



IHG Reporting Changes Update

Tuesday, 17th April 2018

Opening Remarks

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Introduction

Thanks, everybody, for making it across to Goldman's for this morning's event. For those of you who do not know me, I am Paul Edgecliffe-Johnson. Thanks for joining us today for this session where over the course of the next half an hour I will be taking you through some of the reporting changes that came into effect for IHG from 1st January this year, and which we flagged at our full-year results in February. This presentation is being webcast live. You can find the details on the website and in this morning's Stock Exchange announcement, which also contains Financial Statements for 2016 and 2017, updated to reflect the changes I will be talking you through.

Agenda

I should warn you upfront, some of this is going to be a little bit heavy. There is a lot of detail in the materials we have published. The aim of this morning's session is to help distil this information and to provide a clear view of the impact and implications of these changes. To this end I will address three key areas: an overview of the changes introduced today, a deeper dive into IHG's System Fund and a summary of the other changes we are making to the presentation of our financial statements. I will not be making any commentary on current trading as we will be reporting our first-quarter results in just under three weeks on 4th May.

There will be an opportunity for those in the room to ask questions at the end. In the interests of time, I ask that you limit your questions to the content in this morning's presentation. For those of you who do not want to ask questions in the open forum, both our investor relations and financial reporting teams are here today and are available to answer more detailed questions over coffee and tea after the main session has ended. For those on the webcast, if you have any questions please contact the investor relations team directly.

Overview

Before I start, it is important to note that these changes relate to accounting treatment and presentation only, and that our underlying business fundamentals remain unchanged. The free cash flow of the business is unaffected and the impact on our net debt to EBITDA is minimal. Let us start with an overview of how these changes impact our numbers.

Overview of Changes

Impact on underlying results

On screen now is a summary of the new reported and underlying results for 2017. On an underlying basis the impact of the changes is small, increasing revenues by 7%, whilst operating profit and adjusted earnings per share remain broadly flat. In line with our standard practice we will continue to focus on our underlying results as we believe that these give the clearest explanation of our financial performance.

Most of the differences between the restated underlying and reported numbers can be explained by three adjustments. The first two are revenue and cost, relating to both the System Fund and to hotel cost reimbursement. These are now included in our reported numbers but we gain

no direct economic benefit from these transactions in the medium term. Therefore, we have excluded them from our underlying results.

The third adjustment is in relation to our four managed-lease hotels, the results from which we continue to fully consolidate in our Group income statement. These were previously reported within our managed hotels business but were excluded from our underlying results due to the distortive impact they had on that segment. Now that we are reclassifying these hotels within our owned and leased line, this exclusion is no longer necessary. Therefore, our underlying performance now includes the results from these properties.

Looking at adjusted earnings per share, and in order to ensure this figure reflects what is attributable to IHG shareholders and not our hotel owners, the restated figure will now exclude any surplus or deficit in relation to the System Fund, as well as any associated interest.

Looking now to fee margins, a metric which is important in assessing the performance of our core, franchised and managed business, for this reason we continue to exclude results from the owned and leased hotels and significant liquidated damages. In addition, we will now also exclude System Fund results and hotel cost reimbursements given that they are non-core to IHG. On this basis our restated fee margins for 2017 are 1.9 percentage points higher than previously reported. This is mostly due to the reclassification of the InterContinental Reservation programme to the System Fund and the offset of key money amortisation charges against revenue. I will talk more about these changes later but both reduce IHG's revenue without impacting profit and are therefore margin accretive.

Our guidance remains unchanged in that we continue to expect to grow fee margins in line with our long-term average of 135bps per annum, although there may be variations from year to year. Both underlying and reported net debt to EBITDA show a minimal increase of 0.1x. Our guidance here also remains unchanged at 2-2.5x and at the top end of this range in the current economic environment.

Summary of adjustments to 2017 full-year performance

Changes with revenue impact and no profit impact

Looking now at these adjustments in more detail, to help simplify the changes we have grouped the five core IFRS 15 adjustments into three categories. Firstly, those adjustments that impact revenue but not profit. The largest impact is from hotel cost reimbursements. These predominantly relate to the cost of staff at our managed properties in the US that are incurred by IHG at a recharge to hotels. Previously these amounts were not recognised on IHG's income statement but are now shown on a gross basis with revenue and of matching cost. These amounts will be presented at a Group level and will grow broadly in line with the number of managed hotels in our Americas estate.

