



IHG Annual Report and
Financial Statements 2010



We're a global hotel company – the world's largest by number of rooms – operating seven well-known brands internationally.

Our Vision is to become one of the world's great companies. For us this means having great brands which lie at the heart of **Great Hotels Guests Love.**



We want people to feel good about what we do and how we do it. Around the world, we aim to delight our guests, inspire our people, act responsibly and generate financial returns for our hotel owners and our investors.

This requires:

Great Brands

which not only stand out, but also stand for something that resonates with our guests.

Great People

who bring our brands to life and give guests every reason to stay with us time and again.

Great Values

which bring our people together as a happy, successful and responsible business.

Great Ways of Working

which place our guests at the heart of everything we do, and support our hotel owners to do the same.

We'll be a great company when:

- **Guests love to stay with us**
- **People love to work for us**
- **Owners love our brands**
- **Investors love our performance**

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Overview



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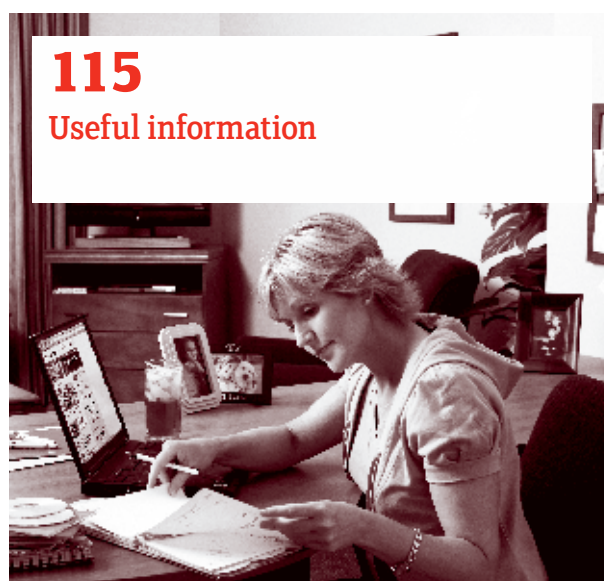
Hotel Indigo London-Tower Hill, UK



Staybridge Suites Newcastle, UK



Holiday Inn Pattaya, Thailand



Candlewood Suites Hot Springs, Arkansas, US

Headlines

Signings of 55,598 rooms (319 hotels) with development pipeline now totalling 204,859 rooms (1,275 hotels)

Total number of rooms operating under IHG brands 647,161 (4,437 hotels)

2,956 hotels operating under the new Holiday Inn standards (89% of the global Holiday Inn estate)

Revenue per available room* up 6.2%

Total gross revenue from all hotels in IHG system up 11% to \$18.7bn†

Revenue up 6%∞ to \$1,628m

Operating profit before exceptional items up 22%∞ to \$444m

68% of total rooms revenue booked through IHG's channels or by Priority Club Rewards members direct to hotel

8m new Priority Club Rewards members added (56m members in total)

Total adjusted earnings per share down 4% to 98.6¢

Net debt of \$743m down \$349m on the position at 31 December 2009

Final dividend up 21% at 35.2¢ (sterling equivalent of 22p)

* Total system rooms revenue divided by the number of room nights available.

† Total rooms revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels (not all attributable to IHG).

∞ Includes one significant liquidated damages receipt in 2009 in EMEA totalling \$3m.





"During 2010 we grew both sales and profits and delivered on our priorities. The recommended 21 per cent growth in the final dividend reflects our confidence in IHG's prospects."

David Webster
Chairman

Chairman's statement

Dear Shareholder

Performance

Revenue increased 6 per cent to \$1.6 billion, with operating profit before exceptional items of \$444 million, up 22 per cent. Adjusted earnings per share decreased 4 per cent from 102.8 cents to 98.6 cents.

The Board is recommending a 21 per cent increase to the final dividend for 2010, taking it to 35.2 cents per share. This will give a full-year dividend of 48.0 cents per share, 16 per cent higher than 2009. This converts to a sterling full-year dividend of 30.0 pence, up 15 per cent compared with 2009. Subject to shareholder approval, the final dividend will be paid on 3 June 2011.

