning less than £150,000 a year will generally not be affected by the Budget announcement. However, the annual income test is not straightforward, so a detailed communication has been sent to all active Executive members of the Defined Benefit (DB) and Defined Contribution (DC) sections of the Plan. If you are concerned as to whether you will be affected, please contact Keith Sully on **01283 513097** or email **keith.sully@ihg.com**

Have you visited the pensions website?

In the pensions area of the IHG website, you'll find lots of useful information about the Plan including downloadable handbooks, forms, newsletters and the full Trustee's Report and Accounts. There are also links to dc-Link and other useful websites. Why not visit the site to see for yourself? The address is **www.pensions.ichotelsgroup.com**

Financials

The information on this page provides a summary of the Plan's accounts (excluding the DC section-specific assets) for the year ended 31 March 2009.

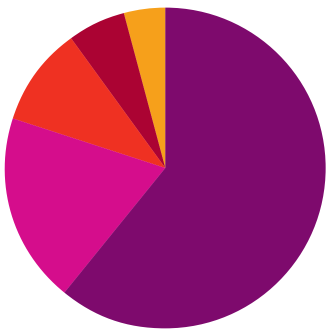
To remind you, members of the DB section receive a pension at retirement based on their salary at retirement (or on leaving), their pensionable service and a formula detailed in the Plan rules.

Plan investments

In the 12 months to 31 March 2009, the return on the Plan's investments was -8.1%.

Asset allocation

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



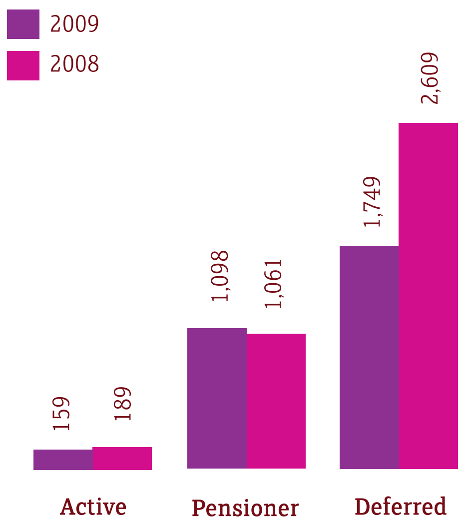
Risk-reducing investments:	
Liability matching investments (e.g. Government and company bonds)	61%
Return-seeking investments:	
Global equities	19%
Funds of hedge funds	10%
Property	6%
Currency	4%
Total	**100%**

	£000
Value of the Fund at 31 March 2008	**308,286**
Income	
Member contributions	794
Company contributions*	10,411
Transfer values received	17
Other income	585
Total	**11,807**
Expenditure	
Pensions	4,712
Cash options	1,488
Death benefits	69
Transfer values paid	45,800
Life assurance premium	58
Administration expenses	896
Total	**53,023**
Return on investments	(23,466)
Value of the Fund at 31 March 2009	**243,604**

* Includes £4.222m in special contributions

Membership

The bar chart below shows the membership details at 31 March 2009 and 2008:



Financials – DC section of the Plan

The information on this page provides a summary of the Plan's accounts for the DC section for the year ended 31 March 2009.

To remind you, for DC section members, contributions from the Company and members are invested in individual accounts and then used to buy a pension at retirement. With DC schemes, it's very important for members to take an active role in saving for their retirement. For further details, call the DC Choice Helpline on 01733 353418.

Investment performance

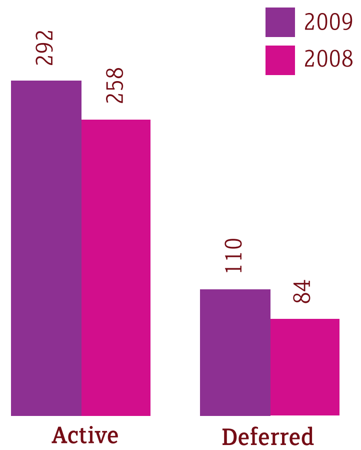
By 31 March 2009, membership of the DC section had increased to 402 and approximately £5.8m was invested across 15 funds. Over the year, the returns of the passive investment choices tracked their benchmark indices. The active property fund out-performed its target, but the three active equity choices managed by Investment Solutions and Russell Investment Group all underperformed their targets. During 2008, the Trustee Board carried out a review of the DC investment provider and the Lifestyle option to ensure that they met members' needs. Following advice from the investment consultant, the Board has decided to change the investment provider to BlackRock Investment Management (UK) Ltd and to change the structure of the Lifestyle option. Details of the new investment choices and the new Lifestyle structure have recently been communicated to members. The transfer of funds to the new investment provider is planned to take place by December 2009.

	£000
Value of the Fund at 31 March 2008	**5,115**
Income	
Member contributions	900
Company contributions*	1,369
Transfer values received	222
Total	**2,491**
Expenditure	
Refunds of contributions	25
Transfer values paid	121
Total	**146**
Changes in market value of investments	(1,369)
Value of the Fund at 31 March 2009	**6,091***

* Includes contributions receivable by the Plan at 31 March 2009 of £258,000. The value of actual contributions received and invested at this date is £5,833,000.