Key money payments are made by IHG to hotel owners to help secure strategic management or franchise agreements, and we continue to expect our spend on these to be up to \$75m per annum. Previously, these payments were capitalised as intangible assets in the Statement of Financial Position and amortised over the life of the contract. Now the capitalised assets are recognised as contract assets and the annual charges are taken as an offset to revenue rather than being classified as amortisation. Whilst this change has no impact on operating profit, EBITDA is negatively affected as the benefit of the add back of amortisation charges is now lower.

There are also some other small adjustments that only impact revenue and not operating profit. These relate to the recognition of other revenue transactions and the treatment of payments under performance guarantees. Cash flows in relation to each of these changes remain consistent with before.

Changes with profit timing impact

The second group of adjustments impact the timing of revenue and cost recognition. On signing new or relicensing existing franchise and management contracts we charge hotel owners an application fee. Previously these amounts were recognised as revenue when billed. Under IFRS 15, they are now spread over the life of the associated contract, typically 20 years. This change results in an initial reduction to revenue and operating profit and the recognition of deferred revenue on the Group Statement of Financial Position.

The signing and relicensing of new and existing contracts also incurs costs for IHG, mostly relating to commission payments made to our development teams. Previously, these costs were recognised once the new contract was signed, and under IFRS 15, they too are now spread over the life of the associated contract. This change results in an initial increase in operating profit as well as the recognition of capitalised contract costs on the Group's Statement of Financial Position. The cash flows related to both revenues and costs associated with these transactions remain unchanged.

Changes with ongoing profit impact

The third category of adjustments relates to changes that have a permanent profit impact. Previously when IHG sold hotels and retained a management contract we recognised the fair value of that contract as an intangible asset, which was then amortised over its life. Under IFRS 15 these historic intangible assets are now de-recognised and the associated amortisation charges permanently eliminated from the Group income statement. This results in an increase to operating profit but no changes to cash flow. Given that this is a permanent reduction in operating expense no further adjustments are required when modelling growth from the restated 2017 base.

In addition to these core adjustments, IFRS 15 has significant implications for how we report the System Fund. I will go into more detail on the System Fund in the next section but at the simplest level IHG manages it for the benefit of hotels within our system with no profit or loss for IHG. As such, under previous accounting treatment, System Fund income and expenses were not recorded in the Group income statement. The most significant change under IFRS 15 is as the System Fund's activities are controlled by IHG we are now judged to be the principle in its operation. That means that the associated \$1.2bn in revenues and costs must now be recognised in the Group income statement with any short-term surplus or deficit included in IHG's reported profit. We understand that our US peers will be taking the same approach. In 2017, this change results in a \$34m reduction in IHG's reported operating profit due to the initial phase of our planned spend-down of the System Fund surplus.

As previously mentioned, in order to provide the best assessment of IHG's performance System Fund results and hotel cost reimbursements will be excluded from underlying results and adjusted earnings per share. To recognise the change in our reported to underlying results, you need to exclude these amounts. In addition to this adjustment you will also need to exclude the costs and income from our InterContinental Reservation programme and then add back the

results of our managed lease hotels. I will discuss both these additional adjustments in more detail later.

Overview of the System Fund

System Fund – overview

A core part of IHG's owner value proposition

Given the complexity of the System Fund changes we thought it would be helpful to provide a little more detail on how the Fund operates and how the changes will impact IHG's Financial Statements. IHG collects fees from all hotels in the system as well as proceeds from the sale of IHG Rewards Club points. These funds are then used to pay for activities that drive incremental revenues to hotels across our system as well as to pay for our loyalty programme IHG Rewards Club and for our guest reservation system. It represents a core part of IHG's owner value proposition. The Fund's activities are governed by specific rules agreed with the IHG Owners Association and are subject to an annual audit to ensure compliance. Whilst the adoption of IFRS 15 changes the way that System Fund revenues and costs are recognised and presented the operation and cash flows of the Fund remain unchanged.

