IHG

InterContinental Hotels Group

InterContinental Hotels UK Pension Plan

ANNUAL REPORT 2008

Registered number: 10263243

CONTENTS

InterContinental Hotels UK Pension Plan ("the Plan")

Chairman's Report

Following a year when the main focus of activity by the Trustee Board was on the agreement of the actuarial valuation and recovery plan, the emphasis in the last 12 months has been on a comprehensive review of the Plan's investment strategy and its implementation.

As reported last year it was agreed with InterContinental Hotels Group ("the Company") that it would make £40 million additional contributions in 4 equal payments by January 2009. This would leave a £42 million deficit from the actuarial valuation at March 2006 to be recovered either through investment returns or further Company contributions with the intention that the Plan would be fully funded by March 2014 at the latest.

The additional deficit funding has meant that a more cautious investment strategy can be adopted and the Board has decided to change the asset allocation so that 61% of the investments are in funds which closely track the movement in the value of pension benefits and so represent a low risk, and 39% in investments which seek extra returns albeit with a higher level of risk. Assuming that the returns from the latter are delivered, over time they can be reinvested in the former so that the Plan should become fully funded.

In implementing this strategy use has been made of newer asset classes which are more suitable at this stage of the Plan's development than the traditional bond/equity split. Together with the investment consultant the Investment Committee has investigated thoroughly the suitability of these classes and the managers and products which have been selected. A full description is set out in the Investment Report.

Following four years of relatively strong investment performance, in the 12 months to March 2008 equity markets fell and gilt markets rose as inflationary pressures increased and the economic outlook weakened. This has meant that, despite receiving £30 million of deficit funding instalments, the funding level at the end of the year of 76% was unchanged from March 2006. The return on the Plan's investments for the scheme year was 1.5%.

The next valuation is due to take place as at March 2009 and particular attention will be paid to the assumptions on mortality where there is evidence that estimates of life expectancy for our membership may have increased since the last valuation.

We continue to monitor the financial position of the Company and, as a matter of prudence, the Board has put in place a process for responding rapidly to changes in the Company's financial position or ownership.

The matters discussed above relate to the Defined Benefit (DB) section. The Plan also has a smaller but growing Defined Contribution (DC) section which is incorporated in the Plan's financial statements. At 31 March 2008 there were 342 DC members, with assets in their personal accounts totalling approximately £4.9 million. The Board is currently reviewing the investment choices available to DC members, and any changes will be communicated to the membership later in the year.

The management of the Plan is compliant in all material respects with published guidelines including the Myners principles to the extent possible. In addition a review has been carried out of the risk register by an independent risk specialist which did not identify any major concerns.

Chairman's Report (continued/....)

Since the last report there has been one change to the membership of the Trustee Board – Tony Bainbridge has replaced David House as an employer-nominated director.

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

Trevor Jones
Chairman
20 August 2008

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 to the Plan 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 for keeping records in respect of contributions received in respect of any active member of the Plan and for monitoring whether contributions are made to the Plan by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Act 1995 and 2004 to consider making reports to the Pensions Regulator and the Members.

The Trustee also has a 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, including the maintenance of an appropriate system of internal control.

The Trustee confirms that the financial statements on pages 24 to 34 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 2007 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.

In August 2006 the Company relinquished its powers to remove the corporate Trustee, and to remove the 3 independent Trustee Directors who gained the power to appoint their successors subject to a veto by the Company which cannot be used unreasonably. The independent Directors are appointed for a term of 10 years. These changes resulted in the corporate Trustee becoming fully independent of the Company.

The composition of the Plan Board is 9 Trustee directors comprising:

- 3 Trustee directors appointed by Six Continents Ltd.
- 3 independent Trustee directors
- 2 Trustee directors elected by active Plan members from among their number
- 1 Trustee director selected by the other directors from deferred and pensioner members.

The Trustee directors at 31 March 2008 are listed below.

Employer Nominated	Independent	Member Nominated
Tony Bainbridge	Trevor Jones (Chairman)*	Terry Critchley
Keith Reed	Sam Dow*	Lewis Howes*
Ralph Wheeler*	Anthony Stern*	Paul Phillips

** Member of Investment Committee*

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

- Lori Gaytan was replaced by Keith Reed as an Employer Nominated Director in July 2007
- Resulting from the implementation of new arrangements for the appointment of Member Nominated Directors the following changes took place in May 2007:
  - Susan Radford resigned as she decided not to stand for re-election
  - Terry Critchley was re-elected, and Paul Phillips elected, from the active membership
  - Lewis Howes was selected by the other Directors from the deferred and pensioner membership
- David House resigned as an Employer Nominated Director in August 2007.
- Tony Bainbridge was appointed as an Employer Nominated Director in February 2008.

All the Directors, except for Sam Dow and Trevor Jones, are themselves members of the Plan.

During the year to 31 March 2008 the Plan Board and the Investment Committee met respectively 5 and 8 times. The directors received two full day's training, one of which was primarily an update on legal matters and the other on new asset classes in preparation for the selection of investment managers. In addition each director carried out a self-assessment of their own knowledge and understanding, and so identified areas where further training was required.

4. Plan Advisers and Administration

Plan Actuary	David Coleman, Mercer Ltd
Plan Auditors	Ernst & Young LLP
Pensions Consultants	Mercer Ltd
Investment Advisers	Hewitt Associates Ltd
Solicitors	Allen & Overy LLP
Secretary to Trustee	Robert Watson

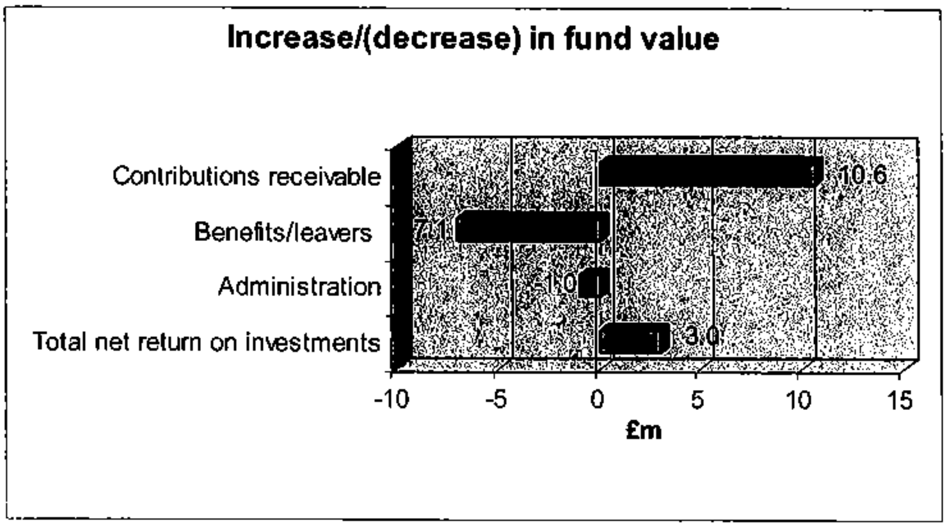
The Plan is managed by InterContinental Hotels Ltd. Benefits administration for the DB section is outsourced to Mercer Ltd, and for the DC section to DC Link: contact details are provided in section 12.

