InterContinental Hotels UK Pension Plan

ANNUAL REPORT

2006

Registered number: 10263243

InterContinental Hotels UK Pension Plan ("the Plan")

Chairman's Report

This has been another year of much change and activity, especially in the membership profile, the governance of the Plan and the need to put new Government legislation into practice.

Following the sale of most of the UK hotels and the closure of the InterContinental London for refurbishment, the active membership of the Defined Benefit (DB) section of the Plan has reduced from approximately 1,300 at March 2005 to 200 at March 2006. This makes the profile of the Plan more mature in the sense that the benefits expected to be paid are more certain but that the opportunity to recover any funding shortfall from ongoing contributions has reduced.

Accordingly it has been agreed with InterContinental Hotels Group ("the Company") to bring forward the next actuarial valuation by a year so that it takes place as at March 2006. This will be the first time that the Plan has conducted a valuation under the Pensions Act 2004 and the associated code of practice, which is a more prescriptive process than hitherto. Following the valuation the Trustee Board will reconsider the Plan's funding objective and investment strategy, taking into account its assessment of the financial strength of the Company both now and in the future.

In the meantime the Plan's actuary has provided estimates of the funding position based on the 2004 valuation. The funding level increased across the year from 107% to 113% at March 2006. This measure of funding, the "ongoing" basis, still involves material risk as it assumes that equity markets will grow long-term well above risk-free interest rates. The Trustee Board has a more stringent funding objective, based on the "solvency" basis as described in more detail in the Trustee's Report, which does not rely on equity returns to deliver member benefits. On this basis the Plan was 81% funded at March 2006, compared to 80% at March 2005, and it has been intended to bridge the 19% gap over the average time to retirement of the existing active membership. The Board intends to review this timescale as already indicated.

The Plan comprises Defined Benefit (DB) and Defined Contribution (DC) sections. During the year the DB section participated with the Britvic Pension Plan in a Common Investment Fund (CIF) which combined the assets of the two Plans for management and custody purposes, thereby generating worthwhile cost savings for both. The bulk of the commentary on markets and investment performance appears in the Annual Report of the CIF which is attached to this Report as an appendix. Following the Initial Public Offering of Britvic PLC in December 2005 and the subsequent legal separation of the two plan sponsors, UK regulations forbid the continuation of the CIF so that it was terminated with its assets being transferred to the Plans on 31 March 2006.This had no impact on the value of the Plan's investments although it will mean that the cost savings enjoyed by the Plan through common management will be lost. The Plan has consequently taken control of all its investments and has established an Investment Committee to carry out this role.

There has been strong growth in both the equity and bond markets during the year and the return on the Plan's investments for the scheme year was 19.9%. The Board has decided to appoint a currency manager to seek additional investment return.

The Plan's financial statements also include in detail, assets, benefit payments, contributions and all other relevant information in respect of the DC Section of the Plan. At 31 March 2006, there were 234 DC members, with assets in their personal accounts totalling approximately £2,264,000.

The Company has agreed to increase the independence of the Trustee Board by relinquishing its rights to remove the corporate Trustee and to appoint the three independent directors of the Trustee. In future these directors will themselves appoint successors, subject to consent by the Company.

Since the last report there have been some changes to the directors of the Trustee Board. Peter Lichfield resigned as a member-nominated director when he left employment and John Cameron was replaced by Lori Gaytan as an employer-nominated director. An election to replace Peter has been put on hold until new selection arrangements have been put in place for member-nominated directors in accord with the Pensions Act.

The management of the Plan is generally compliant with published guidelines including most of the Myners principles.

Changes to the Plan rules were proposed by the Company to reflect the new tax regime introduced by the Finance Act 2004 with effect from 6 April 2006 and these were reviewed by the Trustee Board before acceptance and communication to members. The Board also reviewed each of the new codes of practice from the Pensions Regulator resulting from the Pensions Act 2004 and took action as described in the Trustee's report.

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

Trevor Jones
Chairman
17 August 2006

Trustee's Report

1. Introduction

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

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

The Plan provides pensions and other related benefits, under Defined Benefit (DB) arrangements, including protection for dependants in the event of death in service. The Plan also operates a Defined Contribution (DC) section. It is governed by a Trust Deed and Rules, copies of which are held for inspection by the Company's Global Human Resources Department. The Plan is approved by the Inland Revenue under Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988, and its DB contributing members are contracted-out of the State Second Pension.

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

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

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

2. Statement of Trustee's responsibilities

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

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

- show a true and fair view of the financial transactions of the Plan during the Plan year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year, and
- contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice titled 'Financial Reports of Pension Schemes'.

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

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

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

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

The Trustee confirms that the financial statements on pages 14 to 23 have been prepared and audited in accordance with the regulations made under section 41(1) and (6) of the Pensions Act 1995, on a going concern basis and in accordance with the Statement of Recommended Practice (SORP), issued in 1996 and revised in 2002 by the Accounting Standards Board and the Pensions Research Accountants Group, which itself accords with the requirements of the Pensions Act 1995.

3. Management of the Plan

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

The Company has agreed to relinquish its power to remove the corporate Trustee and thereby make the corporate Trustee fully independent of the Company.

Throughout the year to March 2006 the day to day management of the Plan's investment portfolios, which were combined with those of the Britvic Pension Plan, was delegated to a second corporate Trustee, InterContinental Hotels CIF Limited (the 'CIF Trustee'). Members of the Board of the CIF Trustee are drawn from the Trustee Boards of both Plans. Section 1 of the Investment Report in the CIF's Annual Report (Appendix 1) has further discussion of the Common Investment Fund and the role of the CIF Trustee. The CIF Trustee Board reported to the Board of the Plan Trustee on a quarterly basis.

Following the Initial Public Offering of Britvic PLC in December 2005 the sponsoring employers of the CIF ceased to be members of the same group of companies. The Plan's solicitors advised that they had received guidance from HM Revenue & Customs that the CIF could not continue for more than 12 months after the date of separation. In accordance with the Trust Deed, Six Continents Ltd, with the agreement of Britvic, gave notification of termination. The effective date of 31 March 2006 was chosen as it was the end of the CIF's financial year although it was acknowledged that the formal termination would occur at a later date, approximately September 2006. From 1 April 2006 the Plan's investments have been managed by the Plan Trustee and an Investment Committee has been formed to carry out this responsibility.

During the year to March 2006 the composition of the Plan Board was 9 Trustee directors comprising:

- 6 Trustee directors appointed by Six Continents Ltd, one of whom is appointed Chairman. 3 of these were not employed by the Company and so were termed "independent".
- 3 Trustee directors elected by active Plan members from among their number.

The Trustee directors at 31 March 2006 are listed in Figure 1.

Figure 1

Employer Nominated	Member Nominated
Trevor Jones†º* (Chairman)	
John Cameron	Terry Critchley*
Sam Dow†*	Susan Radford º
David House	
Anthony Stern†º*	
Ralph Wheeler º*	

º Director of the CIF Trustee
** Member of Investment Committee*
† Independent employer-nominated Director

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

- Terry Critchley was appointed as a member nominated director in May 2005.
- Peter Lichfield resigned as a member nominated director in November 2005.
- John Cameron resigned, and Lori Gaytan was appointed, as an employer nominated director in May 2006.

The member nominated directors listed above and Messrs House, Stern and Wheeler were themselves members of the Plan.

During the year to 31 March 2006 the Plan Board and the Board of the Common Investment Fund Trustee met respectively 4 and 6 times. The directors received two full day's training, one covering the new regulations imposed by the Pensions Act 2004 and the other on investment topics. In addition each director carried out a self-assessment of their own knowledge and understanding, and so identified areas where further training was required.

The Company has agreed to relinquish its right to remove the independent Trustee directors, who then gain the power to appoint their successors, subject to a veto by the Company which it cannot use unreasonably. There will then be only 3 directors appointed by the Company.

During the year a ballot was held to fill the vacant position for a member nominated director but both of the nominated candidates were ineligible to take up the position as they had ceased to be members in service, and so the election was void. In the meantime regulations have been introduced relating to the selection of member nominated directors. The Trustee Board is considering how best to implement them and members will be informed when this is finalised.

4. Plan Advisers and Administration

Figure 2

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

As a result of the retirement of Roy Carr in October 2005 David Coleman, also of Mercer Human Resource Consulting Limited, was appointed as Plan Actuary.

The Plan is managed by InterContinental Hotels Ltd. Benefits administration for the DB section is outsourced to Mercer Human Resource Consulting, and for the DC section to LCP DC Link: contact details are provided in section 14.

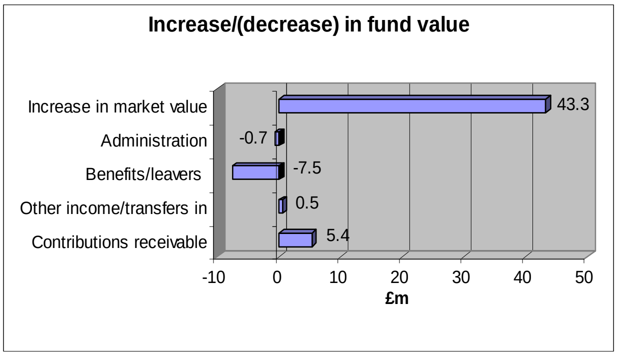
5. The Sponsoring Employer

The sponsoring employer of the Plan throughout the year ended 31 March 2006 was Six Continents Ltd (formerly called Six Continents PLC), a subsidiary company of InterContinental Hotels Group PLC, whose registered office is 67 Alma Road, Windsor, Berkshire SL4 3HD. The address of the Trustee is No 1 First Avenue, Centrum 100, Burton upon Trent DE14 2WB.