The System Fund currently impacts IHG's Financial Statements in a number of key issues

Before going into the detail of these changes, I thought it would be useful to provide a reminder of how it worked previously. Whilst it has its own P&L, the System Fund does not have its own balance sheet or cash flow statement. As a result all cash flows associated with the Fund come through IHG's Group cash flow statement with surplus funds, mostly relating to the IHG Rewards Club programme, contributing to IHG's cash position. An interest charge is paid by IHG to the System Fund on the outstanding value of these amounts and is included within the Group income statement.

The Group Statement of Financial Position included the loyalty programme liability which was the expected cost of redeeming the outstanding IHG Rewards Club points balance and the System Fund surplus liability, which was the cumulative difference between the Fund's income and expenditure.

As the System Fund does not have its own balance sheet any capital expenditure such as for GRS is paid by IHG. These payments are then recovered through the corresponding depreciation and amortisation in the System Fund, which flow through the working capital line in IHG's cash flow statement. Finally, the Group cash flow statement was impacted by the net movements in both the System Fund surplus and the loyalty liability, as well as the add-back for depreciation and amortisation as just discussed.

The System Fund draws on various sources of income to drive hotel revenue-generation activities

The System Fund generates income in four ways. Firstly, through the marketing and reservation fees that are charged to every hotel. Like franchise royalty payments these are based on a fixed percentage of room revenue, which is typically 3%. Secondly, pay for performance programmes. These are optional and include IHG's revenue management for hire services. Fees for these services are tailored and can comprise fixed fees per month or fees per transaction. Thirdly, commission-based programmes. These link our hotels to travel agents

and other booking intermediaries. Typically, these programmes generate commissions based on a percentage of room revenue or a fixed fee per transaction.

Finally, IHG Rewards Club assessments and point sales. When an IHG Rewards Club member stays at one of our properties, a fee of 4.75% of their folio is paid by the hotel to the System Fund. When that guest later redeems their points the Fund reimburses the second hotel for the cost of the stay with a small mark-up on the transaction. IHG Rewards Club revenue is also generated through the sale of IHG points to third parties such as credit card providers who then pass these on to their customers. The System Fund is managed to not make a profit or loss for IHG so the net revenue generated across these income streams becomes the investment capacity available to support its activities including advertising, marketing, sales and our reservation systems.

System Fund – changes to revenue & cost recognition under IFRS 15

Looking now at the broader impact of IFRS 15 on the accounting treatment of these various income and cost streams. For the marketing and reservation fees and pay for performance programmes it is relatively simple. The revenue and costs associated with these activities are now recognised on IHG's Group income statement as they are incurred. However, for the commission-based programmes the Fund is deemed to act as an agent and so certain pass-through costs are now offset directly against revenue. In 2017, this results in a \$300m reduction in the previously disclosed System Fund revenue. However, the investment capacity in cash flows of the Fund remains unchanged.

System Fund – IHG Rewards Club revenue & cost recognition under IFRS 15

Similar agency principles apply to revenues associated with IHG Rewards Club assessments and point sales, which are now reported net of redemption costs. In 2017, this results in a further \$300m reduction in previously disclosed System Fund revenue. In addition, in the past these revenues were recorded when a reward point was earned or sold. Under IFRS 15 however, revenue will now be deferred until the associated points are redeemed. I will go through this in more detail later but at a high level, as typically more points are earned in a year than are redeemed, the total revenue recognised under IFRS 15 is now lower than before. In 2017, this resulted in a \$100m reduction in System Fund revenue recognised but no change in cash flows.

System Fund – impact of IFRS 15 on revenue recognition

This slide summarises why, when previously we disclosed a \$1.9bn System Fund in 2017, under IFRS 15 we now recognise \$1.2bn. As most of the difference is due to the netting of costs against revenue, this has a minimal impact on the Fund's capacity for investment, and cash flows remain unchanged.