5. The Sponsoring Employer

The sponsoring employer of the Plan throughout the year ended 31 March 2008 was Six Continents Ltd (formerly called Six Continents PLC), a subsidiary company of InterContinental Hotels Group PLC, whose registered office is Broadwater Park, Denham, Buckinghamshire UB9 5HJ. 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 2008 of £25.5 million is shown in the Fund Account on page 24. The major component of the net increase was the receipt of £20.0 million in deficit funding from the Company as described in the next section on Funding Levels. The remainder of the increase of £5.5 million is analysed graphically below:



Contributions receivable includes transfer values receivable and other income.

Benefits/leavers comprise mainly pensions paid to members.

Administration costs are made up of expenses amounting to £966,000 and life insurance of £55,000. The expenses are analysed in note 8 to the financial statements and compare with £899,000 in 2007. The increase was mainly due a higher charge from the Company for administration which arose from the loss of the benefits of sharing costs with the Britvic Pension Plan through the Common Investment Fund, which was dissolved in 2006.

The total net return on investments, which includes investment income and is after the deduction of investment management expenses, is discussed in the Investment Report.

7. Plan Funding Levels

The actuarial valuation of the Defined Benefit section of the Plan at 31 March 2006 was the first to be carried out under the requirements of the Pensions Act 2004 and the code of practice on scheme funding issued by the Pensions Regulator which sets out a more prescriptive process than hitherto.

The regulations require the scheme to adopt the Statutory Funding Objective, which is to have sufficient and appropriate assets to make provision for an estimate of the benefits already accrued by the scheme. In valuing the benefits the Trustee Board made a number of assumptions, the most important of which is the expected investment return on the scheme's assets. Given the scheme's maturity the Board considers that the most appropriate measure of return is the return on UK Government gilt stocks less a deduction of 0.5%, and this is referred to as the "economic basis".

The valuation also took account of changes to the financial position of the Plan since the previous valuation as at March 2004 and a reassessment of other financial assumptions. The non-financial assumptions were also reviewed, and in particular changes made to reflect improved life expectancy and allowances were made for full pay increases and cash commutation.

The resulting valuation showed that the Plan had a funding level of 76% equivalent to a deficit of £81 million at March 2006. On the accounting measure disclosed in the financial statements of IHG (as defined by International Accounting Standard 19) the equivalent deficit at March 2006 was £2 million and, on the basis used by the Pensions Protection Fund there was a surplus of £30 million at the same date.

The Trustee is required to put in place a Recovery Plan to ensure that the Statutory Funding Objective is met. In the course of developing this Plan the Trustee Board considered the strength of the employer covenant in the context of the special dividend and share repurchase programme which had been announced by IHG to take place later in 2007. The review resulted in a Recovery Plan designed to eliminate the deficit within 6 to 8 years of the valuation date, that is by 31 March 2014 at the latest, through a combination of additional Company contributions and investment returns. Following consultation with the Company it was agreed that it would make additional contributions of £40 million over the period to January 2009. The need for further additional contributions will be reassessed following the 2009 valuation, unless the Company's covenant or market conditions change significantly in which case the reassessment will be made straight away. Additionally the Company has asked the Trustee Board to discuss the need for the committed additional contributions if it looks likely that the scheme will become overfunded.

The Company is considering, and in discussion with the Trustee Board regarding, an enhanced transfer value exercise which may result in a change to the Schedule of Contributions but not in a manner which would adversely affect the Plan's funding position.

The Actuary provides quarterly an updated estimate of the Plan funding level and this is presented to the Trustee Board. The estimate of the funding level at 31 March 2008 based on the valuation carried out as at 31 March 2006 was a funding level of 76%, equivalent to a deficit of £95 million. The funding level has remained unchanged since March 2006 because the additional Company contributions have been offset by higher inflation expectations, which increases the value of the Plan's liabilities, and lower returns from investment markets than expected. A commentary on investment performance is provided in the Investment Report.

Company contribution rates to cover the cost of future service accrual were increased from 1 April 2007 to reflect the revised assumptions in the valuation as follows:

Staff section:	31.5% of Annual Earnings (previously 15.6%)
Executive section:	75.1% of Pensionable Salaries (previously 38.5%)

Member contributions remained unchanged at 5% of Annual Earnings or Pensionable Salaries as appropriate.

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 on an ongoing basis or if the Plan were to wind up. These risks are taken into account in setting the investment strategy;

Trustee's Report (continued/...)

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 and overall return.

d) the risk that the sponsor does not or cannot make the contributions necessary to support the solvency funding level. The Trustee has put in place a process to monitor the financial strength of the sponsor.

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, which in summary require the employer to improve the funding to a level which would permit the Trustee to purchase annuities to pay the pensions accrued at that point. 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 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, if they are either receiving a spouse/partner pension or a pension due to ill-health
- 90% of accrued benefits for other members, subject to a maximum which is currently equivalent to £27,770 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 2008 the Trustee commissioned an independent risk specialist to review and update the Plan's risk register. Although this review was a valuable exercise it did not bring to light any major matters which had not already been considered by the Trustee Board. The Board regularly reviews the ongoing actions, in particular compliance with the draft code of practice on internal controls.

10. Plan Membership

(a) Defined Benefit (DB) Section

The table below shows the movement in DB membership numbers during the year ended 31 March 2008 with total membership falling from 3,892 to 3,864 during the course of the year.