6. Financial Development of the Plan

The net increase in Plan value for the year ended 31 March 2006 of £41.0 million is shown on pages 14 and 15 of the financial statements and analysed graphically in Figure 3.

Figure 3



The detail of the Plan's return on assets appears in the Annual Report of the CIF which is attached as Appendix 1. The Plan's disclosed return on assets consists mainly of the movement in the value of the Plan's unit holdings in the CIF, which reflects the Plan's share of the return on the underlying assets and of the costs and income related to investment as disclosed in the CIF's Annual Report. In addition there are amounts of investment income and return from the, as yet small, DC section and AVCs.

The costs of investment are reported in the CIF financial statements with the costs of administering the Scheme being incurred directly by the Plan. Investment management and custodial costs are paid by the CIF and the Plan's share reflected in the value of its unit holdings.

The total costs of administering the Plan in the year were £740,000 which is analysed in note 8 to the financial statements, while its share of the management, custodial and administration costs of the CIF (excluding investment managers' fees and rebates) was 40.7% of the total costs of £363,000 disclosed in note 5 to the financial statements of the CIF (Appendix 1). Total costs therefore amounted to £888,000, equivalent to 0.37% of the average market value of the Plan's assets during the year. This compares with £763,000 (0.41%) in the previous year.

7. Plan Funding Levels

It is intended that under normal circumstances the Actuary carries out a full actuarial valuation every three years. The Actuary also provides an approximate estimate of the ongoing Plan funding level on a quarterly basis and this is presented to the Plan Trustee Board.

The estimate of the funding level at 31 March 2006 based on the valuation carried out as at 31 March 2004 was 113% on an ongoing basis which compares with the estimate in last year's report of 107%.

Although investment returns from equities were strong in the year they coincided with historically low bond yields. Bond yields are an important factor in determining the funding level as they are used to calculate the current cost of future benefits. Consequently the improvement in the funding level is not as much as may be first thought, as the strength of the investment returns has been largely offset by an increase in the cost of the benefits. For a discussion of the market conditions over the year, please refer to the Investment Report in the CIF Annual Report.

The ongoing basis assumes that the Plan continues unchanged and earns a return on its assets based on long-term expectations. As the Plan is fully funded on an ongoing basis and has few active members after the sale of most of the UK hotels, it is considered that it is more appropriate to measure funding on a "solvency" (also known as "discontinuance") basis which assumes that the fund is discontinued at the date of measurement and that the assets are invested in UK gilts after taking account of investment costs, thus removing the exposure to market movements in equities. Under the solvency measure the funding level was 81% at March 2006 compared to 80% at the same time last year.

The funding objectives are set out in the Investment Report.

The nature of the Plan has changed significantly during the year in that it has become more mature. The number of members in service has reduced significantly which means that expected benefits can be estimated with more certainty, and there is much less opportunity to remedy any shortfall in funding from ongoing contributions. The economic profile of the sponsor has also changed as it has sold most of its assets. Accordingly it has been agreed with the Company to bring forward the next actuarial valuation to be as at March 2006, a year earlier than would be required under the normal triennial cycle. The valuation will be carried under the requirements of the Pensions Act 2004 and the new code of practice on scheme funding issued by the Pensions Regulator which sets out a more prescriptive process than hitherto. Following the valuation the Trustee Board will set a Statutory Funding Objective and reconsider the Plan's funding requirements and investment strategy. It is likely that this process will take until the end of 2006 and possibly longer.

8. Funding Risks

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

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

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

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

d) the risk that the sponsor does not or cannot make the contributions necessary to support the solvency funding level.

The principal employer has the right at any time to terminate its liability to pay contributions to the Plan subject to the provisions set out in the Trust Deed and Rules and funding obligations imposed by law. The principal employer has not indicated that it intends to exercise this right.

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

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

- 100% of pensions in payment or accrued benefits for members who have attained Normal Pension Age (NPA), or irrespective of age are either receiving a spouse's pension or a pension due to ill-health
- 90% of accrued benefits for other members, subject to a maximum which is currently equivalent to £26,050 per year at age 65

both with limited protection against the effects of inflation, and with attaching 50% spouse/partner pensions.

9. Risk Assessment

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

10. Changes to Plan Benefits

To meet the requirement of the Civil Partnership Act 2004, from 5 December 2005 a member's civil partner is treated the same as a spouse in relation to all Plan service.

The Finance Act 2004 tax changes for UK pension schemes were implemented on 6 April 2006. The major impact of the new law is that many of the previous complex regulations that applied to pension schemes have been replaced by an overall limit on the tax allowance for each individual. The key changes that impact on Plan members are:-

- A lifetime allowance (LTA) of £1.5 million from all registered pension schemes (the new terminology for "tax approved" schemes) increasing by regular increments to £1.8 million by the 2010/11 tax year. The LTA is the most that an individual can accrue in registered pension schemes without triggering a new additional tax charge. Any target Plan benefits that do not fall within the LTA will be provided from the unfunded InterContinental Executive Top-Up Scheme.

- An annual personal allowance of tax relief for contributions or pensions accrual of £215,000, increasing by £10,000 each year to £255,000 by 2010/11.
- Up to 25% of the capital value of a member's accrued benefit may be taken as tax-free cash on retirement up to a maximum of 25% of the LTA.
- The possibility of being able to contribute to more than one pension arrangement at the same time.
- For most members, increased scope to pay Additional Voluntary Contributions.
- From April 2010 an increase in the earliest age from which pension benefits can be paid from 50 to 55 (though certain members will retain the right to retire at age 50) although benefits may, as currently, be paid earlier in cases of ill health.
- Increased retirement flexibility allowing pension benefits to become payable whilst members continue working.

Also from 6 April 2006, under the DB section, pension increases in respect of Plan pensions earned after 5 April 2006 will be guaranteed to be in line with the lesser of the rise in the RPI and 2.5% per year. The previous guarantee of providing increases in line with the lesser of RPI and 5% per year continues to apply for pensions earned up to 5 April 2006. If the increase in RPI exceeds the guaranteed rates, the Company and Trustee's aim (although not a promise) is to award further annual pension increases of two-thirds the excess over the guaranteed rates.

11. Myners Report

Summarised below are the principles contained in the report issued by Paul Myners in March 2001 and the Trustee's assessment of the Plan's compliance with each. Early in 2005 the UK government carried out consultations on revisions to these principles and the Trustee intends to review these revisions when finalised and adopt them as appropriate.

a) Effective Decision Making

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

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

b) Clear Objectives

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

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

c) Focus on Asset Allocation

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

This is a principal focus of the Trustee Board. One of the reasons behind the appointment of managers of managers for most of the equity portfolio was to enable the Trustee directors to spend more time on asset allocation.

d) Expert Advice

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

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

e) Explicit Mandates

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

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

f) Activism

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

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

g) Appropriate Benchmarks

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

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

h) Performance Measurement

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

The Fund places great emphasis on investment performance measurement and in the year under review received regular independent qualitative monitoring of investment managers. The Investment Committee is considering the most appropriate arrangements following the termination of the CIF.

In response to Myners, regular assessments will be made of the performance of the advisers and the Trustee going forward.

i) Transparency

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

The Statement of Investment Principles covers these requirements except for manager fees structures which are considered to be commercially sensitive.

j) Defined Contribution sections

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

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

k) Regular Reporting

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

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

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

12. Plan Membership

(a) Defined Benefit (DB) Section

Figure 4 below shows the movement in DB membership numbers during the year ended 31 March 2006 with total membership falling from 3,980 to 3,931 during the course of the year.

Figure 4	Total
Members in service	
At 31 March 2005(reported)	1,296
Adjustments	(22)
At 31 March 2005(adjusted)	1,274
Withdrawals	(957)
Deaths in service	0
Retirements	(84)
At 31 March 2006	233
Pensioners	
At 31 March 2005(reported)	803
Adjustments	11
At 31 March 2005(adjusted)	814
Retirements	167
Deaths	(18)
Dependants ceasing	(1)
Trivial commutation	(4)
At 31 March 2006	958
Deferred pensioners	
At 31 March 2005(reported)	1,881
Adjustments	12
At 31 March 2005(adjusted)	1,893
New entrants	955
Retirements	(73)
Withdrawals	(33)
Deaths	(2)
At 31 March 2006	2,740

At the end of the Plan year there were 134 DB members paying Additional Voluntary Contributions (AVCs) (2005 – 233) and 200 deferred members (2005 – 164) with AVC benefits remaining in the Plan.

(b) Defined Contribution (DC) Section

The DC section of the Plan had 234 members at 31 March 2006, compared to 285 at 31 March 2005, as shown below:

Figure 5	**Total**
Members in service	
At 31 March 2005	262
New entrants	75
Deaths	(1)
Withdrawals	(166)
At 31 March 2006	170
Deferred pensioners	
At 31 March 2005	23
New entrants	155
Withdrawals	(114)
At 31 March 2006	64

At the end of the Plan year there were 30 DC members paying AVCs.

13. Schedule of Contributions

The first formal Schedule of Contributions was put in place in January 2005. From 6 April 2006 the Schedule was amended to take account of the impact of the changes summarised in Section 10 on employer's contributions relating to the executive section. Both Schedules have been certified by the Actuary and copies of the certifications are at pages 30 and 31.