Board

I am pleased to welcome Jim Abrahamson and Kirk Kinsell to the Board as Executive Directors. Their appointments were effective from 1 August 2010. Each has retained his existing responsibilities as a member of IHG's Executive Committee.

Jim joined IHG as President of the Americas region in January 2009 from Global Hyatt Corporation. He has over 30 years of management experience in hotel operations, branding, development and franchisee relations, including 12 years with Hilton Hotels Corporation.

Kirk joined IHG in 2002 as Chief Development Officer for the Americas region, having previously held senior franchise and brand operations roles with the former Holiday Inn Corporation and ITT Sheraton. He was appointed to IHG's Executive Committee as President, EMEA, in September 2007.

Both Jim and Kirk are highly regarded within the industry and have a deep understanding of the hotel business. This significant operational experience will be of great benefit to IHG's Board.

Financial position and shareholder returns

Given the uncertainty in the wider economic environment during 2010, we continued with our prudent approach to managing our balance sheet. Careful control over cash has enabled us to reduce our overall net debt position by \$349 million to \$743 million. No returns above normal dividends were made to shareholders in 2010. Total funds returned since March 2004 amount to more than £3.5 billion.

Outlook

Our people were central to our strong performance in 2010. On behalf of the Board I should like to thank everyone in IHG for their hard work and commitment during the year.

With improving business confidence and corporate profitability, combined with a lower level of hotel openings expected across the industry, forward trends look favourable. Our global scale, attractive brands, powerful system and experienced management team position us well to drive market share and improve margins into the future.

David Webster
Chairman



"We've made excellent progress this year, strengthening our brands and using our scale advantage to drive market share and improve margins. We will continue to focus on investing behind growth and creating value for our shareholders."

Andrew Cosslett
Chief Executive

Chief Executive's review

In a year when the global hotel industry returned to growth, we continued to improve the strength of our brands and our system. This has resulted in a greater share of the global pipeline and the successful near completion of the Holiday Inn relaunch.

The economic environment remained uncertain throughout 2010. But as the year progressed the hotel recovery gathered pace, resulting in growth in revenue per available room (RevPAR) in each of our regions and a rise of 6.2 per cent for the Group as a whole.

This led to good growth in revenues and profit for IHG and we continued to make excellent progress against our long-term strategic priorities. Consequently we are well placed to drive market share and improve margins in the years to come.

Driving market share

The relaunch of Holiday Inn was close to completion at the end of the year. 2,956 hotels are now operating under the new brand standards, which have revitalised our largest brand family globally. Relaunch hotels continue to perform strongly.

The global roll-out of our newest brand, Hotel Indigo, continued as we opened a second hotel in London at Tower Hill and the first Hotel Indigo in Asia Pacific in Shanghai. We signed 25 Hotel Indigos into our pipeline, taking the total number under development to 62.

The power of our system and brands helped us achieve an 18 per cent share of the global pipeline of new-build hotels. During the year we re-entered the Hawaii market with Holiday Inn and formed an innovative alliance with Las Vegas Sands Corp., bringing The Venetian and Palazzo Resorts into the InterContinental system.

In 2010, 68 per cent of rooms revenue came through our reservations channels or by Priority Club Rewards members direct to hotels. We also signed a record number of new Priority Club Rewards members in the year. Total membership now stands at 56 million.

Growing margins

We kept regional and central costs broadly in line with 2009 excluding the impact of performance-based incentives. This, and our drive to improve the efficiency of the Group, helped increase fee-based margins by 1.1 percentage points.

Our Vision is to become one of the world's great companies and the actions we have taken in 2010 have reaffirmed that we are on the right path. We continue to focus hard on our strategic priorities to drive market share and improve margins, and with industry trends set to be positive, we look forward to a successful 2011.

Our Vision is to become one of the world's great companies

Over the past years we have put the key elements in place to help us fulfil our Vision. We are working side by side with our owners on our shared core purpose of creating Great Hotels Guests Love. We continue to invest in strengthening our brands so that they stand out and stand for something in the hearts and minds of our guests. And we continue to align our organisation behind those brands, helping to inspire pride in the people who bring the brands to life for our guests every day, in every country. These key elements, delivered consistently, will ensure that guests prefer our brands, helping us to win market share.