Members in Service	Total
At 31 March 2007 (reported)	212
Adjustments	0
At 31 March 2007 (adjusted)	212
Leavers	(17)
Deaths	0
Retirements	(4)

Deferred Pensioners	Total
At 31 March 2007 (reported)	2667
Adjustments	(2)
At 31 March 2007 (adjusted)	2665
Leavers	17
Retirements	(61)
Transfers out	(5)

Pensioners	Total
At 31 March 2007 (reported)	1009
Adjustments	6
At 31 March 2007 (adjusted)	1015
Retirements	65
Dependents	10
Deaths	(26)

			Deaths	0		Trivial commutation	(7)
At 31 March 2008	**191**		**At 31 March 2008**	**2616**		**At 31 March 2008**	**1057**

At the end of the Plan year there were 34 DB members paying Additional Voluntary Contributions (AVCs) (2007 – 40 restated) and 277 deferred members (2007 – 282 restated) with AVC benefits remaining in the Plan.

(b) Defined Contribution (DC) Section

The DC section of the Plan had 342 members at 31 March 2008, compared to 264 at 31 March 2007 as shown below:

Members in Service	Total
At 31 March 2007	194
New entrants	107
Leavers	(28)
Transfers/refunds	(15)
Deaths	0
At 31 March 2008	**258**

Deferred Pensioners	Total
At 31 March 2007	70
Leavers	28
Transfers/refunds	(14)
At 31 March 2008	**84**

At the end of the Plan year there were 32 DC members paying AVCs (2007– 24) and 10 deferred members (2007 – 7) with AVC benefits remaining in the Plan.

11. Schedule of Contributions

The Schedule of Contributions dated 26 April 2007 reflected the revised employer contribution rates with effect from 1 April 2007 and the additional contributions outlined in Section 7 above. The Schedule was certified by the Actuary on 11 June 2007 and a copy of the latest certification is on page 38.

12. 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 Ltd,
Stratford Court, Cranmore Boulevard,
Solihull, West Midlands, B90 4QT.
Telephone helpline: 0870 8500982
Email address: ichotelsgroup@mercer.com

DC section
DC Link,
Churchgate,
1, New Road, Peterborough, PE1 1TT
Telephone helpline: 01733 353418
Email address: pensionsadmin@dc-link.co.uk

Trustee's Report (continued/...)

13. Approval of Reports

The Trustee's Report, together with the Investment Report on pages 11 to 20 and the Compliance Report on page 35 of this Annual Report were approved by the Trustee directors at their meeting on 20 August 2008 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**

20 August 2008

Investment Report

1. Investment Governance

Decision making in relation to the assets of the defined benefit section of the Plan is assigned as follows. The strategic management of the assets is the responsibility of the Trustee Board, which determines the strategic asset allocation of the Plan. In so doing it takes expert advice from the investment consultants, Hewitt Associates and others as it deems appropriate. Executive decisions, such as the appointment of investment managers and performance monitoring, are made by the Investment Committee of the Board. The day-to-day management of those assets is delegated to professional investment managers.

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

In its role as administrator for the Trustee, 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. 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 principle. A review of the principles is being conducted by HM Treasury and the Trustee Board intends to adopt any revisions 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 and has been the main area covered by the review of investment strategy in 2007.

Investment Report (continued/....)

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 are 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. Regular assessments are made of the performance of the advisers and the Trustee.

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 apart from fee structures which are commercially confidential.

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. A further review is being carried out in 2008.

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. Regarding compliance with the Myners Principles, this section 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.

3. Investment Strategy

Following the actuarial valuation as at 31 March 2006 and subsequent finalisation of the Recovery Plan and Schedule of Contributions, the Trustee Board, with advice from the investment consultants, has carried out a comprehensive review of the Plan's investment strategy.

As at 31 March 2006 the Plan deficit was estimated by the Actuary to be £81m on the "economic funding basis" (which uses a discount rate of gilts less 0.5% p.a.).

Following this valuation it was agreed that additional Company contributions of £40 million would be made over the period to 31 January 2009. The rest of the deficit would therefore need to be met by returns from the Plan's assets or by further contributions. The Recovery Plan states that it is intended to eliminate the deficit within 6-8 years of the valuation date i.e. by 31 March 2014 at the latest. Assuming that no further additional contributions will be paid by the Company, the Plan's assets would need to achieve a return between gilts +1.0% p.a. and gilts +1.7% p.a. in order to reach the target funding level within the 6-8 year time period.

Investment Report (continued/....)

The Trustee Board has agreed that it would be comfortable to target a return higher than gilts +1.7% p.a. in order to pay off the deficit over a shorter time period. Having considered a range of portfolios targeting different levels of return (with different amounts of risk) a target of gilts +2% p.a. was agreed. The Plan's previous strategy targeted approximately gilts +2.8% p.a.

The Board also set a secondary investment objective relating to the employer covenant, and this is defined as having a low probability of the ratio of the Company's debt to earnings exceeding a reasonable level.

Having set the investment objective in terms of return and risk, the Trustee Board then considered which asset classes would be suitable for inclusion in the Plan's portfolio.

The intention is to fully fund the Plan on the economic funding basis in the next 6-8 years, but in the longer term (i.e. once the Plan is fully funded on this basis) the objectives are less certain. In particular it was felt that the option to buy out some or all members' benefits should be kept under review as this may become increasingly attractive as the economic funding deficit reduces.

This factor led to liquidity being an important consideration in setting an appropriate investment strategy. Consequently both Infrastructure and Private Equity were ruled out as additional asset classes. However, the existing asset classes of actively managed Currency and Property in pooled funds were considered appropriate, together with conservatively managed Hedge Funds.

Having decided which asset classes would make up the portfolio, the Trustee Board then considered what type of mandates to adopt within each asset class. The aim of the future portfolio is to achieve a return of gilts +2% p.a. for the least amount of risk, and different types of mandate were considered with this risk/return trade-off in mind.

Bonds

The purpose of holding bonds in the portfolio is to reduce risk. The risk that is being minimised is the extent to which the value of the assets may move out of line with the value of the liabilities. Consequently the better the match between the payments resulting from bond assets and the expected liability payments, the more risk is reduced. Traditional bond mandates (where the portfolio is constructed based on a bond index) would result in a considerable mismatch between the bonds held and the shape of the Plan's liability profile. This mismatch introduces "unrewarded risk" i.e. risk is taken with no expected compensation by way of higher expected returns. Since it is desirable to minimise any unrewarded risk in the portfolio, it was agreed that traditional bond mandates should not feature in the portfolio.

In order to better match the assets with the liabilities it was decided to invest in assets which would deliver the expected benefits when they are required, taking into account fluctuations in inflation and interest rates. This is achieved by investing in cash, which delivers a variable rate and then putting in place financial instruments, known as "swaps", which exchange the interest earned on the cash with a cash flow linked to inflation. Swaps will also be made from variable to fixed interest payments for those elements of cash flows which do not vary with inflation.

