InterContinental Hotels Group

InterContinental Hotels UK Pension Plan
September 2008 Newsletter

Welcome to this year's Pension Newsletter which includes a summary of the Plan's Accounts for the year to 31 March 2008 and the latest Summary Funding Statement.

The Summary Funding Statement provides an update to the results of the 2006 actuarial valuation. This shows the status of the Plan's assets and liabilities as at 31 March 2008. As reported to members in 2007, the Company has committed to improve the funding of the Plan by contributing £40m over two years. £30m of this has already been paid into the Fund.

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

Changes to the Trustee Board

The Trustee Board is made up of nine Directors, three nominated by the Company, three Independent Directors and three nominated and selected from the Plan's membership. During the year, Tony Bainbridge replaced David House as an Employer-Nominated Director.

David Coles Vice President Pensions

IHG offer to deferred members

The Company is offering deferred members the opportunity to enhance their transfer value by 25% if they transfer their benefits out of the Plan between 15 September and 15 December 2008, but on a first come first served basis if high take up exhausts the funding available for the offer. The options will be to receive the enhancement as additonal transfer value, or as a lump sum subject to tax and National Insurance, or to keep their deferred pension in the Plan, completely unchanged.

IHG is making the offer of enhanced transfer values since the members, the Company and the Plan can all potentially gain. The enhanced transfer value may be advantageous to many deferred members, depending on their individual circumstances. For example, they may be able to clear any expensive borrowings, achieve higher pensions, or vary pension increases or spouses' pensions to better suit their needs.

When a transfer occurs and the liability passes to an insurance company or another pension scheme, for that individual the IHG Plan's risk of increased life expectancy, high inflation, etc is removed. As the Company funds the Plan using conservative actuarial assumptions, it can afford to enhance the normal transfer value and still make a saving.

IHG has made a commitment to inject £10m into the Plan in January 2009. Some or all of this money will be used to finance the offer, with any remainder still being paid in January. Depending on the take-up of the offer, after the transfer exercise the Plan is likely to be better funded for the remaining members than if it had not taken place. The Plan's actuary will check that this is the case, and if not, the Company will make extra contributions to ensure the Plan is not in a worse position.

Whilst the offer is made by the Company, the Trustees have reviewed it and are content that the offer and its communication conforms to the Pension Regulator's guidelines. They are reassured by the availability of information and that the provision of free advice from an independent financial adviser will help members reach a decision. Please note that this is just an additional choice – deferred members can keep their deferred pensions unchanged if they wish.

Additional information about the Company's offer can be found at **www.ich.psfm.com (login: ICH)** or by contacting the dedicated helpline on **0800 988 4618.**

Financials

The information on this page provides a summary of the Plan accounts (excluding the Defined Contribution (DC) section specific assets) for the year ended 31 March 2008.

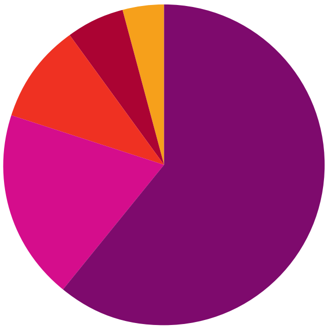
To remind you, members of the defined benefit (DB) section receive a pension at retirement based on their salary at retirement (or on leaving), their pensionable service, and a formula detailed in the Plan rules.

Plan investments

In the 12 months to 31 March 2008, the return on the Plan's investments was 1.5%.

Asset allocation

Following the actuarial valuation as at 31 March 2006, and subsequent finalisation of the Recovery Plan and Schedule of Contributions, a comprehensive review of the Plan's investment strategy was undertaken and the Trustee has implemented the following structure for the Plan's assets that provides the best fit to meet the Trustee's investment objective:



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

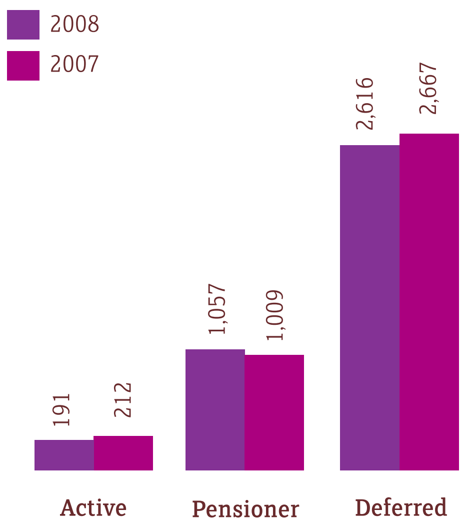
The transition to the new investment strategy is expected to be completed within the next six months.