14. Contact for Further Information

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

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

DC section
LCP DC Link Limited
Telephone helpline: 01733 353418

15. Approval of Reports

The Trustee's Report, together with the Investment Report on pages 9 to 11 and the Compliance Report on page 24 of this Annual Report were approved by the Trustee directors at their meeting on 17 August 2006 and Trevor Jones and Ralph Wheeler were authorised to evidence that approval by signing this report on behalf of the Board.

Signed — Trevor Jones

Ralph Wheeler

17 August 2006

Investment Report

1. Investment Management Arrangements

Until 31 March 2006 the Plan invested in a Common Investment Fund (the CIF) together with the Britvic Pension Plan. The CIF operated under a trust deed drawn up between the two Plans, the sponsoring employers and the corporate Trustee, InterContinental Hotels CIF Limited (the CIF Trustee). The Board of the CIF Trustee consists of Trustee directors from each Plan Board. As such, the Plan Trustee delegated the management of their investment assets to the CIF Trustee, with the latter entity reporting into the Plan Trustee Boards on a quarterly basis.

The Plans' interest in the underlying assets was expressed as notional pooled fund units in the CIF which are valued and allocated on the basis of the original inward transfer of assets into the CIF by the Plans and subsequent cash injections/withdrawals by each Plan. New cash results in the issuing of additional units, while cash withdrawals requires the withdrawing Plan to redeem units accordingly. The asset base underlying the value of the Plan's units, the way in which the Plan's share of the units in issue is calculated and all matters to do with the management of the CIF are disclosed in the Annual Report of the CIF which is included in the Plan's Annual Report as Appendix 1. Also included in the CIF Report is a discussion of the performance of the markets in which the Fund is invested on the Plan's behalf, and of the management of relationships with external parties to whom the CIF Trustee in turn delegates specialist asset management and custodial services.

As set out in the Trustee's Report the CIF was effectively terminated on 31 March 2006 and the investments distributed to the participating Plans according to the unit holdings. Accordingly investments valued at £257.9 million were transferred to the Plan on that date. This new arrangement had no effect on the beneficial ownership of the investments and apart from changes to fee structures, and the vehicle for holding property investments as set out below, the arrangements with investment managers and the custodian were effectively unchanged.

2. Investment Principles

The Trustee maintains a Statement of Investment Principles as required by Section 35 of the Pensions Act 1995. The statement sets out the Trustee's policy towards the strategic and day-to-day management of the funds under its control and includes a description of its strategic objectives, the allocation of investment designed to achieve these objectives and the restrictions placed on the specialist investment managers. It also includes details of the Trustee's policy statement in respect of Socially Responsible Investment and guidelines for the investment managers on voting policy in respect of the shares held.

The Statement is available to members at any time by written application to the Secretary to the Trustee.

3. Investment Strategy and Performance

A comprehensive review of investment strategy was conducted during 2004 which took into account the results of the actuarial valuation as at 31st March 2004. The Trustee then adopted investment objectives as follows:

1. To achieve an expected return on assets to enable the Plan to meet or exceed a 100% solvency level over the average time to retirement of the existing active membership, which was estimated at about 15 years.

2. To limit the likelihood to 1 in 4 of the funding level falling by 10% or more on a gilt only basis in the next three years.

There were no changes to investment strategy during the year as the Trustee intends to review the Plan's funding and investment objectives following the actuarial valuation as at March 2006.

Following a review and on the advice of the investment consultant the Trustee decided to pursue active and passive currency management, in the case of the latter extending the existing hedging policy from bonds to include partial hedging of equities. These have two distinct purposes – active management seeks to deliver extra return by trading under a controlled environment in currency markets, and passive management protects the value of the Plan's foreign investments in sterling. The active element will be managed through a pooled fund run by Record Currency Management and the passive element through hedged pooled funds operated by the Plan's existing managers in parallel to the unhedged funds in which the Plan currently invests.

The Plan has a strategy which specifies the asset allocation in ranges for the main asset categories of bonds, equities and property, which are then subdivided into regional and asset types. The following list sets out the manager structure:

Bonds:
1. An active mandate using a composite benchmark of UK fixed interest and index-linked gilts and corporate bonds.
2. A pooled index-tracking allocation in UK index-linked gilts.
3. An allocation to a pooled fund of global non-government bonds.

UK Equities:
1. Active investment through two “manager of managers” funds.
2. A pooled index-tracking allocation.

Global equities:
Active investment in pooled fund.

Continental Europe and Far East equities:
Active investment through a manager of managers' fund.

North American equities:
A pooled index-tracking allocation.

Property:
Active investment in pooled fund.

Currency:
Active investment in pooled fund.

The nominal portfolio of assets reflecting the Trustee's strategy represents the main benchmark for the Fund. In the twelve months to 31 March 2006, the CIF produced a return of 20.6% compared to the overall benchmark return of 20.2% Over the three years to March 2006 these were 17.1% and 17.3% per annum respectively. Due to its higher weighting of bonds than the Britvic Plan, the Plan's share of the Fund returned 19.9% (Three years to March 2006: 16.9% per annum).

4. Additional Voluntary Contribution (AVC) Fund

The weighted average rate of return earned on the Prudential Assurance Company's deposit fund during the year was 4.75%. The interest calculated is paid annually.

The other Prudential option available, the With Profits Fund, is based upon individual accounts accruing interest and bonus on a monthly basis, the return being related to that of a broad spread of investments managed by the Prudential. The Prudential's Annual Bonus Declaration on the With Profits Fund for 31 March 2006 was 3%. The average annual yield for investments in this fund over the five-year period ended 31 March 2006 was 6.05%.

The performance of AVCs invested in the same funds as the DC section is set out in section 5 below.

5. DC section

In the year to March 2006 contributions relating to members of the DC section have been invested in a range of specialist investment funds with DC Choice, which was extended in April 2005 as reported last year. Members are able to choose between a Lifestyle and a Freestyle option. Under the Lifestyle option the choice of investment funds is made for the member, whilst under the Freestyle option members make their own fund decisions.

Most DC section members select the Lifestyle option which invests in the Passive 50:50 Global Equity fund until 10 years before retirement. As a result 80% of the DC section investments are in this fund.

These funds are listed below, together with their investment return before fees for the year ending 31 March 2006:

Fund	Return
Equities	
50/50 Global Equity - Passive	31.3%
50/50 Global Equity - Active	32.4%
UK Equity - Passive	27.8%
UK Equity - Active	28.4%
Global ex-UK Equity - Passive	34.6%
Global ex-UK Equity - Active	36.3%
Continental European Equity - Passive	35.9%
US Equity - Passive	24.2%
Japan Equity - Passive	49.0%
Pacific basin ex-Japan - Passive	34.1%
Bonds	
All Stock UK Corporate Bond - Active	8.1%
Long-dated Fixed Interest Gilt - Passive	10.7%
Over 5 Year Index-linked Gilt - Passive	9.0%
Property - Active	19.6%
Sterling Liquidity	4.7%

These returns are stated before fees which are paid by the Plan except for AVCs where they are borne by the member.

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

6. Major Assets

Immediately prior to the effective termination of the CIF on 31 March 2006 the Plan's major asset holdings were units in the CIF. The major asset holdings of the CIF at that point are disclosed in the CIF Investment Report in Appendix 1.

7. Employer-related Investments

The Statement of Investment Principles specifies that employer related investments, as defined by Section 40, Pensions Act 1995, may not in the generality be entered into except when reasonably incidental to an investment policy designed to track the FT Actuaries All Share Index. In exceptional circumstances, such an investment may be made but the decision to do so must be supported by professional advice and explicitly approved by the

Trustee Board. The Pensions Act 1995 limits employer related investments to a maximum 5% of the total value of the net assets of the Fund. Employer related investments are disclosed in note 16 to the Accounts of the Plan and at 31 March 2006 represented 1.3% of the resources of the Plan. However, when offset against the matching Capital Note with another subsidiary of IHG, the net exposure is negligible.

Actuary's Report

A full Actuarial Valuation of the Plan was undertaken as at 31 March 2004. Given the changes in membership and introduction of the new funding regime, the Trustee Board has decided that a further full Actuarial Valuation should be carried out as at 31 March 2006, a year earlier than required.

As noted in last year's Trustee report, the main funding objective of the Trustee Board is based on a "solvency" basis, which assumes that the Plan's assets will achieve a return in line with UK gilts, after taking account of investment costs. On this basis, the Plan is estimated to be 81% funded as at March 2006. The valuation will confirm the position and consider whether it is appropriate to allow for some further projected improvements in life expectancy.

The Trustee Board will discuss the valuation with the Company and decide on the response to the position, including whether additional contributions are required, the allowance for asset out-performance over gilts and the appropriate period over which to target meeting or exceeding a 100% solvency level.

In the meantime, the Company is making contributions as follows:

- 15.6% of annual earnings of members of the main Defined Benefit (DB) Section;

- 31.4% of pensionable salaries of members in the DB Executive Section, increasing to 38.5% for periods after 5 April 2006 following Tax Simplification changes;

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

An Actuarial Statement required by the Occupational Pension Scheme (Minimum Funding Requirement and Actuarial Valuations) Regulations, 1996 has been provided by the Actuary and is incorporated in this Annual Report on pages 27 to 31.