IHG Rewards Club – changes to revenue & cost recognition under IFRS 15

IHG Rewards Club revenue deferred; redemption costs offset against revenue; cash flow unchanged

I would like to spend a bit of time now providing more detail on the deferred loyalty revenue aspect of the IFRS 15 changes. In this example a guest earns loyalty points at an IHG hotel which in turn pays \$100, equating to 4.75% of the guest folio into the System Fund. Under the previous accounting treatment, the System Fund would immediately recognise \$100 of income and cash. At the same time IHG would record a loyalty liability equal to the amount the redemption hotel is paid to cover the cost of the guest's stay, in this case \$60, which allows for

the mark-up the Fund makes. The net amount of \$40 was then available as System Fund investment capacity. At the time the guest then redeemed their points, the loyalty liability was unwound and the cash paid to the redemption hotel.

Under IFRS 15, we now can only recognise the revenue when the associated points are redeemed. Consequently, when a guest earns their loyalty points, whilst we still receive \$100 in cash we now only recognise the deferred revenue liability of the same amount. When the guest redeems their points this revenue is then recognised net of the redemption cost, leaving the same System Fund investment capacity as before.

System Fund capacity and cash flows over time remain unchanged

This second worked example shows the impact on the System Fund over time and assumes the points are earned in year one and then redeemed equally across year two and year three. Under the previous treatment the revenue and cost of sales are recognised in year one when the points are earned. The impact in year two and year three is limited to the cash flows associated with the redemption payments. Under IFRS 15, whilst the revenue recognised is now lower than before, over time both System Fund investment capacity and cash flows remain unchanged.

System Fund – adoption of IFRS 15

This slide summarises how IFRS 15 changes the way in which the System Fund impacts our Financial Statements. System Fund revenues and costs and the associated surplus or deficit for the year are now recognised in the Group income statement. Interest charges payable by IHG to the System Fund are eliminated as inter-company amounts resulting in a lower Group interest charge. However, given that our adjusted earnings per share figure excludes amounts relating to the System Fund these interest charges must be added back for this calculation.

On the Group Statement of Financial Position the loyalty programme liability is now replaced with a loyalty deferred revenue liability and a loyalty redemption accrual. This second amount relates to the timing difference between a hotel invoicing the System Fund for the cost of point redemptions and the reimbursement of that cost. As the annual System Fund surplus or deficit position is now recorded in operating profit, the System Fund surplus position in the Group's Statement of Financial Position is eliminated. Capital expenditure and free cash flows are unchanged, but the presentation within the cash flow statement is different. I will return to this in a moment.

System Fund – overview of changes

You will be pleased to hear that I will not talk through this next slide, but for your reference it provides a reconciliation for 2017 of the key changes relating to the System Fund under IFRS 15.

Free cash flow presentation

Whilst IFRS 15 does not impact IHG's overall free cash flow, there are several presentational changes. The major ones relate to the System Fund, namely, the elimination of the movement in the loyalty programme liability and System Fund surplus positions. In their place the cash fund now includes the System Fund surplus or deficit and the movement in loyalty deferred revenue and loyalty redemption accrual. At our 2017 results in February, we explained our plan to spend down the System Fund surplus of \$158m for the benefit of owners. This plan

commenced in 2017 resulting in Fund expenditure in excess of Fund receipts of \$34m that year. This plan remains unchanged. We will spend down the remaining surplus balance in 2018 relating to marketing, loyalty and technology initiatives plus costs associated with IHG's efficiency programme. Underlying operating profit and adjusted earnings per share will remain unaffected.

Changes in Reporting Presentation

New regional structure

Moving on now to the other changes we have made in 2018 to the presentation of our accounts. At our 2017 full-year results we set out a series of new strategic initiatives designed to deliver industry-leading net rooms growth in the medium term. This will be funded by a Group-wide efficiency programme. Bringing together our Europe and our Asia, Middle East and Africa regions was a core part of this process. It allows us to better leverage our scale across 72 countries, share best practice and up-weight investment in those markets with the highest growth potential.

From a presentational perspective, the change is straightforward, as the revenues and costs associated with the two regions are simply brought together. Reporting of the Americas and Greater China regions remain unaffected. For those of you that contribute to our reported consensus figures, we will shortly provide on our website an updated template to link to your models. This file will reflect our new regional structure as well as all the other changes that we have announced today, and will be populated with the 2017 results.