Although investment in a series of individual swaps would give the best possible matching, the Trustee Directors did not feel that the marginal reduction in risk compared with using pooled funds (that is where swaps are pooled with other investors) was sufficient to compensate for the additional administrative burden. A decision was made to use pooled funds for these assets.

Equities

Research suggests that passive equities are no less risky relative to pension scheme liabilities than an "unconstrained" or high performance mandate. Furthermore there is evidence to suggest that while equities in general are expected to outperform the Plan's liabilities, highly rated "unconstrained" and high performance managers generally outperform passive managers on a net of fees basis. Since the reason for holding equities in the portfolio is to generate returns in excess of the liabilities, it was agreed to adopt unconstrained/high performance mandates for all of the Plan's equities.

Asset allocation

The previous asset allocation of the Plan was:

Bonds	46.5%
Equities	47.5%
Property	6.0%

In considering how this might change the investment consultant was commissioned to carry out asset liability modelling and presented a number of scenarios.

Given the investment objective (defined by the risk and return targets) and the asset classes to be used within the portfolio, the following structure for the Plan's assets were considered to provide the best fit:

Risk-reducing investments:	Passive liability-driven investment (LDI) pooled funds	61%
Return-seeking investments:	Unconstrained global equities	19%
	Funds of hedge funds	10%
	Property	6%
	Active currency	4%

The proposed structure is considered to be more efficient in terms of risk and return than the Plan's previous portfolio for the following reasons:

• The "risk reducing" part of the portfolio is better matched to the liabilities than the current bond assets, thereby reducing risk without sacrificing expected return.

• The "return seeking" part of the portfolio has more diversification through the addition of hedge funds and the equities are targeting higher returns from minimal additional risk.

As the funding position of the Plan improves through investment returns, the proportion of assets allocated to risk-reducing investments can be increased.

4. Transition to New Strategy and Manager Structure

In anticipation of the change to the new strategy advantage was taken of market conditions in October 2007 to switch approximately 10% of the Plan's assets with a value of £29 million from UK equities to index-linked gilts.

Following a rigorous selection procedure and after taking advice from the investment consultant a number of new manager appointments were made. All investments are through pooled funds.

The LDI funds operated by Insight Investment Management (Insight) have been selected for that element of the allocation. This continues the relationship with Insight who previously managed the segregated bond portfolio. The view of the investment consultant was that long-dated index-linked yields were abnormally low and as a result only 50% of the inflation-linked liabilities are being matched and this proportion will be increased as market conditions permit. As part of the LDI strategy about half of the assets are held in cash funds, one managed by Insight and the other by Legal & General. In order to avoid the possibility of abnormal pricing conditions at one particular time adversely impacting on the transition to the strategy, the transition is being implemented in three tranches – the first two in May and July 2008 and the third at a timing yet to be decided.

In order to provide a diversification of styles three managers have been appointed for unconstrained global equities. These are Artemis Fund Managers (implemented in January 2008), Schroder Investment Management (April 2008) and GLG Partners (May 2008).

The Plan also invested in a fund of hedge funds managed by UBP Asset Management in May 2008 and a second complementary fund is under consideration.

The existing managers for property and active currency, respectively ING Real Estate and Record Currency Management (Record), will remain in place although the investment with Record was switched in April 2008 from a fund with a US equity index benchmark and hedged into sterling, into one with a cash benchmark, to accord with the new investment strategy. A second currency fund is being selected.

The scheme's investment managers at 31 March 2008 are listed below although it should be noted that there have been considerable changes to the manager structure since the year-end as described above.

Brief	Manager
Active managers	
Fixed interest and inflation-linked instruments	Insight Investment Management
Global bonds	PIMCO
UK equities **European (ex UK) equities** **Far East equities**	Russell Investment Group
Global equities	Artemis Fund Managers
Property	ING Real Estate Investment Management Ltd
Currency	Record Currency Management
Passive manager	
UK inflation-linked gilts **UK equities** **Global equities**	Legal & General Assurance (Pensions Management) Ltd

5. Investment Principles

The Trustee maintains a Statement of Investment Principles as required by Section 35 of the Pensions Act 1995 and adheres to the Occupational Pension Schemes (Investment) Regulations 2005. 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 and the allocation of investment designed to achieve these objectives. It also includes the Trustee's policy statement in respect of Socially Responsible Investment and voting by active managers. The Statement is available to members at any time by written application to the Secretary to the Trustee.

Investment Report (continued/....)

6. Review of Investment and Performance

a) Equities and Bonds

In the year to March 2008 global growth started to fall back as inflationary pressures continued to build. A major feature was the impact on banks of defaults in the US subprime mortgage business and the consequent fallout (the so-called "credit crunch"). The UK economy expanded at a steady pace but growth fell back in the last quarter as inflation rose. US economic performance weakened considerably despite cuts in interest rates and the Eurozone showed signs of slowing. Japan continued to experience wage and price deflation but the strong Chinese economy supported growth in the other Pacific economies.

In the uncertain economic conditions equity markets experienced increased volatility and only the Pacific Rim region experienced strong growth. These were partially offset by the weakness of sterling against the Euro and Yen and total returns when expressed in sterling terms were as follows:

	Year to March 2008
UK	-8%
Continental Europe	+3%
North America	-6%
Japan	-16%
Pacific Rim	+13%
Global	-4%

Concerns on inflation and general economic uncertainty generated strong returns from UK government bonds across the year, with long-dated index-linked and fixed interest gilts growing by 13% and 8% respectively. Conversely the "credit crunch" affected UK corporate bonds which fell by 1% in the year to 31 March.

b) Property

Following a number of years of strong growth the sector fell back because of a sharp reduction in bank lending to the commercial property market, with the overall return for the year down by 11%. In the last quarter the rate of decline started to reduce.

c) Manager Performance

During the year most of the Plan's investments were managed actively, that is by 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. The level of active management was reduced in the second half as the new investment strategy was implemented.

PIMCO (appointed in September 2005), ING Real Estate (transfer to new fund in March 2006), Record (August 2006) and Artemis (January 2008) have not yet completed the three year assessment period. Of the remaining managers Insight and the Russell Japan Fund have met their respective benchmark but not achieved their target. The remaining Russell funds have not achieved their benchmarks. After taking advice from the investment consultant it was concluded that the Russell multi-manager approach does not fit with the Plan's new investment strategy and investment in the Russell funds is being progressively reduced as new manager appointments are being made.