Mercer Human Resource Consulting Ltd
Birmingham

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

We have audited the Plan's financial statements for the year ended 31 March 2006 which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 16. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Trustee, as a body, in accordance with regulation 3 (c) of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our audit work, for this report, or the opinion we have formed.

Respective responsibilities of Trustee and Auditor

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements show a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the financial transactions of the Plan during the Plan year ended 31 March 2006, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year, and contain the information specified in Regulation 3 of, and the Schedule to, The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

Ernst & Young LLP
Registered Auditor
Birmingham
Date: 17 August 2006

Notes:

1. The maintenance and integrity of the InterContinental Hotels UK Pension Plan's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ

The Financial Statement of the InterContinental Hotels UK Pension Plan

Fund Account – for the year ended 31 March 2006

	Note	2006 Defined Benefit Section £000	2006 Defined Contribution Section £000	2006 Total £000	2005 Total £000
Contributions					
Contributions receivable	*3*	4,304	1,101	5,405	59,489
Transfer values receivable	*4*	193	28	221	92
Other income	*5*	213	42	255	680
		4,710	1,171	5,881	60,261
Benefits					
Benefits payable	*6*	6,128	2	6,130	4,199
Leavers	*7*	960	322	1,282	175
Life Insurance		42	-	42	61
Administration expenses	*8*	740	-	740	671
		7,870	324	8,194	5,106
Net (withdrawals)/additions from dealings with members		(3,160)	847	(2,313)	55,155
Returns on investments					
Investment income	*9*	139	-	139	278
Change in value of CIF units	*11*	42,558	-	42,558	16,188
Change in market value of investments	*12*	147	437	584	216
Net returns on investments		42,844	437	43,281	16,682
Net increase in the Fund during the year		39,684	1,284	40,968	71,837
Net assets of the Plan					
At 31 March 2005		220,853	1,137	221,990	150,153
Transfers between sections	*5*	239	(239)	-	-
At 31 March 2006		260,776	2,182	262,958	221,990

Net Assets Statement – as at 31 March 2006

	Note	2006 £000	2005 £000
Defined Benefit Section			
Investments			
Ordinary plan investments	*10*	258,043	216,835
AVC investments	*12*	2,351	2,441
Other	*13*	3,488	3,439
Borrowings	*13*	(3,488)	(3,439)
Current assets and liabilities	*14*	382	1,577
Net assets of Defined Benefit Section		260,776	220,853
Defined Contribution Section			
Assets designated to members			
Investments			
Ordinary plan investments	*12*	2,187	1,030
AVC investments	*12*	77	27
Current assets and liabilities	*14*	(82)	80
Net assets of Defined Contribution Section		2,182	1,137
Net assets of the Plan at 31 March 2006		262,958	221,990

These financial statements were approved by the Trustee's Board on 17 August 2006. The accompanying notes form an integral part of these financial statements.

Signed on behalf of the Board:

Trevor Jones Chairman

Ralph Wheeler Director

Notes to the Financial Statements

1. Basis of preparation

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

The financial statements summarise the transactions of the Plan and the net assets of the Plan at 31st March 2006 at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Plan year. The actuarial position of the Plan, which does take account of such obligations, is dealt with in the statements by the actuary on pages 27 to 31 of this annual report and these financial statements should be read in conjunction with them.

2. Accounting policies

a) **Investments**

i) Units in the Common Investment Fund are valued by the custodian based on the Plan's share of the underlying assets at 31 March 2006.

ii) Managed funds are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investments. Accrued income is included in investments.

iii) Managed funds attributable to DC members are valued at prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

iii) The investment in the share capital of SC Hotels UK Pensions SARL is valued at the amount receivable on exercise of the option described in note 16.

b) **Investment Income**

Income from interest on expected option exercises is accrued on a time-apportioned basis.

c) **Foreign currencies**

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

d) **Transfer values**

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

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

e) **Contributions**

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

f) **Benefits payable**

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

g) **Administrative expenses**

Administrative expenses are accounted for on an accruals basis.

h) **AVCs**

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

i) Analysis between DB and DC sections

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

3. Contributions receivable

		2006		2005
	DB section £000	DC section £000	Total £000	Total £000
From Participating Companies				
normal	3,284	514	3,798	5,804
special	103	0	103	51,272
DC scheme administration charge	0	197	197	171
	3,387	711	4,098	57,247
From the members				
normal	816	343	1,159	2,006
AVCs	101	47	148	236
	917	390	1,307	2,242
	4,304	1,101	5,405	59,489

Special contributions into the Plan in 2005 included £51million payable by the Company to improve the Plan's actuarial funding level. Other special contributions are pension augmentation payments, made entirely at the company's discretion. The DC scheme administration charge covers both the costs of administering the DC scheme and DC member risk benefits.

4. Other transfer values receivable

	2006 DB section £000	DC section £000	Total £000	2005 Total £000
Groups of individuals	0	0	0	(117)
Individual members	193	28	221	209
	193	28	221	92

The value shown in 2005 for groups of individuals results from the finalisation of the amount receivable from the Compass Scheme in respect of members previously employed within the Compass Group, for which £14.1m was accounted for in 2004.

5. Other income

	2006 DB section £000	DC section £000	Total £000	2005 Total £000
Age Related Rebates (from the Department of Work and Pensions)	213	0	213	640
Employers contributions retained	0	42	42	40
	213	42	255	680

Employers contributions retained arise where DC members have left the Plan but are not eligible to withdraw, and do not choose to transfer, employers' contributions in respect of their membership. These contributions, together with the DC administration charge of £197,000 as shown in note 3, have been retained for the benefit of all members and are shown as a transfer between sections, and total £239,000.

6. Benefits payable

	2006 DB section £000	DC section £000	Total £000	2005 Total £000
Retirement:				
Members', spouses' and dependants' pensions	3,655	0	3,655	3,058
Cash options	2,357	0	2,357	895
	6,012	0	6,012	3,953
Death benefits:				
Life assurance	104	0	104	204
Pension guarantee	1	0	1	23
Contributions repaid	11	2	13	19
	116	2	118	246
	6,128	2	6,130	4,199

The value of pensions is arrived at after netting off annuity income of £20,000.

7. Payments to and on behalf of leavers

	2006 DB section £000	2006 DC section £000	2006 Total £000	2005 Total £000
Refunds to members leaving service	0	180	180	78
Individual members transferring to approved schemes	960	142	1,102	97
	960	322	1,282	175

8. Administration expenses

The expenses of Plan administration are, other than for certain advisory functions provided to the Company by staff of the administrator and the Plan's advisers, borne by the Plan. In the year to 31 March 2006, total costs were £740,000 compared to £671,000 in 2005. The increase was mainly due to the introduction of the Pension Protection Fund levy and the cost of obtaining legal advice on the impact of new regulations. Benefits administration costs include £15,000 relating to the DC section. The expenditure for the year may be analysed as follows:-

	2006 £000	2005 £000
Actuarial and legal fees	219	180
Benefits administration	186	184
Company administration	175	171
Pension Protection Fund levy	52	0
Trustee fees and expenses	40	28
Member communications	26	32
Audit fee	23	16
Trustee indemnity insurance	19	25
Investment strategy review & risk assessment	0	35
	740	671

9. Investment income

	2006 £000	2005 £000
Interest on expected option exercise (see note 16)	124	264
Interest on cash deposits	15	14
	139	278

10. Investments: Ordinary Plan Investments

	Value at 31.3.2005 £000	Transfer from Common Investment Fund £000	**Value at 31.3.2006 £000**
Fixed interest sterling securities			
- Government	0	35,484	35,484
- Non Government	0	10,631	10,631
UK Index linked securities	0	44,752	44,752
Foreign currency bonds	0	21,932	21,932
UK equities	0	63,809	63,809
Overseas equities			
- North America	0	19,774	19,774
- Europe Euro zone	0	15,811	15,811
- Europe non Euro zone	0	4,785	4,785
- Far East	0	25,106	25,106
Property	0	14,351	14,351
Accrued income	0	562	562
	0	256,997	256,997
Cash deposits	0	937	937
	0	257,934	257,934
Units in CIF (see note 11)	216,835		109
	216,835		258,043

Pooled investment vehicles included in the above			
Fixed interest sterling securities			
- Government	0	445	445
- Non Government	0	2,001	2,001
UK Index linked securities	0	33,708	33,708
Foreign currency bonds	0	19,788	19,788
UK equities	0	63,809	63,809
Overseas equities	0		
- North America	0	19,774	19,774
- Europe Euro zone	0	15,811	15,811
- Europe non Euro zone	0	4,785	4,785
- Far East	0	25,106	25,106
Property	0	14,351	14,351
	0	199,578	199,578

11. InterContinental Hotels Common Investment Fund

The Plan participated, on behalf of its DB membership, in the InterContinental Hotels Common Investment Fund (CIF) together with the Britvic Pension Plan. As set out in the Trustee Report the CIF was terminated on 31st March 2006 and most of the assets transferred to the participating plans.