Our Vision to become great



Driving brand preference

We are in the people business. It's the people in our hotels that really bring the brands to life for our guests. So in 2011 we are rolling out a world class suite of tools that give our owners the opportunity to immerse their people in our brands still further. The tools will help them hire the best person for their brand, clarify their understanding of what a guest is looking for in that brand and give them the tools to motivate and recognise their people. These tools will help us to drive consistency in brand delivery and help our owners to engage, develop and retain good people.

Global opportunities

We are always looking for new opportunities around the world. There are, however, huge opportunities for our existing brand portfolio. We are focused on quality not quantity. The Holiday Inn relaunch has been one of the biggest initiatives in hotel history and we are now preparing to refresh Crowne Plaza. We have been pleased with the results of our boutique brand, Hotel Indigo, this year and are looking forward to an escalated roll-out next year. Our brands are benefiting from the opportunities opening up in emerging markets where we are building a strong position.

Andrew Cosslett
Chief Executive



A profitable future together

"All IAHI members will likely not share the same view of 2010. Some will have seen significant recovery in their markets; others will have continued to face challenges. But no matter where they are on the road to recovery, every IAHI member will share a positive view of our collaboration with IHG.

This year, we launched Celebrate Service, a global tribute to our greatest asset – our people. This collaboration, which started as an idea of past IAHI Chairman Mark Carrier, became a platform for celebrating the contribution of every employee. Building on that success, the IAHI encouraged and supported the introduction of People Tools to all IHG hotels, responding to what our members said was a key challenge: recruiting, developing, and retaining talent.

Another key challenge is driving down costs. In 2010, we introduced one cost-saving innovation, InnSupply, which began as an IAHI initiative. When it became apparent that the resources needed to support a procurement programme were beyond our scope, we approached IHG for their expertise to launch such a programme. InnSupply rolls out in early 2011, and the savings to our owners in dollars and time should be significant.

The benefits of the IAHI and IHG working closely together have never been more apparent. Working together, we will continue to build a profitable future for every owner."

Bill DeForrest Chairman,
IAHI, the Owners' Association



For further information go to
www.iahi.org

Great brands



InterContinental® Hotels & Resorts

In the know

We've been on the international scene for decades, so no-one knows the world like we do. We love to share our knowledge with our guests and they love our understated service and style.

171 hotels
58,429 rooms

Development pipeline
60 hotels

www.intercontinental.com



Crowne Plaza® Hotels & Resorts

Celebrate your stay

We love to make sure that our guests have fun when they stay with us. We do this by combining the very best facilities with great service, helping our guests get more from their trip beyond work.

388 hotels
106,155 rooms

Development pipeline
123 hotels

www.crowneplaza.com



Hotel Indigo®

Refreshingly local

We love the fact that we're different, right down to our local take on design. We're all about neighbourhoods and take every opportunity to share the colour, ambience and flavours of our localities with our guests.

38 hotels
4,548 rooms

Development pipeline
62 hotels

www.hotelindigo.com



Holiday Inn® Hotels & Resorts

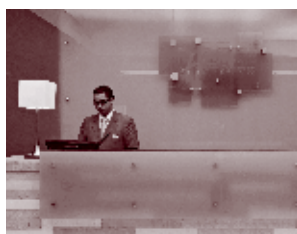
Championing the real you

We've always been known for our friendly service, comfort and value. Now we're completing our worldwide relaunch, our business and leisure travellers can expect even better quality and service.

1,241 hotels
227,225 rooms

Development pipeline
313 hotels

www.holidayinn.com



Holiday Inn Express®

Championing the real you

One of the fastest growing hotel brands, we offer convenience and comfort at great value.

2,075 hotels
191,228 rooms

Development pipeline
494 hotels

www.hiexpress.com



Staybridge Suites®

Like family

We love our guests to feel like family and our hotels to feel like home.

188 hotels
20,762 rooms

Development pipeline
101 hotels

www.staybridgesuites.com



Candlewood Suites®

Feel free

We love giving our guests all the essentials they need for a home-like stay at great value. We give them room to be themselves and are always there when they need us.