Investment Report (continued/....)

d) Fund Return

In the year to 31 March 2008 the return on the Plan's investments was 1.5% which was 0.7% above the composite benchmark. This extra return was largely due to the decision to switch 10% of the asset allocation from equities to gilts (which performed much better over the remainder of the year) in October 2007 as described above, offset to some extent by underperformance by active managers.

Over the two years since the Trustee started to manage the Plan's investments separately from those of the Britvic Pension Plan the return has been 3.4% p.a. which was 0.1% above the composite benchmark.

7. Investment management expenses

Investment expenses amounted to £566,000 for the year compared to £284,000 in 2007:

	2008 £000	2007 £000
Fees payable to investment managers	397	355
Rebates receivable from investment managers	(173)	(167)
Investment consultant	324	71
Custody and investment accounting	18	25
	566	284

During the year investment managers' fees were mainly calculated on the average market value of each manager's portfolio. The fees of two managers were performance related and calculated on a base fee for the whole portfolio augmented by specified percentage fees for exceeding mandated benchmark returns. Management fees which were charged directly to a fund, rather than to the Plan, were 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 as disclosed.

Fees for investment consultancy in 2008 included a strategy review, which normally only follows each triennial actuarial valuation, and advice on the selection of new investment managers.

Custody fees include core custody fees, in the form of a percentage 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.

8. Additional Voluntary Contribution (AVC) Fund

The weighted average rate of return earned on the Prudential Assurance Company's deposit fund during the year was 5.48%. The interest calculated is paid annually.

The other Prudential option available, the With Profits Fund, is based upon individual accounts in a broad spread of investments with some smoothing of investment returns. The Prudential's Annual Bonus Declaration on the With Profits Fund for 31 March 2008 was 3.25%. The average annual yield for investments in this fund over the five-year period ended 31 March 2008 was 13.8%.

The performance of AVCs invested in the same funds as the DC section is set out in section 8 below.

Investment Report (continued/....)

9. DC section

The objectives as set out in the Statement of Investment Principles are to provide a range of investment options suitable to meet members' needs, by providing options that give members a reasonable expectation of:

- optimising the value of their assets at retirement, allowing for individual members' risk tolerances
- maintaining the purchasing power of their savings in real (i.e. post-inflation) terms
- providing protection for accumulated assets in the years approaching retirement against a sudden (downward) volatility in the capital value, and fluctuations in the cost of annuities

whilst taking into account the impact that increased complexity may have on administration requirements and the overall cost of the arrangements.

In the year to March 2008 contributions relating to members of the DC section have been invested in a range of specialist investment funds with DC Choice. 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 75% of the DC section investments are in this fund.

All of the DC section funds are listed below, together with their investment return before fees for the years ending 31 March 2007 and 31 March 2008:

Fund	Year to March 2007	Year to March 2008
Equities		
50/50 Global Equity – Passive	7.3%	-5.4%
50/50 Global Equity – Active	5.2%	-8.1%
UK Equity – Passive	11.2%	-7.7%
UK Equity – Active	10.0%	-11.5%
Global ex-UK Equity – Passive	3.5%	-3.2%
Global ex-UK Equity – Active	0.5%	-4.7%
Continental European Equity – Passive	12.2%	2.6%
US Equity – Passive	-0.9%	-4.7%
Japan Equity – Passive	-9.9%	-15.4%
Pacific ex-Japan Equity – Passive	20.3%	8.7%
Bonds		
All Stock UK Corporate Bond – Active	2.2%	-3.1%
Long-dated Fixed Interest Gilt – Passive	-1.0%	5.0%
Over 5 Year Index-linked Gilt – Passive	2.7%	13.2%
Property – Active	17.2%	-11.1%
Sterling Liquidity	5.0%	5.9%

The returns are stated before fees which are paid by the Plan except for AVCs where they are borne by the member. A commentary on the market returns for the year to March 2008 is provided in Section 5(a) and 5(b) on page 17. All the active funds, with the exception of the Property Fund, underperformed their respective benchmarks.

All the funds are under the supervision of Investment Solutions (IS) who either manage them on a multi-manager basis or appoint a single manager. During the year IS changed the manager of the passive funds to Legal &

General. 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.

The Trustee Board is carrying out a review of the DC investment provider and of the Lifestyle option to ensure that they meet members' needs.

10. Major Assets

The Plan's 10 largest holdings by value at 31 March 2008 are listed below:

	Market Value £m	% of Total Assets
1. L&G over 5 year Index Linked Gilts Fund	55.1	17.6
2. L&G under 15 year Index Linked Gilts Fund	32.6	10.4
3. PIMCO Global Investment Grade Credit Fund	27.6	8.8
4. Russell UK Equity Fund	23.6	7.5
5. Artemis Institutional Global Capital Fund	19.9	6.3
6. Osiris Property Fund	13.7	4.4
7. UK Government Stock 4.5% 2042	13.0	4.1
8. Insight UK Corporate All Maturities Bond Fund	10.2	3.3
9. UK Government Stock 5% 2018	10.0	3.2
10. Russell Continental European Equity Fund	8.2	2.6

11. Employer-related Investments

The Statement of Investment Principles specifies that employer related investments, as defined by Section 40 of the 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 of 5% of the total value of the net assets of the Fund. Employer related investments are disclosed in note 17 to the Accounts of the Plan and are negligible.

Actuary's Report

The last full Actuarial Valuation of the Plan was undertaken as at 31 March 2006. The main funding objective adopted by the Trustee Board for that valuation was calculated on a basis using gilt yields less 0.5% p.a. On the assumptions adopted, the Plan was 76% funded as at 31 March 2006, with a shortfall of £81 million.

The Trustee agreed with the Company that the shortfall of £81 million be met by a combination of the Company making additional payments totalling £40 million over the period up to 31 January 2009, together with projected investment returns on the Plan's assets above those used to assess the liabilities.

Over the two years to 31 March 2008, despite £30 million of the £40 million having already been paid, the funding position has worsened due mainly to poor investment returns and an increase in the long term outlook for price inflation. The estimated funding level at 31 March 2008 was 76%, corresponding to a shortfall of £95 million.

The next full actuarial valuation is scheduled for 31 March 2009, when the funding position and contribution arrangements will be reviewed in detail.

In addition to the contributions towards the shortfall, the Company also currently pays regular contributions to the Plan as follows:

- 31.5% of annual earnings of members of the Defined Benefit (DB) Staff section;
- 75.1% of pensionable salaries of members in the DB Executive section.