Further presentational changes

Better aligns the external presentation of our results with the way in which we manage the business

In addition to our new regional structure, we have made several other changes to the presentation of our results to better align with the way we manage the business. None of these changes have any impact at a reported Group operating profit level. Our franchise and managed businesses are now reported in aggregate together with regional overheads as fee business. This better reflects the way the fee business is now operated following the wider reorganisation of the business.

As I mentioned earlier, we have reclassified our four managed lease hotels, whose revenues and costs are fully consolidated in the Group income statement, from our managed business to our owned and leased hotels. This change reduces the noise in our reported fee business revenues and profits and so these properties are no longer excluded from underlying results.

We have also made minor changes to the allocation of certain costs between our central functions and the regions. Finally, the InterContinental Reservation programme, which for historical regions was included on the Group income statement, has been reclassified to the System Fund bringing it in line with the treatment of our other brands. In 2017 the programme generated \$25m of revenue and was not managed to generate a profit or loss for IHG, so there is no impact to operating profit from these changes.

Reclassifying revenue and cost streams to bring greater alignment across the business

The impact of the IFRS 15 and presentational changes on our underlying results is summarised on this slide. As you can see, the reclassification of the managed lease hotels provides a boost

to underlying revenues partly offset by the reclassification of the InterContinental Reservation Programme and the net effect of the IFRS 15 changes. From an operating profit perspective the changes are minor with a \$4m increase in the managed lease hotels, partly offset by a \$1m reduction due to IFRS 15.

Conclusions

In summary whilst IFRS 15 represents a complex change in accounting treatment the impact on our underlying results, which provides the clearest explanation of our performance, is minimal. The core revenue drivers of our business remain unchanged and there is no impact to free cash flow, our guidance on leverage or our capacity for capital returns.

With that I am happy to take your questions, and I would add that we do have, as I said at the start, our financial reporting team, Renata and Adrian over in the corner, Michael our Group Financial Control and the IR team is here. If there are questions that are getting into the real detail of this and you want to spend a bit of time going through the slides and understanding it they are happy to stay as long as is helpful. Equally, I am happy to take any questions that you have now.

Q&A

Jamie Rollo (Morgan Stanley): The EBITDA impact of around \$25m you are not adjusting for that are you? You are going to continue to give an underlying EBITDA which on last year's numbers was about \$25m/\$26m lower. Is that adjustment the same for this year?

Paul Edgecliffe-Johnson: It is probably easier to take the questions in turn. The change that you are seeing from the System Fund surplus coming into reported profit when you are looking at the underlying we will strip that out, so that you can see what relates to IHG shareholders and what relates to System Fund. If you think about the components of that change, you have the System Fund surplus being spent down and then you have the interest charge which is where it gets quite complicated. Frankly it took us a while to work out exactly how you deal with that because the interest charge that was historically shown in Group interest is interest that we are effectively paying to the System Fund. It is not cash, but we have a balance sheet amount there, and we agreed we will pay Libor on that to increase it because we have the benefit of that cash. Then you have capitalisation of the GRS capitalised amount. Historically, if you go back a few years you are talking about \$7m odd of interest. There is another \$6m relating to the GRS so that is \$13m. Then the balance between the System Fund surplus spend-down and the interest, the \$25m, will be in reported profit. If you are looking at underlying profit, what is actually available for shareholders, what the business is generating, we will exclude that, going forward.

Jamie Rollo: I can see the operating profit and EPS numbers have not changed much or a small benefit to EPS because of the interest you mentioned, but you have not given an underlying EBITDA here. I think that change in amortisation and the contracts incentives, you are not adjusting. You are reporting that in your underlying, I think. Am I right in saying that?

Paul Edgecliffe-Johnson: Yes.

Jamie Rollo: Is that \$25m EBITDA hit to the underlying going to remain, going forwards?

Paul Edgecliffe-Johnson: You do not have a \$25m reduction on an underlying basis. You have it on a reported. You are looking quizzical, Jamie.

Jamie Rollo: I thought that was.