288 hotels
28,253 rooms

Development pipeline
120 hotels

www.candlewoodsuites.com



PriorityClub Rewards | 

Priority Club® Rewards

Unleash the power of your points

The world's first and largest hotel loyalty programme, Priority Club Rewards, offers members more ways to earn and redeem points than any other hotel scheme.

56 million members
Over 600,000 new members every month

www.priorityclub.com

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In this section we describe the industry and markets in which we operate and our strategy for winning in this environment. We set out our key performance indicators, describe the development and performance of the business during 2010, and provide a comprehensive review of our approach towards our employees, corporate responsibility and risk management throughout the Group.

OVERVIEW

BUSINESS REVIEW

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SENIOR MANAGEMENT AND
THEIR RESPONSIBILITIESGROUP FINANCIAL
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FINANCIAL STATEMENTS

USEFUL INFORMATION

Business review

This Business Review for the financial year ended 31 December 2010 provides a review of the business environment and strategy of InterContinental Hotels Group PLC (the Group or IHG), Key Performance Indicators, and commentaries on the development and performance of the business. It also covers employee and corporate responsibility matters, including the environment, and a description of the risks and uncertainties impacting the business.

Industry and market trends

2010 was a turnaround year for the global economy, with clear signs that the global recession was easing during the second half and business and consumer confidence returning. This assisted the hotel industry's recovery from a challenging economic period. The lodging industry is cyclical, tending to reflect the shape of the general economic cycle. Historically as an industry, in previous cycles we have experienced periods of five to eight years of growth in revenue per available room (RevPAR) followed by up to two years of decline. Demand has rarely fallen for sustained periods and it is the interplay between hotel supply and demand that drives longer-term fluctuations in RevPAR.

The expected recovery in demand took place in 2010, and during the last six months of the year the industry sold more rooms than during the same period in 2007, when demand was strong prior to the onset of the recession. The more modest increases in industry pricing, or average daily rate (ADR), which along with occupancy, make up RevPAR, was caused by the increase in supply of hotel rooms globally, a legacy of the growth in hotel construction which began prior to the downturn.

The sustained success of the economic recovery is likely to be determined by both the challenging choices policy makers are faced with regarding austerity measures and the issues surrounding sovereign debt, along with the response of corporations and the financial sector. Corporations will need to play an important role in the recovery through sustained investment and job creation, and IHG, with an ambitious programme to open new hotels, anticipates the need to recruit around 160,000 people over the next few years.

IHG monitors key industry drivers and business fundamentals, such as RevPAR, to ensure its strategy remains well suited to the environment and the Group's capabilities, and as such the business remains resilient.

Different regions, countries and types of demand vary in the speed they recover and it is our understanding of local demand drivers, combined with a global outlook, that help us anticipate the needs of different types of guest demand and so continue to develop the business to meet these needs. As an example, IHG's recent launch of new tools to support meetings and events in our hotels was well-timed with the earlier than anticipated recovery in this type of demand. Many commentators thought meetings and events business would remain subdued into 2011.

There are a number of external drivers from which IHG will continue to benefit:

Global economic recovery – the global economy grew by 3.8% during 2010, and US historic market data show that following recessions, hotel industry revenues broadly increase ahead of Gross Domestic Product (GDP). We expect the current recovery to be similar, and are investing in the business to capture demand as it continues to strengthen;

Increase in affluence and freedom to travel in emerging markets – countries such as China are increasingly significant as domestic and international travel markets. They already have a sizeable hotel industry, and the importance of hotel brands is growing;

Rising global travel volumes – airline capacity continues to grow, with affordability of travel improving globally. Business travel is expected to recover in most markets in 2011 and leisure travellers – who remained surprisingly resilient in the downturn – will continue to travel both internationally and within domestic markets;

Change in demographics – as the population ages and becomes wealthier in developed markets, increased leisure time and incomes encourage more travel and hotel stays; conversely, younger generations are increasingly seeking a better work/life balance, with higher expectations from those providing their accommodation. This has positive implications for increased leisure travel; and

Demand for branded hotels is growing faster than that for independent hotels.