The Plan's investment in the units of the CIF is as shown below:-

Value	**2006 £000**	**2005 £000**
Value at 31st March 2005	216,835	123,822
Asset transfers	-	13,750
Amounts invested in CIF	-	63,075
Amounts disinvested from CIF	(1,350)	-
Change in value of units	42,558	16,188
	258,043	216,835
Asset transfers on termination	(257,934)	-
Value at 31st March 2006	**109**	**216,835**

Allocation by units	**Equities**	**Bonds held directly**		**Bonds in pooled vehicles**	**Property**	**Cash**	**Total**
		Ongoing	**Temporary**				
	Units	**Units**	**Units**	**Units**	**Units**	**Units**	**£000**
Balance at 31 March 2005	74.696	26.831	40.000	25.171	9.682	0.470	
Contributions/withdrawals	-	-	-	-	-	(1.350)	
Transfers between asset classes	(7.568)	27.715	(40.000)	21.133	0.601	(0.747)	
Income/(expenses)	-	-	-	-	-	2.540	
Balance at 31 March 2006 before termination	67.128	54.546	-	46.304	10.283	0.913	
Value per unit £	1,925,934	1,054,454	-	1,208,140	1,399,100	1,000,000	
Value £ thousand	**129,285**	**57,517**	**-**	**55,941**	**14,387**	**913**	**258,043**
Assets transferred	**(129,285)**	**(57,536)**	**-**	**(55,941)**	**(14,350)**	**(822)**	**(257,934)**
Balance after transfers on termination	**-**	**(19)**	**-**	**-**	**37**	**91**	**109**

The Plan's holding represented 39.85% of the value of the CIF at 31st March 2006 before the transfers on termination (compared with 42.49% at 31st March 2005). The financial statements of the CIF are attached as Appendix 1.

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

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

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

	Value at 1.4.2005 £000	Transfers £000	Purchases at cost £000	Sales Proceeds £000	Change in market value £000	**Value at 31.3.2006 £000**
DB section:						
AVC investments	2,441	(1)	123	(359)	147	2,351
DC section:						
Ordinary Plan investments	1,030	(28)	849	(87)	423	2,187
AVC investments	27	-	36	-	14	77
	3,498	(29)	1,008	(446)	584	4,615

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

	2006 DB section £000	**DC section £000**	**Total £000**	**2005 Total £000**
Prudential	1,795	0	1,795	1,923
Other investments closed to new members	409	0	409	418
Investment Solutions	147	77	224	127
	2,351	77	2,428	2,468

13. Other Investments and Borrowings

Other investments of £3,488,000 (2005 – £3,439,000) comprise 100% of the share capital of SC Hotels UK Pensions SARL, a subsidiary of InterContinental Hotels Group PLC, as described in note 16. This is matched by a Capital Note issued to SC Luxembourg Investments SARL which is repayable if the Trustee exercises its option to sell the investment to InterContinental Hotels Group PLC on 27th October 2008 or in certain circumstances at an earlier date. Further details are given in Note 16 on Employer related investments.

14. Current assets & liabilities

	2006 DB section £000	**DC section £000**	**Total £000**	**2005 Total £000**
Contributions due from Participating Companies	20	51	71	151
Contributions due from members: normal	48	32	80	152
AVCs	4	16	20	32
Cash balances	128	0	128	347
Interest receivable from exercise of option (note 16)	622	0	622	498
Other debtors	390	0	390	925
Transfer values payable	(471)	(181)	(652)	-
Unpaid benefits	(54)	0	(54)	(202)
Other creditors	(305)	0	(305)	(246)
	382	(82)	300	1,657

Contributions due have been paid to the Plan subsequent to the year-end in accordance with the Schedule of Contributions. Unpaid benefits relate principally to lump sums due on retirement or death of members. Other debtors consist primarily of age related rebates receivable from the Department of Work and Pensions of £213,000 relating to the year to 31st March 2006 and £157,000 relating to prior years. Transfer values payable arose from the decision of some members, who had ceased to be in service as a result of the hotel sales, to take transfer values.

15. Related party transactions

The Trustee has an agreement with InterContinental Hotels Ltd, the immediate holding company of the sponsoring company, to provide administration services to the Trustee. For the year to 31st March 2006 the cost was £170,000 (2005 - £163,000).

Fees and expenses payable to Trustee directors of £40,000 were borne by the Plan (2005 - £28,000). The Plan has received employee contributions from Participating Companies in respect of Trustee directors and employees of the administrator who are also contributing members of the Plan, in accordance with Plan rules. One Trustee director receives a pension from the Plan.

Stop–loss insurance cover for death in service was taken out with White Shield Insurance Company Ltd, a subsidiary undertaking of InterContinental Hotels Group PLC, at an annual premium of £11,000.

16. Employer related investments

There was one instance of late payment of contributions in the year amounting to £3,879 which was paid two days after it was due.

As set out in note 13 the Plan owns the entire share capital of SC Hotels UK Pensions SARL, an investment holding company incorporated in Luxembourg. This company held minority stakes in German hotel companies in which subsidiary undertakings of InterContinental Hotels Group PLC (IHG) also held an investment. To finance this purchase the Plan has issued a Capital Note to SC Luxembourg Investments SARL, another subsidiary undertaking of IHG, which is repayable on 27th October 2008 (or earlier in certain circumstances). The Plan has an option to sell the investment to IHG on 27th October 2008 (or earlier in certain circumstances) for the purchase price together with accumulated interest paid on the Capital Note and also compound interest at the rate of 7% per annum. The last element of the exercise price would be worth €2,013,000 if the investment is held for its full term.

Following the year-end SC Hotels UK Pensions SARL sold its investments for greater than their carrying value in return for cash.

Compliance Report

1. **Changes to the Plan**

There were no changes to the Plan during the year. From 6 April 2006 amendments were made as set out in Section 10 of the Trustee's Report.

2. **Tax Status**

As stated in the Trustee's Report, the Plan is approved by the Inland Revenue as an exempt approved scheme under the provisions of Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988, and, to the Trustee's knowledge, there is no reason why such approval should be prejudiced or withdrawn.

3. **Pension Increases**

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

Both pensions in payment and deferred pensions in excess of any GMP were increased by 2.9% from 1st October 2005, with proportionate increases for those who retired after 30th September 2004. This fully covered the RPI movement for the relevant period. Increases in the GMP element are provided on a statutory basis, in line with the RPI movement, partly by the State Scheme.

From 6 April 2006 amendments were made as set out in Section 10 of the Trustee report.

4. **Calculation of Transfer Values**

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

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

5. **Change in Actuary**

The change in Scheme Actuary resulted from retirement and there were no other circumstances connected with his resignation.

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

We have examined the summary of contributions to the InterContinental Hotels UK Pension Plan in respect of the Plan year ended 31 March 2006 to which this statement is attached.

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

Respective responsibilities of Trustee and Auditor

As described in the statement of Trustee's Responsibilities, the Plan's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan. The Trustee has a general responsibility for procuring that contributions are made to the Plan in accordance with the schedule of contributions.

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

Basis of statement about contributions

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

Qualified statement about contributions

As explained in the Summary of Contributions there were some instances during the year of payments of employee contributions not being calculated in accordance with the schedule of contributions.

Except for the incorrect payments as detailed above, in our opinion the contributions payable to the Plan during the year ended 31 March 2006, as reported in the attached Summary of Contributions, have been paid in accordance with the schedule of contributions certified by the Plan actuary on 21 January 2005.

Ernst & Young LLP
Registered Auditor
Birmingham
Date: 17 August 2006

InterContinental Hotels UK Pension Plan
Summary of Contributions payable during the year ended 31st March 2006

During the year ended 31st March 2006, the contributions payable to the scheme under the Plan rules and the schedule of contributions were as follows:

	£000
Employer normal contributions	3,798
Employer special contributions	103
Defined Contribution scheme administration charge paid by employer	197
Employee normal contributions	1,159
Total contributions under the Plan rules and schedule of contributions	5,257
Employee additional voluntary contributions	148
Total contributions per note 3 of the financial statements	5,405

Signed on behalf of the Trustees

Trevor Jones
17 August 2006

Compliance with the Plan's schedule of contributions

As required by the Pensions Act 1995 the Trustee has agreed a schedule of contributions with the employer, which was certified by the Actuary on 21st January 2005 and was effective from that date. The schedule of contributions sets out the rates of employer and employee contributions and also the dates by which the contributions will be made to the Plan.

During the year there were some instances of errors in the calculation of members contributions which resulted in an underpayment to the Plan of £2,440 and an overpayment of £10,624. The employer has rectified these errors. In addition employee contributions of £3,879 in respect of overseas members for May 2005 were not received until 21 June 2005.

Information about contributions

The last actuarial valuation of the Plan took place as at 31st March 2004. A schedule of contributions was introduced on 1st January 2005 with revised contribution rates and a special contribution payable as set out in the Actuary's Report. Members' contribution rates were unchanged at 5% of Annual Earnings/Pensionable Salaries for Defined Benefit members and 3%, 4% or 5% of Plan Pay for Defined Contribution (DC) members as decided by each member. Also as set out in the Actuary's Report the employer makes a contribution to cover the cost of death in service benefits, ill-health benefits and expenses for DC members.

Actuarial Certificate

Ongoing funding statement

Actuarial Statement made for the purposes of Regulation 30 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996

Name of Plan	InterContinental Hotels UK Pension Plan
Effective date of valuation	31 March 2004

1. Security of prospective rights

In my opinion, the resources of the Plan are likely in the normal course of events to meet in full the liabilities of the Plan as they fall due. This statement assumes the Plan continues and does not mean that should the Plan wind up there would be sufficient assets to provide the full accrued benefits.

I have made assumptions consistent with market values, prospective investment returns and economic conditions at the effective date. Significant changes in market values of the assets after the effective date may mean that the assumptions and market values on which it is based are no longer appropriate. Depending on the circumstances, alternative assumptions may be appropriate (or contributions may need to be increased at or before the next valuation). It should also be noted that I have not assessed the Company's ability to meet future contribution requirements.