	£000
Value of the Fund at 31 March 2007	**284,247**
Income	
Member contributions	733
Company contributions*	27,582
Transfer values received	31
Other income	467
Return on investments	3,197
Total	32,010
Expenditure	
Pensions	4,419
Cash options	1,902
Death benefits	51
Transfer values paid	578
Life assurance premium	55
Administration expenses	966
Total	7,971
Value of the Fund at 31 March 2008	**308,286**

*Includes £20m in special contributions paid before 31 March 2008.

Membership

The bar chart below shows the membership details at 31 March 2008 and 2007:



Financials – DC section of the Plan

The information on this page provides a summary of the Plan accounts for the Defined Contribution (DC) section for the year ended 31 March 2008.

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

Investment performance

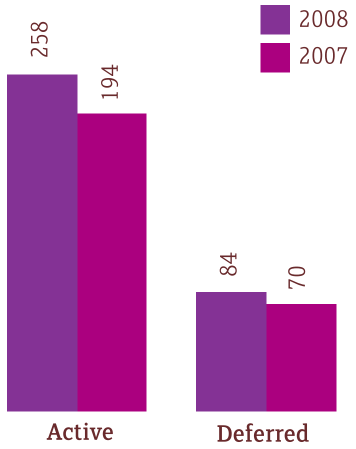
By 31 March 2008, the DC section of the Plan had increased to 342 members, with approximately £4.9m invested across 15 funds. Over the year, the returns of the 11 passive investment choices broadly reached the target indices set for them. The active property fund out-performed its target, but the three active equity choices managed by Investment Solutions and Russell Investment Group all under-performed their targets. The Trustee is currently reviewing the investment choices and the structure of the Lifestyle option. Any changes will be communicated to the membership later this year.

	£000
Value of the Fund at 31 March 2007	**3,623**
Income	
Member contributions	738
Company contributions*	1,049
Transfer values received	56
Return on investments	(236)
Total	**1,607**
Expenditure	
Refunds of contributions	52
Transfer values paid	63
Total	**115**
Value of the Fund at 31 March 2008	**5,115***

*Includes contributions receivable by the Plan at 31 March 2008 of £166,000. The value of actual contributions received and invested at this date is £4,949,000.

Membership

The bar chart below shows the membership details at 31 March 2008 and 2007:



Investment split

The number of members invested in the Freestyle and Lifestyle investment options and the market value invested in both at 31 March 2008 are shown in the table opposite.

	Members	£000 Value of investments
Freestyle	47	1,103
Lifestyle	295	3,846
Total	**342**	**4,949**

Investment choices

For information on the range of funds available, you should refer to the April 2005 edition of the Investment Choices booklet that you can view or download from the IHG website at www.pensions.ichotelsgroup.com Alternatively, you can request a copy of this document from dc-Link by calling the DC Choice Helpline shown below.

Online facility

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

Summary Funding Statement for the DB section of the Plan

The purpose of this statement is to summarise the Plan's funding position as at the most recent actuarial valuation and to give an estimation of the figures at subsequent Plan year ends. A valuation is basically a financial health check undertaken by an actuary at least every three years. The valuation compares the value of the benefits earned up to the valuation date, which the Plan will have to pay in the future (the liabilities), with the amount of money currently invested in the Plan (the assets). The funding level is the percentage of the liabilities covered by the assets. At each valuation, the Company contribution required in the future is set.

How well funded is the Plan?

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

In last year's statement, the estimated funding level as at 31 March 2007 was 82%, which was equivalent to a shortfall of £60m. Based on assumptions consistent with those adopted for the actuarial valuation as at 31 March 2006, the funding level was estimated by the Plan's Actuary to have fallen back to 76% at 31 March 2008, equivalent to an estimated shortfall of £95m.

The funding levels outlined above are summarised in the following table:

	Liabilities	Assets	Shortfall	Funding level
Formal valuation 31 March 2006	£339m	£258m	£81m	76%
Estimated position at 31 March 2007	£341m	£281m	£60m	82%
Estimated position at 31 March 2008	£400m	£305m	£95m	76%

What has influenced the funding level?

Despite receiving £30m of deficit funding instalments from the Company during the last two years, the estimated funding level at 31 March 2008 is unchanged since the last actuarial valuation. Although the funding level is unchanged, as the liabilities are larger than the assets and both have grown proportionately since 2006, the actual shortfall is now greater. The position reflects the financial climate during the last 18 months which has seen equity markets fall and gilt markets rise (which increases the value of liabilities) as inflationary pressures have increased and the economic outlook has weakened.