Membership

The bar chart below shows the membership details at 31 March 2009 and 2008:



Investment split

The number of members who invested in the Freestyle and Lifestyle investment options and the market value invested in both at 31 March 2009 are shown in the table opposite:

	Members	£000 Value of investments
Freestyle	62	1,297
Lifestyle	340	4,536
Total	**402**	**5,833**

Online facility

Did you know that you can manage your individual account online with dc-Link? This will enable you to check your current balance, the contributions paid into your account, the returns on your investment and to switch your investment choices online. If you are interested in this facility, call the DC Choice Helpline on 01733 353418.

Summary Funding Statement for the DB section of the Plan

The purpose of this statement is to summarise the Plan's funding position as at the most recent completed actuarial valuation and estimate the figures at the most recent Plan year end. A valuation is basically a financial health check undertaken by an actuary at least every three years. The valuation compares the value of the benefits earned up to the valuation date that the Plan will have to pay in the future (the liabilities) with the amount of money currently invested in the Plan (the assets). The funding level is the percentage of the liabilities covered by the assets. If the Plan has fewer assets than liabilities, it is said to have a "shortfall". If the assets are more than the liabilities, there is said to be a "surplus". The Company contribution required in the future is set at each valuation and together with contributions made by active members, the money is invested to help provide your benefits.

How well funded is the Plan?

The Plan's funding level is calculated by the Plan's Actuary on a basis using gilt (Government stock) yields less 0.5% a year. This is a prudent approach and tells us what the position would be if all the Plan's money earned slightly less than gilts, the target being a 100% funding level. On this basis, at the last formal actuarial valuation on 31 March 2006, the Plan's liabilities of £339m exceeded the assets by £81m, indicating a funding level of 76%.

In last year's statement, the estimated funding level as at 31 March 2008 was 76%, which was equivalent to a shortfall of £95m. Based on assumptions consistent with those adopted for the actuarial valuation as at 31 March 2006, the funding level was estimated by the Plan's Actuary to have fallen to 70% at 31 March 2009. This is equivalent to an estimated shortfall of £104m.

The funding levels are summarised in the following table:

Source	Liabilities	Assets	Shortfall	Funding level
Formal valuation 31 March 2006	£339m	£258m	£81m	76%
Estimated position at 31 March 2008	£400m	£305m	£95m	76%
Estimated position at 31 March 2009	£346m	£242m	£104m	70%

What has influenced the funding level?

The Company has contributed £30m in deficit funding instalments since the 31 March 2006 valuation. Additionally an enhanced transfer value exercise has resulted in a reduction in the deficit of £20.4m. However, the estimated funding level at 31 March 2009 has deteriorated since the 2006 actuarial valuation. This is because the positive impact of the additional contributions and the gain from the transfer value exercise have been more than offset by a reduction in the return on UK Government gilt stocks (which has increased the value of the Plan's liabilities) and lower returns from investments than expected.

The funding level and the shortfall have worsened since we last reported to you (see the 31 March 2008 figures shown above). This is due to a fall in asset values and the impact of the Government's policy of quantitative easing which has led in part to a reduction in the return on UK Government gilt stocks.

The Company also makes regular contributions to the Plan. In accordance with the Actuary's recommendation, from April 2007 these have been 31.5% of Annual Earnings for Staff section members and 75.1% of Pensionable Salary for Executive section members.

Please note that as long as the Plan continues, benefits will continue to be paid in full even though the funding level may be below target from time to time.

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

The Trustee agreed with the Company that the shortfall of £81m in the 2006 valuation would be met by the Company making additional payments totalling £40m over the period up to 31 January 2009, and targeting higher investment returns on the Plan's assets above those used to assess the liabilities. The Company put in £30m of its additional payments by January 2008, and paid an additional £11.7m as part of the enhanced transfer value exercise which resulted in the improvement in the funding of £20.4m.

At the time of the 31 March 2006 actuarial valuation, it was the intention of the Trustee that the shortfall should be eliminated in six to eight years from the 2006 valuation date, i.e. by 31 March 2014 at the latest. This position will be reviewed as part of the process of completing the 31 March 2009 actuarial valuation, which will not be finalised until early 2010. The Plan's funding position depends on the Plan's experience to the valuation date and the scheme-specific assumptions used for the 2009 valuation, which may be changed from those used to give the estimated 31 March 2009 funding position shown above. The contribution strategy, including the timing of any additional contributions needed to meet any funding shortfall, will be agreed by the Company and Trustee as part of the valuation process.

What protection is there for members?

The money to pay members' pensions is held in a fund separate from the Company's assets. If the Plan were ever to wind up (come to an end), the Company would be required to pay a contribution into the Plan to enable members' benefits to be completely secured with an insurance company. At the 31 March 2006 actuarial valuation, it was estimated that the cost of securing accrued benefits with an insurance company was £399m, exceeding the assets by £141m. It is estimated that the shortfall on this basis has reduced to £106m as at 31 March 2009. The reduction in the shortfall on this basis is partly due to increased competition from insurers, resulting in a lower cost of securing the benefits.