In giving this opinion, I have assumed that the following amounts will be paid to the Plan:

Description of contributions

Company contributions:

- to 31 December 2004	10.8% of Annual Earnings (main DB section members); plus 25.7% of Pensionable Salaries (Executive DB section members)
- from 1 January 2005	15.6% of Annual Earnings (main DB section members); plus 31.4% of Pensionable Salaries (Executive DB section members)
- additional one-off contribution paid in October 2004	£51 million
Member contributions:	as required by the Rules of the Plan
DC section contributions:	contributions paid to DC members' Personal Accounts as required by the Rules of the Plan. Additional Employer contributions equal to 2.5% of the total Plan Pay of the DC section members (3% in respect of DC Executive section members)
subject to review at future actuarial valuations.	

2. Summary of methods and assumptions used

Valuation method	Projected unit
Investment return pre-retirement	7.0% per annum
Investment return post-retirement	5.2% per annum
Salary increases	4.3% per annum
Pension increases	2.8% per annum

Further details of the methods and assumptions used are set out in my actuarial valuation addressed to the Trustee dated December 2004.

Signature	
Name	Roy W Carr
Date of signing	21 December 2004
Address	Mercer Human Resource Consulting Limited Four Brindleyplace Birmingham, B1 2JQ
Qualification	Fellow of the Faculty of Actuaries

Actuarial Certificate

Certification of Schedule of Contributions

Actuarial Certificate given for the purposes of Section 58 of the Pensions Act 1995 (Certification of Schedule of Contributions)

Name of Scheme	InterContinental Hotels UK Pension Plan

Adequacy of rates of contributions

1. I hereby certify that, in my opinion, the rates of the contributions payable in accordance with the schedule of contributions covering the period 21 January 2005 to 20 January 2010 are adequate for the purpose of securing that throughout the period it covers the scheme will meet the minimum funding requirement imposed by section 56(1) of the Pensions Act 1995.

2. In forming this opinion I have complied with the requirements imposed by sections 56(3) and 58 of the Pensions Act 1995, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 and the mandatory guidelines on minimum funding requirement (GN27), prepared and published by the Institute of Actuaries and the Faculty of Actuaries, and have made the assumptions prescribed by them.

Signature:	Roy W. Carr.
Name:	Roy W Carr
Date of signing:	21 January 2005
Address:	Mercer Human Resource Consulting Limited Four Brindleyplace Birmingham B1 2JQ
Qualification	Fellow of the Faculty of Actuaries

Note:

The certification of the adequacy of rates of contributions for the purpose of securing the meeting of the minimum funding requirement is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were wound up.

Appendix 1

InterContinental Hotels

Common Investment Fund

ANNUAL REPORT

2006

InterContinental Hotels Common Investment Fund

Chairman's Report

The Common Investment Fund (CIF) was established in 2003 to hold and manage the assets of the Britvic Pension Plan ("the Britvic Plan") and the InterContinental Hotels UK Pension Plan ("the Hotels Plan").

Each plan holds units in the fund, relating to their share of the assets. The CIF is managed by a corporate Trustee whose share capital is held equally by the corporate Trustees of the two participating Plans and whose directors are drawn from the corporate Trustee Boards of both Plans. Further details on the management of the CIF Trustee can be found in the Trustee's report.

Under UK regulations a CIF cannot continue to operate if the participating employers cease to be part of the same group of companies. The Initial Public Offering of Britvic PLC in December 2005 triggered such a separation so it has been necessary to terminate the CIF. As a result of the termination nearly all the assets of the CIF were transferred to the Plans at the end of March 2006 in accordance with their unit holdings, with a small amount held back for the remaining expenses. It is anticipated that the CIF Trustee Company will be wound up by the end of 2006. The termination has no impact on the value of these assets although the Plans will lose the economies of scale of managing the investments of the two schemes together.

The main activity in the year was the implementation of a revised bond structure for the Plans which took account of the introduction of an allocation to global non-government bonds managed by PIMCO. This involved the reinvestment of £70 million held temporarily in UK gilts with the CIF's bond managers. The Board also carried out a selection process for currency managers but the final decision was left to the new Investment Committees of the Plans since implementation was due to take place after the termination date.

In December 2005 the CIF received £30 million from the Britvic Plan and this was invested in bonds in accordance with the Plan's investment strategy.

In March 2006 the indirect property holdings were exchanged for units in the Osiris Property Fund. This was to preserve the diversification of the property investments following the split of the holdings caused by the termination of the CIF. The manager of the property allocation remains ING Real Estate.

In the year to March 2006 equity markets grew strongly, following the recovery in the preceding two years. In favourable economic conditions all the key equity markets rose. When expressed in sterling, globally equities delivered a total return of 29%, and UK equities increased by 28%. These returns were enhanced in sterling terms by the strength of the US dollar early in the year. Since the end of the CIF year, there has been some volatility in markets with concerns over the impact of increasing inflation on global economic growth. Most economists are continuing to predict steady growth, albeit at a lower level than in the past three years.

For a third year running strong equity markets coincided with positive returns in bond markets. Long-dated index-linked gilts grew by 9%, driven by strong demand from pension funds, whilst Government fixed interest bonds rose by 7% in the year to 31 March. Although a rise in the value of gilts benefits the Fund it also increases the valuation of the liabilities of the Plans by a greater amount and so, other things being equal, leads to a drop in the Plans' funding level.

During the year the property market continued to enjoy an unprecedented period of sustained growth, performing strongly again, and generating returns of 23%.

Across the year the Fund has grown by 20.6% after allowing for the timing of the new funding. This was slightly ahead of the Fund's benchmark.

The market value of the CIF increased from £510 million at the start of the year to £647 million immediately prior to the termination, reflecting market returns of £105 million and new funding of £32 million. These assets were transferred to the Britvic Plan (£389 million) and the Hotels Plan (£258 million) on 31st March 2006. Market and Fund performance are discussed in more detail in the Investment Report.

The membership of the Board has remained unchanged since the last Report and I would like to thank the CIF Trustee directors for their efforts throughout the year. I would also like to thank the IHG pensions team for their valuable support to the CIF during the last 12 months.

Trevor Jones
Chairman
3 August 2006

Trustee's Report

1. Introduction

The InterContinental Hotels Common Investment Fund (CIF) was established with effect from 1 April 2003 by combining the assets of the newly formed Britvic Pension Plan and InterContinental Hotels UK Pension Plan. The Fund is managed by a corporate trustee, InterContinental Hotels CIF Limited ('the Trustee'), which is jointly owned by the two Plan Trustees. The CIF is a bare trust and operates under the terms of a Trust Deed drawn up between the two participating Plan Trustees, the Plans' sponsoring employers and the CIF Trustee.

Following the Initial Public Offering of Britvic PLC in December 2005 the sponsoring employers ceased to be members of the same group of companies. The Plans' solicitors advised that they had received guidance from HM Revenue & Customs that the CIF could not continue for more than 12 months after the date of separation and in accordance with the Trust Deed, Six Continents Ltd, with the agreement of Britvic, gave notification of termination. The effective date of 31 March 2006 was chosen as it was the end of the CIF's financial year although it was acknowledged that the formal termination would occur at a later date, approximately September 2006.

2. Statement of Trustee's Responsibilities

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

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

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

- show a true and fair view of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year, and
- contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice ('Financial Reports of Pension Schemes').

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

3. Management of the CIF

The assets of the CIF are held entirely separately from those of the Plans' sponsors and are in the care of a corporate trustee – InterContinental Hotels CIF Limited – which is legally independent of Britvic PLC and InterContinental Hotels Group PLC and whose role is to ensure that the CIF is administered according to the Rules of the participating Plans and to safeguard the assets in the best interest of all Plan members. The power to appoint and remove the corporate Trustee is vested in Britvic Pensions Limited and IC Hotels UK Pension Trust Limited.

The Board of InterContinental Hotels CIF Limited operates with a total of 7 directors, 3 from the Britvic Pension Plan Trustee Board, 3 from the InterContinental Hotels UK Pension Plan Trustee Board and the Chairman.

The Trustee directors at 31st March 2006 and throughout the year were as listed in Figure 1. During the year the Board met 6 times.

Figure 1

Trevor Jones †‡
(Chairman)

Andrew Chesters †

Peter Murch †

Susan Radford ‡

Anthony Stern ‡

Keith Walter †

Ralph Wheeler ‡

†director of Britvic Pensions Limited
‡director of IC Hotels UK Pension Trust Limited

4. CIF Management Costs

The costs of managing the CIF assets are summarised in note 5 to the financial statements

Administration costs amounted to £363,000 compared to £223,000 in the previous year. The increase is principally due to investment consultancy costs being £55,000 higher arising from increased activity on manager selection and the inclusion of £66,000 for closure costs.

Figure 2

	2006	2005
	£000	£000
Administration and advisers	293	172
Custody fees	56	43
Audit fee	14	8
	363	223

Administration and advisers costs comprise the management charge from InterContinental Hotels Group for managing the CIF's affairs, together with fees charged by the investment consultant, independent monitoring service and legal adviser.

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

Investment managers fees and rebates amounted to net income of £195,000 (2005 - £199,000 income). These tend to be volatile from year to year as rebates and performance fees fluctuate.