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 Certificate has been provided by the Actuary and is incorporated in this Annual Report on page 38.

David Coleman
Mercer Limited

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

We have audited the financial statements of the InterContinental Hotels UK Pension Plan for the year ended 31 March 2008 which comprise the fund account, the net assets statement and the related notes 1 to 17. These financial statements have been prepared under 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 opinions we have formed.

Respective responsibilities of trustees and auditor

As described in the Statement of Trustee's Responsibilities, the Plan's Trustee is responsible for obtaining an annual report, including audited financial statements prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 in 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. We also report to you if, in our opinion, we have not received all the information and explanations that we require for our audit, or the information specified by law is not disclosed.

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 the Trustee's Report, Investment Report, Actuarial Certificates 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.

Independent auditors' report to the Trustee of the InterContinental Hotels UK Pension Plan (continued/.....)

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 year ended 31 March 2008 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 year; and

- the financial statements 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.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham

20 August 2008

The Financial Statements of the InterContinental Hotels UK Pension Plan

Fund Account – for the year ended 31 March 2008

	Note	2008 Defined Benefit Section £000	2008 Defined Contribution Section £000	2008 Total £000	2007 Total £000
Contributions					
Contributions receivable	*3*	28,315	2,119	30,434	16,093
Transfers in	*4*	31	56	87	26
Other income	*5*	108	27	135	66
		28,454	2,202	30,656	16,185
Benefits					
Benefits	*6*	6,372	0	6,372	5,096
Leavers	*7*	578	115	693	280
Life Insurance		55	0	55	58
Administration expenses	*8*	966	0	966	899
		7,971	115	8,086	6,333
Net additions from dealings with members		20,483	2,087	22,570	9,852
Returns on investments					
Investment income	*9*	3,161	0	3,161	3,615
Change in market value of investments	*10/11*	602	(236)	366	11,729
Investment management expenses	*13*	(566)	0	(566)	(284)
Net returns on investments		3,197	(236)	2,961	15,060
Net increase in the Fund during the year		23,680	1,851	25,531	24,912
Net assets of the Plan					
At 31 March 2007		284,247	3,623	287,870	262,958
Transfers between sections	*5*	359	(359)	0	0
At 31 March 2008		308,286	5,115	313,401	287,870

The Financial Statements of the InterContinental Hotels UK Pension Plan (continued/....)

Net Assets Statement – as at 31 March 2008

	Note	2008 £000	2007 £000
<u>Defined Benefit Section</u>			
Investments			
Financial assets	*10*	308,190	283,964
Financial liabilities	*10*	(122)	(52)
Current assets	*14*	847	1,037
Current liabilities	*15*	(629)	(702)
Net assets of Defined Benefit Section		308,286	284,247
<u>Defined Contribution Section</u>			
Assets designated to members			
Investments			
Financial assets	*11*	4,949	3,469
Current assets	*14*	166	166
Current liabilities	*15*	0	(12)
Net assets of Defined Contribution Section		5,115	3,623
Net assets of the Plan at 31 March 2008		313,401	287,870

The financial statements summarise the transactions of the Plan and deal with the net assets at the disposition 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 Trustee's Report and Actuary's certificate of the calculation of technical provisions on page 39 of this annual report, and these financial statements should be read in conjunction with them.

The financial statements were approved by the Trustee's Board on 20 August 2008. 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 (revised May 2007) ("SORP"), published by the Pensions Research Accountants Group and which has been adopted early.

Comparative figures have not been restated following the adoption of the revised SORP, as the differences are not material. Figures for annuity income are now shown gross having previously been netted against benefits. Comparative values for investment assets are disclosed on a mid basis as stated in note 10.

2. Accounting policies

a) Investments

i) Pooled Investment Vehicles are valued either at the bid price provided by the relevant fund managers or on the single price, which reflect the market value of the underlying investments. Accrued income is included under "Other financial assets" in Note 12.

ii) Fixed interest securities are valued by the custodian at the bid price and exclude the value of interest accruing from the previous interest payment date which is shown under "Other financial assets" in Note 12.

iii) Forward foreign exchange contracts outstanding at the year-end are stated at fair value, which is determined as the gain or loss that would arise if each outstanding contract was matched at the year-end with an equal and opposite contract at that date. Changes in the fair value of the forward contracts and futures are reported within the change in market value in the Fund Account.

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

v) Pooled investment vehicles attributable to DC members are valued at prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

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 pooled investment vehicles, cash and short term deposits is accounted for on an accruals basis.

iii) Income arising from individual annuity policies held by the Trustee and received by the Plan is included in investment income.

c) Foreign currencies

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

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.

e) 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.

f) 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.

g) 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.

h) Administrative expenses

Administrative expenses are accounted for on an accruals basis.

i) 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) v) above).

j) 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.

Notes to the Financial Statements *(continued/....)*

3. Contributions receivable

	DB section £000	DC section £000	2008 Total £000	2007 Total £000
From employers				
normal	5,794	1,049	6,843	4,312
deficit funding	20,000	0	20,000	10.195
augmentation	1,788	0	1,788	22
DC scheme administration charge	0	332	332	257
	27,582	1,381	28,963	14,786
From members				
normal	592	582	1,174	1,037
AVCs	141	156	297	270
	733	738	1,471	1,307
	28,315	2,119	30,434	16,093

Deficit funding contributions into the Plan in 2008 comprised £20 million (2007: £10 million) paid by the Company to improve the Plan's funding level. One further contribution of £10 million to deficit funding is due in January 2009. Pension augmentation payments are made 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. Transfer values receivable

	DB section £000	DC section £000	2008 Total £000	2007 Total £000
Individual members	31	56	87	26

5. Other Income

	DB section £000	DC section £000	2008 Total £000	2007 Total £000
Age Related Rebates (from the Department for Work and Pensions)	108	0	108	24
Employers contributions retained	0	27	27	42
	108	27	135	66

Age related rebates in 2007 were reduced by the removal of overprovisions relating to prior years amounting to £89,000.

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 £332,000 as shown in note 3, have been retained for the benefit of all members and are shown as a transfer between sections, and total £359,000.