Our strategy

With a portfolio of great brands, in the best developed and emerging markets, we are winning with our size, scale, people and expertise to create a clear strategy to realise our Vision to become one of the great companies of the world...

'Where we compete'	'How we win'
Appropriate business model	Portfolio of great brands
Best developed and emerging markets	Our scale and expertise
Relevant consumer segments	Our people and our relationships

...achieved through strategic priorities

Growing our core business in the largest markets where scale really counts, and also in key global gateway cities and resort destinations	Financial returns
Seek opportunities to leverage our scale in new business areas	Our people
	Guest experience
	Responsible business

With a portfolio of great brands, in the best developed and emerging markets, we are using our size, scale, people and expertise to realise our Vision of becoming one of the world's great companies. This strategy is measured by a series of key performance indicators around 'Where we compete' and 'How we win'.

IHG's strategy has ensured that we remain the largest hotel company in the world, by number of rooms. By grounding our operations and growth in Great Hotels Guests Love, we use elements of our strategy, such as the business model of third-party ownership, to grow faster than our global competitors.

Delivering the elements of our strategy

Competing with an appropriate business model

Our business model has a clear focus on franchising and managing hotels, rather than owning them outright, enabling us to grow at an accelerated pace with limited capital investment. Furthermore, IHG benefits from the reduced volatility of fee-based income streams, as compared with the ownership of assets.

A key characteristic of the franchised and managed business is that it generates more cash than is required for investment in the business, with a high return on capital employed. Currently 87% of operating profit* is derived from franchised and managed operations.

Where necessary we actively support our brands by employing our own capital to showcase best-in-class operations through flagship assets.

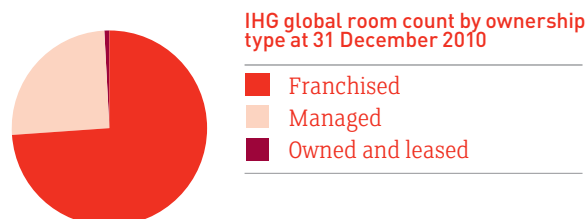
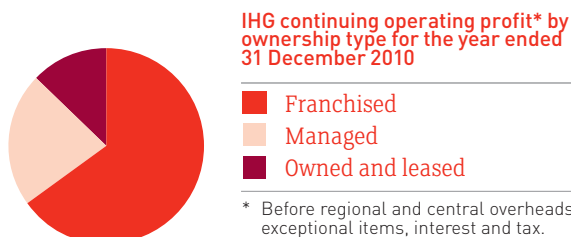
Our business model creates opportunities to build relationships with independent hotel owners and generate revenues by offering access to our global demand delivery systems, where guests can book their hotels through IHG booking channels, including branded websites and call centres. The latest example is our strategic relationship with Summit Hotel Properties Inc., a US hotel investment company focused on branded hotels. On any unbranded hotel bought by Summit, we now have first rights to give the hotel an IHG brand and earn fee revenues through generating demand for that hotel.

The key features of our business model are represented in the following table and charts.

	Brand	Marketing and distribution	Staff	Ownership	IHG capital	IHG income
Franchised This is the largest part of our business: 3,783 hotels operate under franchise agreements	IHG	IHG	Third party	Third party	None	Fee % of rooms revenue
Managed We manage 639 hotels worldwide	IHG	IHG	IHG usually supplies general manager as a minimum	Third party	Low/none	Fee % of total revenue plus % of profit
Owned and leased We own 15 hotels worldwide (less than 1% of our portfolio)	IHG	IHG	IHG	IHG	High	All revenues and profits

* Before regional and central overheads, exceptional items, interest and tax.

Business review continued



Competing in the best developed and emerging markets

When considering open hotel rooms and those in development, we have leadership positions in 15 of the top 20 markets globally. These markets alone account for over 80% of global lodging spend. These include large developed markets such as the United States (US), United Kingdom (UK) and Germany, as well as emerging markets like China.

The US is the largest market for branded rooms, at 3.4m. The segment in the US with the greatest share is midscale, with 1.3m branded hotel rooms, and IHG's Holiday Inn brand family is the largest in this segment.