Figure 3

	2006	2005
	£000	£000
Investment managers' fees	231	151
Rebates from managers	(426)	(350)
	(195)	(199)

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

Management costs are paid from the CIF and charged to each participating Plan on the basis of relative asset holdings, reflected through unit price adjustments.

5. Approval of Reports

The Trustee's Report and the Investment Report on pages 2 to 6 were approved by the Trustee directors at their meeting of 3 August 2006 and Messrs. Jones and Wheeler were authorised to sign this report on behalf of the Board.

Signed Trevor Jones

Ralph Wheeler

3 August 2006

Investment Report

1. Investment Managers and Custodial Arrangements

Within the overall investment strategy set by the Plans' Trustees, the day to day management of the Fund is delegated to the CIF Trustee who in turn delegates responsibility for fund management to external fund managers.

For most of the year the CIF has been implementing investment strategies which were set by the Plan Boards following the actuarial valuations as at March 2004. These strategies reflect the relative maturity of the two Plans, their funding level, the perceived strength of the sponsoring employer and the tolerance to volatility. This results in an allocation to bond, equities and property assets. Most of each asset class is allocated to active investment: that is where a manager is mandated to aim to exceed the relevant benchmark index within specified parameters of risk. Half of the equity allocation is held in UK equities. The rest of the equity allocation is apportioned into regions across the world on a broadly equal weighted basis, although a greater weight was assigned to the Far East at the expense of the Continental European allocation due to the perception of higher growth potential.

At the beginning of the year the CIF held £70 million in UK gilts pending the formal appointment of a manager for global non-government bonds and changes in asset allocation by both Plans to accommodate this asset type. As reported last year PIMCO were appointed as the new manager and the transition to the new bond allocation completed by September 2005, which involved investment with the two existing bond managers as well as PIMCO. This included minor relaxations in investment restrictions on Insight's mandate in order to enable them to produce outperformance when bond price volatility was low.

In conjunction with the Initial Public Offering of Britvic PLC in December 2005 the employer made £30 million of additional contributions to the Britvic Plan which was passed to the CIF for investment in bonds according to the allocation previously agreed.

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

The manager structure for the CIF remained unchanged in the year under review in anticipation of the termination. However both Plan Boards decided to pursue active currency management and currency hedging, and in order to reduce costs the selection process was carried out jointly with the final decisions being taken by the new Investment Committees of the Plan Trustees.

The indirect property investments held by the CIF were considered too small to provide a fully diversified exposure to the UK property market for the Plans following the CIF termination, and so in March 2006 they were exchanged for units in the Osiris Property Fund ("the Fund") which is also managed by ING Real Estate and has similar objectives to the individual holdings. One of the holdings had to be sold as it was ineligible to be placed in the Fund. The Fund's benchmark is slightly different from previously in that it excludes specialist funds which give rise to higher volatility.

The CIF had agreements with seven managers in a relatively simple structure and all of these have now been terminated.

The CIF's investment managers at 31 March 2006 are listed in Figure 4.

Figure 4

Brief	Manager
Fixed interest and inflation-linked instruments	Insight Asset Management (Global) Ltd
UK indexed index-linked gilts fund	Legal & General Assurance (Pensions Management) Ltd
Global bonds	PIMCO
UK indexed equities fund	Legal & General Assurance (Pensions Management) Ltd
UK active equities	Northern Trust Global Advisors Ltd Russell Investment Group
European (ex UK) equities	Russell Investment Group
North American indexed equities fund	Legal & General Assurance (Pensions Management) Ltd
Far East equities	Russell Investment Group
Global equities	Wellington Management Company LLP
Property	ING Real Estate Investment Management Ltd

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

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

2. Investment Principles

The CIF Trustee is bound by the provisions of the participating Plan Trustees' Statements of Investment Principles prepared and updated by them as required by Section 35 of the Pensions Act 1995. It is consequently obliged to ensure compliance by the CIF's investment managers with the investment restrictions contained therein and must conduct strategic and day to day management of the Fund in accordance with the strategic objectives outlined in the Statement.

3. Review of Investment and Performance

a) Equities and Bonds

In the year to March 2006 global growth remained robust despite volatile oil prices but inflationary pressures continued to build. The UK economy suffered in the early months due to concerns over consumer spending but recovered due to a rebound in the housing market. US growth remained strong despite a series of increases in interest rates but was affected by the impact of severe hurricanes on consumer spending and net exports. Growth in the Eurozone remained weak due to high unemployment. The Japanese economy resumed economic growth after a technical recession in the previous year.

In the favourable economic conditions all the key equity markets rose strongly. When expressed in sterling terms the total returns were:

UK	+28%
Continental Europe	+36%
North America	+24%
Japan	+46%
Pacific Rim	+40%
Global	+29%

Currency movements, in particular the strength of the US dollar in the early part of the year, significantly enhanced returns from the North American and the Pacific Rim markets. However since the end of the Fund year global markets and the dollar have fallen back on fears of the impact of resurging inflation on economic growth. Most economists are continuing to predict steady growth, albeit at a lower level than recently.

For a third year running strong equity markets coincided with positive returns in bond markets. Long-dated index-linked gilts grew by 9%, sterling corporate bonds by 8%, Government fixed interest bonds by 7% and global corporate bonds by 4% in the year to 31 March. The demand for index-linked gilts was driven primarily by pension funds in early 2006.

b) Property

The sector continued to perform strongly, with the overall return for the year at 23%, up from 18% last year. The growth came from yield compression on the back of strong institutional demand supported by rental growth.

c) Manager Performance

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

Insight and Wellington were appointed in April 2003. Insight has slightly outperformed its benchmark but the global pooled fund managed by Wellington has underperformed over these 3 years following a period of strong outperformance. Given the imminent termination of the CIF the Board considered that this matter was best addressed by each Plan Board separately.

With the exception of PIMCO (September 2005), the remaining managers were appointed in the year to March 2004. It is therefore too early to assess the performance of these managers. That said the Russell UK Equity Fund has materially underperformed since appointment and there is little chance that it will recover in the remaining year of assessment. Indeed only the Russell Japan Equity Fund and the ING property holding have exceeded target performance to date. These performance issues have been brought to the attention of the Plan Boards.

d) Fund Return

Figure 5 illustrates the performance of the Fund for the year to 31 March 2006 and the three years since inception:

Figure 5

Period to 31.3.06	Overall Benchmark % p.a.	Actual Fund Return % p.a.
1 year	20.2%	20.6%
3 years	17.3%	17.1%

4. Major Assets

The Fund's major assets by value appear in Figure 6 below which lists the Fund's 10 largest holdings, valued as at 31 March 2006 prior to the transfer to the participating plans on termination.

Figure 6

		Market Value £m	**% of Total Assets**
1.	L&G Index Linked Gilts Fund	80.4	12.5
2.	Russell UK Equity Fund	66.2	10.3
3.	Northern Trust UK Equity Fund	62.8	9.7
4.	PIMCO Global Investment Grade Credit Fund	53.0	8.2
5	Russell Continental European Equity Fund	45.4	7.0
6.	Osiris Property Fund	37.6	5.8
7.	L&G UK Equity Index Fund	36.1	5.6
8.	L&G North American Equity Index Fund	34.1	5.3
9.	Wellington Global Research Equity Fund	31.7	4.9
10.	Russell Pacific Basin Equity Fund	30.8	4.8

Independent auditors' report to the Trustee of the InterContinental Hotels Common Investment Fund

We have audited the Plan's financial statements for the year ended 31 March 2006 which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 12. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Trustee, as a body, in accordance with regulation 3 (c) of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our audit work, for this report, or the opinion we have formed.

Respective responsibilities of Trustee and Auditor

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements show a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the financial transactions of the Fund during the Fund year ended 31 March 2006, and of the amount and disposition at that date of its assets and liabilities,.

Ernst & Young LLP
Registered Auditor
Birmingham
Date: 3 August 2006

The Financial Statements of the InterContinental Hotels Common Investment Fund

Fund Account – for the year ended 31 March 2006

	Note	2006 £000	2005 £000
Returns on investments			
Investment income	*4*	7,287	5,445
Change in market value of investments	*6*	98,484	34,890
Investment management, administration and custody fees	*5*	(168)	(24)
Net returns on investments		105,603	40,311
Asset transfers and cash received from:			
Britvic Pension Plan	*7*	32,950	30,800
InterContinental Hotels UK Pension Plan	*7*	(1,350)	76,825
Total additional funds and assets		31,600	107,625
Asset transfers on termination:			
Britvic Pension Plan	*7*	(389,281)	-
InterContinental Hotels UK Pension Plan	*7*	(257,934)	-
Total assets transferred		(647,215)	-
Net (decrease)/increase in the Fund during the year		(510,012)	147,936
Net assets of the Fund			
at 31 March 2005		510,288	362,352
at 31 March 2006		276	510,288

Net Assets Statement as at 31 March 2006

	Note	2006 £000	2005 £000
Investments	*6*	46	507,576
Cash deposits	*8*	14	2,486
Other	*9*	-	(906)
		60	509,156
Current assets and liabilities	*10*	216	1,132
Net assets of the Fund at 31 March 2006		276	510,288
Participants' funds			
Britvic Pension Plan	*7*	167	293,453
InterContinental Hotels UK Pension Plan	*7*	109	216,835
		276	510,288

The accompanying notes form an integral part of these financial statements.

Signed on behalf of the Board

Trevor Jones — Chairman
Ralph Wheeler — Director
3 August 2006

Notes to the Financial Statements

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes, as they apply to investments. They have been prepared on an accruals basis except where otherwise indicated.