Notes to the Financial Statements *(continued/....)*

6. Benefits payable

	DB Section £000	DC Section £000	2008 Total £000	2007 Total £000
Retirement:				
Members', spouses' and dependents' pensions	4,419	0	4,419	3,980
Cash options	1,902	0	1,902	919
	6,321	0	6,321	4,899
Death benefits:				
Life assurance	43	0	43	103
Pension guarantee	6	0	6	62
Contributions repaid	2	0	2	32
	51	0	51	197
	6,372	0	6,372	5,096

7. Payments to and on account of leavers

	DB section £000	DC section £000	2008 Total £000	2007 Total £000
Refunds to members leaving service	0	52	52	(7)
Individual members transferring to approved schemes	578	63	641	287
	578	115	693	280

8. Administration expenses

The expenses of Plan administration are borne by the Plan. In the year to 31 March 2008, total costs were £966,000 compared to £899,000 in 2007. The increase was mainly due to an increase in the charge from the Company for administration which arose from the loss of the benefits of sharing costs with the Britvic Pension Plan through the Common Investment Fund. Benefits administration costs include £31,000 relating to the DC section. The expenditure for the year may be analysed as follows:-

	2008 £000	2007 £000
Actuarial and legal fees	296	313
Company administration	286	220
Benefits administration	184	187
Trustee fees and expenses	72	48
Pension Protection Fund levy	57	43
Member communications & sundry costs	33	30
Audit fee (& internal controls review in 2007)	20	39
Trustee indemnity insurance	18	19
	966	899

Notes to the Financial Statements *(continued/....)*

9. Investment Income

	2008 £000	2007 £000
Income from fixed interest sterling securities	1,936	2,066
Income from UK index-linked securities	23	272
Income from foreign currency bonds	469	65
Income from pooled investment vehicles	517	441
Interest on cash deposits	198	24
Annuity income	18	22
Income on liquidation of subsidiary undertaking	0	725
	3,161	3,615

The make-up of income from fixed income investments changed significantly between 2007 and 2008 due to the positions taken by the active segregated bond manager in seeking to outperform its benchmark.

10. Investments: Financial assets and liabilities – Defined Benefit section

	Value at 31.3.2007	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 31.3.2008
	£000	£000	£000	£000	£000
Fixed interest sterling securities					
- Government	43,225	263,139	(256,687)	1,003	50,680
- Non Government	11,757	4,576	0	418	16,751
UK Index linked securities	41,173	41,297	(2,930)	9,412	88,952
Foreign currency bonds	28,437	36,480	(41,270)	1,926	25,573
UK equities	66,629	237	(35,205)	(1,899)	29,762
Overseas equities					
- North America	19,429	7,700	(10,111)	(1,963)	15,055
- Europe	20,468	7,589	(2,237)	(1,147)	24,673
- Far East	26,334	4,586	(4,026)	(2,130)	24,764
- Emerging markets	424	2,921	(281)	145	3,209
Property	17,312	451	0	(4,085)	13,678
	275,188	368,976	(352,747)	1,680	293,097
Net derivative contracts:					
Futures	0	120	(131)	11	0
Forward foreign exchange	(36)	61,965	(60,814)	(1,179)	(64)
AVC investments (note 11)	2.529	136	(81)	90	2,674
	277,681	431,197	(413,773)	602	295,707
Add back					
derivative contract liabilities	52				122
Cash deposits	5,727				11,806
Other financial assets(note 12)	504				555
TOTAL FINANCIAL ASSETS	**283,964**				**308,190**
Derivative contracts:					
Forward foreign exchange	52				122
TOTAL FINANCIAL LIABILITIES	**52**				**122**
NET FINANCIAL ASSETS	**283,912**				**308,068**

Notes to the Financial Statements *(continued/....)*

Pooled investment vehicles included in the above	Value at 31.3.2007 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	**Value at 31.3.2008 £000**
Unit Trusts					
UK equities	0	229	0	4	233
Overseas equities	0	19,374	0	272	19,646
Property	17,312	451	0	(4,085)	13,678
	17,312	20,054	0	(3,809)	33,557
Unitised Insurance Policies					
UK Index linked securities	38,369	40,000	0	9,301	87,670
UK equities	40,635	0	(35,197)	286	5,724
Overseas equities	20,239	0	(13,407)	(846)	5,986
	99,243	40,000	(48,604)	8,741	99,380
Managed Funds					
Fixed interest sterling securities:					
- Government	790	0	0	(239)	551
- Non Government	2,107	14,217	0	418	16,742
Foreign currency Bonds	23,442	0	0	546	23,988
UK equities	25,993	8	(8)	(2,188)	23,805
Overseas equities	46,417	3,422	(3,248)	(4,522)	42,069
	98,749	17,647	(3,256)	(5,985)	107,155
	215,304	77,701	(51,860)	(1,053)	**240,092**

Accounting policy has been changed in the year to value investments at bid, rather than mid, market prices. However the values at 31 March 2007 have not been restated as the difference in valuation is not considered material and has therefore been included in the change in market value.

The change in market value of investments comprises all increases and decreases in the market value of investments held at any time during the year, including all profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1,752 (2007: nil). In addition indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Plan.

Included under North American equities is the pooled holding in an actively managed currency fund which is hedged into the S&P 500 equity fund. This investment was valued at £4,159 thousand on 31st March 2008 (2007 – £5,371 thousand).

The Pooled Investment Vehicles are managed by companies registered in the UK and USA.

Derivative contracts outstanding - Forward foreign exchange

Contract	Settlement date	Currency bought 000	Currency sold 000	Asset £000	Liability £000
Forward (OTC)	4 June 2008	£3,156	€3,950		122
Forward (OTC)	4 June 2008	€1,915	£1,530	58	

The segregated bond manager was permitted to use forward foreign exchange contracts to hedge foreign currency into sterling where it was considered that this would be beneficial, and to use derivatives where there were opportunities to achieve the investment objectives of the portfolio more effectively than would be the case through direct dealing in the underlying securities.

Notes to the Financial Statements *(continued/....)*

11. 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 1.4.2007 £000	Transfers £000	Purchases at cost £000	Sales Proceeds £000	Change in Market value £000	**Value at 31.3.2008 £000**
DB section:						
AVC Investments	2,529	0	136	(81)	90	2,674
DC section:						
Ordinary Plan investments	3,272	(20)	1,589	(51)	(222)	4,568
AVC investments	197	0	198	0	(14)	381
Total DC section	3,469	(20)	1,787	(51)	(236)	4,949
	5,998	(20)	1,923	(132)	(146)	7,623

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

	DB section £000	**DC section £000**	**2008 Total £000**	**2007 Total £000**
Prudential	2,067	0	2,067	1,920
Other investments closed to new members	393	0	393	425
Investment Solutions	214	381	595	381
	2,674	381	3,055	2,726

Annuity policies

In addition to the assets above the Trustee holds insurance policies with Prudential that secure the pensions payable to specified beneficiaries. These policies remain assets of the Trustee, but as is permitted under current regulations and accounting practice, the Trustee Board has decided that these policies need not be valued in the Net Assets Statement and they are therefore included at nil value.