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

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

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

There have not been any payments to the Company out of the Plan in the 12 months to 31 March 2009, nor at any time since the Plan commenced. Such payments are not allowed by the Plan rules.

Where can I get more information?

We'll continue to provide a Summary Funding Statement in future annual Pension Newsletters. A list of more detailed documents providing further information is set out below.

- **Annual benefit statement** – active DB members received this year's statement in August. Statements for deferred members will be issued early in the New Year.
- **DB section Plan handbook** – provides an overview of the DB section of the Plan.
- **Actuarial Valuation report** – shows the Plan's funding position as at 31 March 2006.
- **Statement of Funding Principles** – explains the approach adopted to funding the Plan.
- **Schedule of Contributions** – shows how much money is being paid into the Plan.
- **Statement of Investment Principles** – explains how the Trustee invests the money paid into the Plan.
- **Annual Report and Accounts** – shows the Plan's income and expenditure in the year up to 31 March. It also includes a report on the Plan's governance and investment performance.

If you have any questions about this statement or you would like to request a copy of any of the above documents, please contact the Company Management Team. The contact details are provided on the back page.

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

Time is running out if you want to take your pension before age 55

As previously communicated to you, with effect from 6 April 2010 the earliest you can take your pension benefits will increase from age 50 to 55. This does not apply to those who were members of the Executive DB section at 6 April 2006, who retire from active, but not deferred, membership. Benefits may be paid earlier if retiring through ill health. Plan members aged between 50 and 55, interested in taking pension before age 55 should contact Keith Sully (**01283 513097** or email **keith.sully@ihg.com**) before January 2010 to obtain a quote. This is so that if you want to take your pension before age 55 there will be sufficient time in which to process your application for benefits and to put your pension into payment before 6 April 2010.

Flexible retirement

If you are an active member of the DB section over age 50, subject to Company consent you can apply to receive your pension immediately under the Company's Early Retirement Facility and continue to work for IHG. This is subject to you continuing to work no more than 50% of your previous hours for the Company. You would then be able to join the DC section during your continued employment with IHG and build up more retirement benefits. The minimum age for this flexible retirement will increase to 55 from 6 April 2010, except for members of the Executive section at 6 April 2006, who retain the right to retire from age 50.

Pension increases

Under the rules of the Plan:

a) Pensions in payment in excess of any Guaranteed Minimum Pension (GMP) are increased by the rise in the Retail Prices Index (RPI), up to a maximum of:
   - 5% a year for pensionable service up to 5 April 2006; and
   - 2.5% a year for pensionable service after 5 April 2006.

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

The annual increase is based on the rise in the RPI over the year to May. As this was minus 1.1% for the year to May 2009, no increase will be applied to pensions this year.

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

Year	% increase
2008	4.3
2007	4.3
2006	3.0
2005	2.9
2004	2.8
2003	3.0
2002	1.1
2001	2.1
2000	3.1
1999	1.3

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

Trustee Directors

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

Three Independent:
Sam Dow (Chairman), Anthony Stern, Nita Tinn*

Three Employer Nominated:
Jerry Sykes*, Ralph Wheeler, Vacant position*
* Nita Tinn was appointed as a Director in August 2009, following the retirement of Trevor Jones. Jerry Sykes was appointed as a Director in April 2009, following the resignation of Keith Reed. Tony Bainbridge resigned as a Director in August 2009 and his replacement will be appointed in due course.

Three Member Nominated:
Terry Critchley (elected from active membership),
Lewis Howes (selected from deferred/pensioner membership),
Paul Phillips (elected from active membership)

Company Management Team

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

David Coles† - VP Pensions
Rob Watson - Secretary to the Trustee
Keith Sully - Pensions Manager
†Contact for Internal Disputes Resolution Procedures.

Jerry Sykes - VP Benefits Plan Investments
Jane Young - Trust Accountant
Angela Schofield - Secretary and Administrator

You can contact the Company Management Team at:
No.1 First Avenue, Centrum 100, Burton-on-Trent,
Staffordshire DE14 2WB
Tel: **01283 511 311** Email: **enquiries.pensions@ihg.com**

Contact details

DB members

Active/deferred members
Mercer Limited, Stratford Court, Cranmore Boulevard,
Solihull, West Midlands B90 4QT
Tel: 0870 850 0982
Email: ichotelsgroup@mercer.com

Pensioners

Mercer Limited, 52 Westgate, Chichester,
West Sussex PO19 3HF
Tel: 0870 850 0715
Email: ichotelsgroup.pensionpayments@mercer.com

DC members

dc-Link, Churchgate, 1 New Road,
Peterborough PE1 1TT
DC Choice Helpline: 01733 353418
Email: pensionsadmin@dc-link.co.uk

Tax Office details (Pension Payroll)

Birmingham Tax Office, City Centre, 36 Union Street,
Birmingham B2 4AE
Tel: 0845 302 1437

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