2. Accounting policies

a) **Investments**

i) Managed funds are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investments. Accrued income is included in investments.

ii) Investment management fees are accounted for on an accruals basis. Acquisition costs are included in the purchase cost of investments.

iii) Futures and options are valued at market prices at the year-end and are reflected in the financial statements on the basis of associated economic exposure within the relevant investment category.

iv) Property unit trusts are valued on a middle market basis.

b) **Investment Income**

i) Income from fixed interest and index-linked securities is accounted for on the date stocks are quoted ex-interest.

ii) Income from cash and short term deposits is accounted for on an accruals basis.

c) **Foreign currencies**

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

d) **Change in market value of investments**

Change in market value of investments comprises:-

i) investment income from pooled investment vehicles (e.g. unit trusts, open-ended investment companies) where this is accumulated within the value of units or automatically reinvested in additional units.

ii) profits and losses on the sale of investments together with changes in market values of investments during the year.

iii) the difference between the contract price of financial futures and the market value at the balance sheet date.

iv) profits and losses on the translation of foreign currency assets and liabilities.

3. Operation of the Common Investment Fund

The Common Investment Fund (CIF) was created from the transfer of assets of the Britvic Pension Plan and InterContinental Hotels UK Pension Plan, with effect from 1 April 2003. The resultant fund was placed under the management control of a Corporate Trustee, InterContinental Hotels CIF Limited, with members of the Board of the Trustee drawn from the Directors of the Trustee Company of each of the participating Plans. Ownership of the assets remained vested in the participating Plans who were deemed to hold units in the CIF to the value of their initial contribution as adjusted for their subsequent introduction/withdrawal of value from the CIF, and market movements. In general, units issued and redeemed in this process are at a price calculated by the custodian at the previous month end. If the size of the transaction or the movement in markets between the valuation date and the date of the transaction was sufficiently large to make a material difference to the value of the units issued or redeemed, an estimate was made at a date closer to the date of the transaction and the unit price adjusted accordingly.

Following notice of termination by one of the participating employers, nearly all the assets were transferred to the participating plans on 31st March 2006 with £276,000 retained to cover residual costs.

4. Investment income

	2006 £000	2005 £000
Income from fixed interest sterling securities	5,633	4,054
Income from UK index-linked securities	207	162
Income from foreign currency bonds	260	227
Income from pooled investment vehicles	1,103	841
Interest on cash deposits	84	161
	7,287	5,445

5. Investment management, administration & custody fees

	2006 £000	2005 £000
Administration and advisers	293	172
Custody fees	56	43
Audit fee	14	8
Administration costs	363	223
Fees payable to investment managers	231	151
Rebates receivable from investment managers	(426)	(350)
Investment managers' fees & rebates	(195)	(199)
	168	24

Rebates from an investment manager arise where the fees negotiated with the manager are lower than those charged to its pooled investment vehicle.

6. Investments

	Value at 31.3.2005 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Transfers to participating Plans £000	**Value at 31.3.2006 £000**
Fixed interest sterling securities						
- Government	111,441	441,748	(473,891)	4,436	(83,734)	0
- Non Government	21,729	36,582	(34,088)	559	(24,782)	0
UK Index linked securities	63,901	80,603	(44,040)	5,955	(106,419)	0
Foreign currency bonds	5,561	88,012	(41,163)	(190)	(52,220)	0
UK equities	142,259	40	(11,615)	36,064	(166,748)	0
Overseas equities						
- North America	39,380	1,700	-	10,594	(51,674)	0
- Europe Euro zone	35,224	-	(5,544)	11,639	(41,319)	0
- Europe non Euro zone	9,964	-	(1,641)	4,181	(12,504)	0
- Far East	45,748	4,129	(3,290)	19,020	(65,607)	0
Property	30,692	39,701	(39,078)	6,277	(37,592)	0
Cash deposits (see note 8)	2,486	-	(1,828)	-	(644)	14
Other investments (see note 9)	(906)	957	-	(51)	-	0
	507,479	693,472	(656,178)	98,484	(643,243)	14
Accrued income	1,677					46
	509,156	693,472	(656,178)	98,484	(643,243)	60

Pooled investment vehicles included in the above						
Fixed interest sterling securities						
- Government	0	1,068	-	(8)	(1,060)	0
- Non Government	0	4,806	-	(36)	(4,770)	0
UK Index linked securities	59,832	14,900	-	5,629	(80,361)	0
Foreign currency bonds	0	47,526	-	(352)	(47,174)	0
UK equities	142,259	40	(11,615)	36,064	(166,748)	0
Overseas equities						
- North America	39,380	1,700	-	10,594	(51,674)	0
- Europe Euro zone	35,224	-	(5,544)	11,639	(41,319)	0
- Europe non Euro zone	9,964	-	(1,641)	4,181	(12,504)	0
- Far East	45,748	4,129	(3,290)	19,020	(65,607)	0
Property	30,692	39,701	(39,078)	6,277	(37,592)	0
	363,099	113,870	(61,168)	93,008	(508,809)	0

At the year end the Fund held £16.3 million of forward currency contracts which have subsequently been transferred to the participating plans.

7. Allocation to participating schemes

a) Participating schemes

The schemes participating in the InterContinental Hotels Common Investment Fund (CIF) are the Britvic Pension Plan (BPP) and the InterContinental Hotels UK Pension Plan (ICHPP).

(b) Allocation by value	BPP £000	ICHPP £000	Total £000
Balance at 31 March 2005	293,453	216,835	510,288
Net new funding	32,950	(1,350)	31,600
Share of returns on investments	63,045	42,558	105,603
	389,448	258,043	647,491
Asset transfers on termination	(389,281)	(257,934)	(647,215)
Balance at 31 March 2006	**167**	**109**	**276**

Asset transfers at termination of £647,215,000 comprise investments (£643,243,000), cash (£2,644,000) and accrued income (£1,328,000).

(c) Allocation by units	Equities	Bonds held directly		Bonds in pooled vehicles	Property	Cash	Total
		Ongoing	Temporary				
	Units	Units	Units	Units	Units	Units	£000
Britvic Pension Plan							
Balance at 31 March 2005	111.442	48.478	30.000	27.915	15.683	0.799	
Contributions/withdrawals	-	-	-	-	-	32.950	
Transfers between asset classes	(3.148)	25.674	(30.000)	36.170	0.971	(35.039)	
Income/(expenses)	-	-	-	-	-	3.257	
Balance at 31 March 2006 before termination	108.294	74.152	-	64.085	16.654	1.967	
Value per unit £	1,925,934	1,054,454	-	1,208,140	1,399,100	1,000,000	
Value £ thousand	**208,566**	**78,190**	**-**	**77,424**	**23,301**	**1,967**	**389,448**
Assets transferred	**(208,566)**	**(78,226)**	**-**	**(77,424)**	**(23,242)**	**(1,823)**	**(389,281)**
Balance after transfers on termination	**-**	**(36)**	**-**	**-**	**59**	**144**	**167**
InterContinental Hotels UK Pension Plan							
Balance at 31 March 2005	74.696	26.831	40.000	25.171	9.682	0.470	
Contributions/withdrawals	-	-	-	-	-	(1.350)	
Transfers between asset classes	(7.568)	27.715	(40.000)	21.133	0.601	(0.747)	
Income/(expenses)	-	-	-	-	-	2.540	
Balance at 31 March 2006 before termination	67.128	54.546	-	46.304	10.283	0.913	
Value per unit £	1,925,934	1,054,454	-	1,208,140	1,399,100	1,000,000	
Value £ thousand	**129,285**	**57,517**	**-**	**55,941**	**14,387**	**913**	**258,043**
Assets transferred	**(129,285)**	**(57,536)**	**-**	**(55,941)**	**(14,350)**	**(822)**	**(257,934)**
Balance after transfers on termination	**-**	**(19)**	**-**	**-**	**37**	**91**	**109**

The share of each Plan in the assets of the CIF before the transfers on termination was BPP 60.15% (57.51% at 31 March 2005) and ICHPP 39.85% (42.49% at 31 March 2005).

8. Cash deposits	2006 £000	2005 £000
Sterling	14	2,486

The above interest bearing cash deposits are held by investment managers.

9. Other investments	**2006 £000**	**2005 £000**
Amounts due to investment managers	0	(972)
Unrealised profit on forward currency contracts	0	66
	0	(906)

Amounts due to investment managers represent net settlements for investment transactions outstanding at the year end.

10. Current assets & liabilities	**2006 £000**	**2005 £000**
Cash balances	250	1,049
Other debtors	214	229
Other creditors	(248)	(146)
	216	1,132

Other debtors include £86,000 of UK tax recoverable on income from property pooled funds, and other creditors include £56,000 unrealised loss on closed forward currency contracts.

11. Related party transactions

The Trustee has an agreement from 1st October 2003 with InterContinental Hotels Ltd, the immediate holding company of the sponsoring company of the InterContinental Hotels UK Pension Plan, to provide administration services to the Trustee. For the year to 31st March 2006 the charge was £169,000, which comprised £110,000 for ongoing costs (compared to £111,000 for the year to 31st March 2005) and £59,000 for services until the anticipated final termination in September 2006.

12. Tax Status

The Common Investment Fund has been registered with the Inland Revenue and is a bare trust established to manage the assets of the two participating Plans which are both exempt approved schemes under the provisions of Part 1 Chapter XIV of the Income and Corporation Taxes Act 1988.