12. Other financial assets

	2008 £000	**2007 £000**
Dividends and interest due	527	467
Withholding tax due	28	34
Amounts due from investment managers	0	3
	555	504

13. Investment management expenses

	2008 £000	2007 £000
Fees payable to investment managers	397	355
Rebates receivable from investment managers	(173)	(167)
Investment consultant	324	71
Custody and investment accounting	18	25
	566	284

Fees for investment consultancy in 2008 included a strategy review, which normally only follows each actuarial valuation, and advice on the selection of new investment managers as described in the Investment Report.

14. Current assets

	DB section £000	DC section £000	2008 Total £000	2007 Total £000
Contributions due from Participating Companies	0	96	96	90
Contributions due from members: normal	43	53	96	88
AVCs	12	17	29	66
Cash balances	534	0	534	693
Other debtors	258	0	258	266
	847	166	1,013	1,203

Contributions due have been paid to the Plan subsequent to the year-end in accordance with the Schedule of Contributions. Other debtors include age related rebates receivable from the Department for Work and Pensions of £135,000.

15. Current liabilities

	DB section £000	DC section £000	2008 Total £000	2007 Total £000
Transfer values payable	0	0	0	12
Unpaid benefits	8	0	8	160
Other creditors	621	0	621	542
	629	0	629	714

Unpaid benefits relate principally to lump sums due on retirement or death of members. Other creditors include £253,000 payable to InterContinental Hotels Group PLC for expenses paid on the Plan's behalf (2007: £465,000), together with accrued expenses.

16. 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 2008 the cost was £286,000 (2007 - £220,000).

Notes to the Financial Statements *(continued/....)*

- Fees and expenses payable to Trustee directors of £72,000 were borne by the Plan (2007 - £48,000). 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 provided by White Shield Insurance Company Ltd, a subsidiary undertaking of InterContinental Hotels Group PLC, at a cost of £8,000.

17. Employer related investments

Apart from 4 instances of late payment of contributions in the year totalling £9,027 which were paid between 10 and 162 days after they were due, there were no other employer-related investments.

Compliance Report

1. Changes to the Plan

The changes to the Plan during the year were as detailed in Section 10 of the Trustee's Report.

2. Tax Status

As stated in the Trustee's Report, the Plan is registered with HM Revenue & Customs under section 150(2) of the Finance Act 2004 and, to the Trustee's knowledge, there is no reason why such registration should be prejudiced or withdrawn.

3. Pension Increases

The normal increase for all pensions takes place on 1st October each year. Pensions earned before 6 April 2006, and all deferred pensions, in excess of any Guaranteed Minimum Pension (GMP) are guaranteed to increase in line with the rise in the Retail Prices Index (RPI) for the year to the preceding 31st May, up to a maximum of 5%. Pensions earned after 5 April 2006 are guaranteed to increase in line with the rise in the RPI up to a maximum of 2.5%. Furthermore, while not a binding commitment, it is the aim to pay additional increases equivalent to two-thirds of the amount by which the RPI movement exceeds the guaranteed rates.

The annual increase in the RPI over the year up to May 2007 was 4.3%. The stated aim for October 2007 would have resulted in a pension increase of 3.7% in respect of pensions earned after 5 April 2006. However on this occasion the Company decided to improve on this and increase pensions in payment and deferred pensions in excess of any GMP by 4.3% from 1st October 2007, in respect of all pension earned, with proportionate increases for those who retired or left the Plan after 30th September 2006. 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.

4. Calculation of Transfer Values

The calculation method incorporates the stated aim of providing additional discretionary benefits where inflation exceeds 5% or 2.5% 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.

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 2008 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 trustees 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 Plan's Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Plan and for monitoring whether contributions are made to the Plan by the employer 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 reported in the attached summary of contributions, have in all material respects been paid at least 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 of the schedule of contributions which come to our attention in the course of our work.

Statement about contributions

In our opinion, contributions for the Plan year ended 31 March 2008, as reported in the attached summary of contributions, have, in all material respects, been paid at least in accordance with the schedule of contributions certified by the scheme actuary on 24 August 2006 for the period from 1 April 2007 to 10 June 2007 and in accordance with the schedule of contributions certified by the scheme actuary on 11 June 2007 for the period from 11 June 2007 to 31 March 2008.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham

20 August 2008

InterContinental Hotels UK Pension Plan
Summary of Contributions payable during the year ended 31st March 2008

During the year ended 31st March 2008, the contributions payable to the scheme under the schedules of contributions were as follows:

	£000
Employer normal contributions	6,843
Employer special contributions - augmentations	1,788
Employer deficit funding contributions	20,000
Defined Contribution scheme administration charge paid by employer	332
Employee normal contributions	1,174
Total contributions under the schedule of contributions	30,137
Other contributions:	
Employee additional voluntary contributions	297
Total contributions per note 3 of the financial statements	30,434

Signed on behalf of the Trustee .... **Trevor Jones**
20 August 2008

Certification of Schedule of Contributions

Name of Plan	InterContinental Hotels UK Pension Plan

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the Statutory Funding Objective can be expected to be met by the end of the period specified in the Recovery Plan dated 26 April 2007.

Adherence to Statement of Funding Principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 26 April 2007.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Plan's liabilities by the purchase of annuities, if the Plan were to be wound-up.

Signature	David Coleman
Scheme Actuary	David Coleman
Date of signing	11/6/07
Name of Company	Mercer Human Resource Consulting Limited
Address	Four Brindleyplace, Birmingham B1 2JQ
Qualification	Fellow of the Institute of Actuaries

Certificate

Certificate of Technical Provisions

Name of Plan	InterContinental Hotels UK Pension Plan

Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Plan's Technical Provisions as at 31 March 2006 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Plan and set out in the Statement of Funding Principles dated 26 April 2007.

Signature	David Coleman
Name	David Coleman
Date of signing	12/6/07
Name of Company	Mercer Human Resource Consulting Limited
Address	Four Brindleyplace Birmingham B1 2JQ
Qualification	Fellow of the Institute of Actuaries