Paul Edgecliffe-Johnson: Are you talking EBIT?

Jamie Rollo: EBITDA.

Paul Edgecliffe-Johnson: EBITDA, right.

Jamie Rollo: Not EBIT obviously, not EPS, but EBITDA. Does that affect the future years, as well? You are not adjusting for that, I think.

Paul Edgecliffe-Johnson: Yes. No.

Jamie Rollo: Okay. Then second question was, if you look at reported, which I know you are not focused on, is it fair to say that this year because you are going to spend down \$158m, the reported number will be \$125m worse, i.e., a bigger deficit, than the \$34m last year?

Paul Edgecliffe-Johnson: Yes.

Jamie Rollo: You will be well below \$700m or so.

Paul Edgecliffe-Johnson: Yes. On a reported basis, you will see the spend-down of System Fund surplus, and this is what we generated a few years ago from the changes to how the points are cancelled after a period of time. It generated this surplus which we spend some of that down in 2017 behind the efficiency programme and then more in 2018. In terms of cash this is all in relation to what we talked about at the prelims that we would spend-down \$200m behind the efficiency programme. The great majority of which is that System Fund income. On a reported basis, you will see that, and then in future years if there does happen to be a surplus or a deficit then you will see that in the reported and we will split it out in the underlying, to give it some consistency going forward.

Jamie Rollo: In terms of the other changes to the regional disclosure, you used to have four regions and four different items, 16 KPIs. You are now going to six KPIs and three regions. It is quite a big drop in disclosure, 16 down to six items. That probably helps you report, but it is not great for our understanding. What has caused that significant reduction in disclosure?

Paul Edgecliffe-Johnson: The four to three is in line with accounting but you report based on how you run the business. As we consolidate in Europe and Asia, Middle East and Africa you do not have an option as to how you report that because that is the business unit. In terms of the separation of franchise and managed and then the regional cost line which we used to have in, as we have looked at what our competitors do and as we look at how the business is managed, we have to find the right balance between giving enough information for shareholders to evaluate performance but also not giving out information that is commercially sensitive and reporting in line with how the business is being run.

As we have evaluated the components of that, we were reporting a lot more than competitors were. They did not give that level of disclosure, and when you are getting into relatively small numbers and when we have a market-leading business, for example, in China, which is a separate business unit, people can see exactly how much money we are making and they can extrapolate out from that fees. You do not want to be giving away commercially sensitive information. Combined with, of course, that is how we run the business because that is how

you are required to do it from an accounting perspective. Hopefully, we still give you a lot of information Jamie. You will still be able to evaluate our performance, I hope. If not, we can chat about it and see if there is anything specific that you think would be helpful.

Alex Brignall (Redburn): On the exceptionals and the System Fund bit within, it sounds like there is going to be a line within the EBIT which is a System Fund profit/loss, which is in reported but not in underlying. Then there is another bit which is an exceptionals component because when you guided for the System Fund pay-down this year there was a \$60m and then there was a \$100m. It is a bigger issue this year than I expect it will be in other years where you will not be paying down so much. How will we see that in the P&L? Will there be a starting underlying EBIT, then reported EBIT into the System Fund and then a reported EBIT after exceptionals, of which there is then another line of exceptionals that we had last year?

Paul Edgecliffe-Johnson: Yes, effectively. Going forwards, as we just talked about, you are going to have the System Fund surplus or deficit shown in reported and stripped out for underlying. Then to the extent that there are exceptionals then exceptional treatment will continue to apply right across the P&L.

Alex Brignall: In the future it should be just one line of System Fund that we should have to model but this year happens to be one particular to pay down extra?

Paul Edgecliffe-Johnson: The pay-down effectively is not exceptional, if you like, because it is a pay-down of the System Fund. We will have to evaluate as we come to the end of the year with auditors as to what items are and are not exceptional. However, you will see the surplus movement as we spend that down coming through the reported numbers. In effect what I really look at and I suspect the vast majority of you will, is, what is the underlying profit number? Then, what is happening to cash flows? Neither of those are affected by this.