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

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

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

The Trustee has agreed with the Company that the identified shortfall of £81m at the valuation date be met by a combination of the Company making additional payments totalling £40 million over the period up to 31 January 2009 (£30m has been paid to date), together with targeting higher investment returns on the Plan's assets above those used to assess the liabilities.

It is the intention of the Trustee that the shortfall should be eliminated in six to eight years from the valuation date, i.e. by 31 March 2014 at the latest. In practice, the position will be reviewed at the next valuation, with the Trustee aiming to meet the shortfall (if any) by 2014 by further additional contributions or higher than assumed returns. Should the experience resulting in an increased shortfall at 31 March 2008 not be reversed, additional contributions will be required in the future. The Trustee is satisfied that the strength of the Company means that it is not necessary to request further contributions at this stage.

Next valuation

The Plan's next formal actuarial valuation will measure the funding position at 31 March 2009.

What protection is there for members?

The money to pay for members' pensions is held in a fund separate from the Company's assets. If the Plan were ever to wind up (come to an end), the Company would be required to pay enough into the Plan to enable members' benefits to be completely secured with an insurance company. As at the 31 March 2006 actuarial valuation, it was estimated that the cost of securing accrued benefits with an insurance company was £399m, exceeding the assets by £141m and corresponding to a funding level of 65%. With increased competition in the buy-out market resulting in lower prices, it is estimated that the shortfall on this basis has reduced to between £65m and £75m as at 31 March 2008.

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

Please note, the Company remains committed to supporting the Plan and has no current intention to wind it up.

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

There have not been any payments to the Company out of the Plan in the 12 months to 31 March 2008, nor at any time since the Plan commenced. Such payments are not allowed by the Plan rules.

Where can I get more information?

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

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

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

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

Have you visited the pensions website?

Please help us to keep in touch with you by notifying the DB or DC section administrator of any change to your home address.
At the pensions area of the IHG website, you'll find lots of useful information about the Plan including downloadable handbooks, forms, newsletters and the full Trustee's Report and Accounts. There are also links to dc-Link and to other useful websites.

Why not visit the site to see for yourself? The address is: **www.pensions.ichotelsgroup.com**

Pension increases

Under the rules of the Plan:

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

b) Deferred pensions are increased by the rise in the Retail Prices Index (RPI) up to a maximum of 5% a year in respect of all pensionable service.

In the Plan handbook, it is stated that the Company and Trustee aim to give additional increases based on two-thirds of any rise in the RPI which is above the guaranteed level. The increases are applied to the amount of pension above any Guaranteed Minimum Pension (GMP).

The annual increase is based on the rise in the RPI over the year up to May, which this year was 4.3%. The stated aim would result in a pension increase of 3.7% in respect of pensionable service after 5 April 2006. **However, on this occasion, the Company has decided to improve on this and increase pensions in payment in excess of any GMP by 4.3% with effect from 1 October 2008 in respect of all pensionable service**. Pensions that have been in payment for less than a year, and deferred pensions for members who left the Company less than a year ago, will receive a proportionate increase.

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

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

Slightly different increases may also apply to some pensioners and deferred pensioners who were members of the old Inter-Continental Scheme before 6 April 2000. Members to whom this applies were given written details before the merger of the Plans in 2000.

Trustee Directors

The following individuals make up the Board of nine Trustee Directors who are responsible for the affairs of the Plan and the membership as a whole.

Three Independent:
Trevor Jones (Chairman), Sam Dow, Anthony Stern

Three Employer Nominated:
Tony Bainbridge*, Keith Reed, Ralph Wheeler

* Tony Bainbridge, SVP EMEA Human Resources, was appointed as a Director in February 2008, following the resignation of David House.

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

Company Management Team

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

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

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

You can contact the Company Management Team at: No.1 First Avenue, Centrum 100, Burton-on-Trent, Staffordshire DE14 2WB

Contact details

DB Members

Active/deferred members
Mercer Limited, Stratford Court, Cranmore Boulevard, Solihul, West Midlands B90 4QT

Tel: 0870 850 0982
Email: ichotelsgroup@mercer.com

Pensioners

Mercer Limited, 52 Westgate, Chichester, West Sussex PO19 3HF

Tel: 0870 850 0715
Email: ichotelsgroup.pensionpayments@mercer.com

DC Members

dc-Link, Churchgate, 1 New Road, Peterborough PE1 1TT

DC Choice Helpline: 01733 353418
Email: pensionsadmin@dc-link.co.uk

Tax Office details (Pension Payroll)

Birmingham Tax Office, City Centre, 36 Union Street, Birmingham B2 4AE

Tel: 0845 302 1437