Alex Brignall: Thank you very much. Then the second one is on the System Fund, and it is highly possible that this is my own previous ignorance. In terms of the reporting and consolidation of your commission payments that you do for agents, could you give us a little bit more on what we actually see, particularly for OTA payments that go through or do not go through your bit, because I was under the impression that a lot do not go through your bit, and then you paired out. Is that changing?

Paul Edgecliffe-Johnson: What we are changing, and this is a reason why the System Fund when we reported it previously has revenue of \$1.9bn. It has now come down to revenue of \$1.2bn. We have pass-through costs in that which was all travel agent commissions, offline, online, and if there are payments that are being made effectively we are receiving it as agents so it comes in as revenue. Then we pass it out so we do not make a turn on it. Now that is being excluded from the reporting.

Tim Ramskill (Credit Suisse): I have two, as well. The pay for performance programmes, I guess that is a choice for owners as to whether to use that product but ultimately because it is all pushed through the System Fund you do not make any money out of that. Why is that the case? Is it not a reasonable thing if you are selling a service that has some value?

Paul Edgecliffe-Johnson: You could. What we have seen over the years – and we have talked about this a little bit – is that when we see hotels implement revenue management for hire, we see them increase RevPAR. It is clear if you look at the questions we have had and the

discussions we have had over the years as to why we have not seen a higher rate of ADR growth, in the US it is partly because not all our hotels are as good at revenue management as they could be. This is an industry-wide issue. One thing is to institute a better level of revenue management and our outsource revenue management solves the problem. Revenue management is a science and you have to have somebody who is quite competent in it. Our outsource revenue management will do that. We want to incentivise people to use it. If they think we are making a profit out of it and we are actually incentivising for them to pick it up then there is that additional question to hotel owners, is this really good for me or is it just good for them? It is always that balance and we try to provide as much as we can to the owners but it is just a pass-through of our costs. Overall, it will drive their performance because we get the benefits from the system size growth as more and more people want to sign up with us. It is a commercial judgement. We could say that we are going to apply a cost to it.

It is similar to, if you think about how we deal with the income that we get from our credit card agreements. That all goes into the System Fund for us. If you look at our peers they take a big slice of that onto P&L. Our view is that you want the hotels to be as successful as they can be so you do not need to be trying to nickel and dime them and take slices off things. It is not necessarily conducive to the very best long-term owner relationships and we are very focused on that.

Tim: Then my second question was around key money. If I understood it correctly effectively rather than a D&A charge going forward it is an adjustment to revenue. Then in terms of the cash outflows you will still capture that within your capex number as you report it?

Paul Edgecliffe-Johnson: Exactly as before, and the \$75m that we talked about is still adequate for our needs.

Tim: To Jamie's question, the D&A charge is lower.

Paul Edgecliffe-Johnson: There are various components of it, as I have talked about. The IFRS 15 capitalisation of the management contract when we sold the hotels which we always thought was wrong accounting by IFRS 15 not by EY to be clear. If we sold something and then we had a contract personally I could not see why you have to put the contract onto the balance sheet and amortise that over time. However, that is what the accounting required. Fortunately, that has gone away because I thought it was an oddity that we had \$8m or so depreciation because we happened to have sold that asset. That goes away and then there are the other changes to amortisation and depreciation as we have talked about.

Angus Tweedie (Bank of America Merrill Lynch): Could you talk a bit more about the cancellation of reward points and how we should think about that going forwards given the timing impact that has on the System Fund? On the regional cost reallocation, how should we think about that from an FX standpoint on the Head Office costs? Is it material at all?

Paul Edgecliffe-Johnson: Cancellation of reward points we did in 2014/15, and that brought us in line with pretty much everybody in the industry. We have no intention to change that. It is in line with what we do and most of the airlines do, and others do. That creates that one-time surplus. I would not expect any move away from that. If everybody else changes and we look at it and think our owners are being commercially disadvantaged, then maybe we will look at it. In terms of the FX, we have looked at that and it does not really change things. You

have some puts and takes there but probably one to go through with the IR and financial reporting team after. It is small numbers but it nets out, and effectively it is nothing.

Thanks for the questions, guys, and thanks for your attention.

[END OF TRANSCRIPT]