IHG is also focused on growing in large markets such as the UK and Germany where we rank 2nd and 3rd, respectively. The benefits of a large hotel presence across these high-value self-supporting markets for IHG include the ability to build relationships with the largest possible number of guests.

IHG is the largest hotel company in China, the emerging market with the greatest scale, having 0.5m branded rooms. IHG, which was the first international chain to open hotels in the country, remains the largest, with close to 50,000 rooms. The rapid pace of openings for IHG and the wider lodging industry shows that China and other emerging markets are behaving as we have seen in developed markets over the past 50 years. The strong demand drivers for hotels suggest these will remain key growth markets.

Outside the largest markets, we focus on achieving presence for our biggest brands in key gateway cities which show the potential for high demand from business and leisure guests, and where our brands can generate revenue premiums.

In the hotel industry, the future supply of hotels and hotel rooms is visible through the pipeline, and our pipeline reflects the sustainability of our leadership position.

In 2010, we opened 35,744 rooms in 29 countries, and signed a further 55,598 into our pipeline across 38 countries. We currently have 204,859 rooms in 1,275 hotels under development in 64 countries.

Our pipeline ensures sustainable development in new and emerging markets that best suit our strengths and anticipate the future needs of customers. We have committed development teams ensuring a sizable pipeline in developing markets: during 2010 we opened 7,253 rooms in Greater China, representing 20% of all new rooms opened by IHG across the globe during 2010.

Our pipeline is the largest branded hotel pipeline in the world, representing 18% of all hotels under development, including those that are independent or unaffiliated.

Winning with a brand portfolio focused on relevant consumer segments

We offer hotel brands that appeal to guests with different needs and tastes. This requires a portfolio of large global brands, growing alongside innovative new brands to meet the unique experiences our guests desire.

The hotel industry is usually split into segments based upon price point and consumer expectations. IHG is focused on the three segments that together generate over 90% of branded hotel revenues: midscale (broadly 3 star hotels), upscale (mostly 4 star), and luxury (5 star).

- **InterContinental Hotels and Resorts** is IHG's 5 star brand located in major cities in over 60 countries worldwide. With over 60 years experience, the brand's understanding of high quality, understated service and outstanding facilities, coupled with a genuine interest in our guests differentiate it in a competitive segment. The philosophy of the brand is to enable every guest to maximise the enjoyment of their stay – specialising in engaging guests with the destination by sharing local knowledge to create authentic experiences that enrich our guests' lives and help them broaden their outlook. Hotels under this brand tend to be managed by IHG;
- **Crowne Plaza Hotels and Resorts**, in the upscale 4 star segment, specialises in offering state-of-the-art business and meeting facilities that provide productive, successful and energising experiences to guests who believe travel is fun and rewarding. The majority of hotels under this brand tend to be franchised agreements in the US and Europe, and managed elsewhere in the world;
- The **Holiday Inn** family of brands is the world's largest midscale hotel brand family by number of rooms, and IHG's most significant operation. Focused around a relaxed atmosphere, the brands are designed to support both business travellers and families. During 2010, the brand family neared completion of a \$1bn refresh, updating their image by upgrading facilities, service and amenities, ensuring the brands continue to remain competitive within their midscale markets. The family adds to IHG's record of firsts, being both the first international hotel chain to open in China in 1984, and to launch a direct bookings website in 1995. The Holiday Inn brand family operates predominantly under franchise agreements;
- **Hotel Indigo** is our boutique and youngest brand, launched in 2004, and focuses on a guest that appreciates art and design and that is seeking affordable luxury. Hotel Indigo provides guests with the refreshing design and intimate service synonymous with a boutique along with the consistency, reliability, and accessibility of a branded hotel. Each hotel is unique and reflects its local neighbourhood with local murals and images, a vibrant colour palette and locally sourced and seasonal menu items. Hotels under this brand tend to be franchise agreements; and

- **Staybridge Suites and Candlewood Suites** are IHG's extended stay brands, offering studios and suites complete with full kitchens and separate sleeping and work areas, for guests on longer trips.

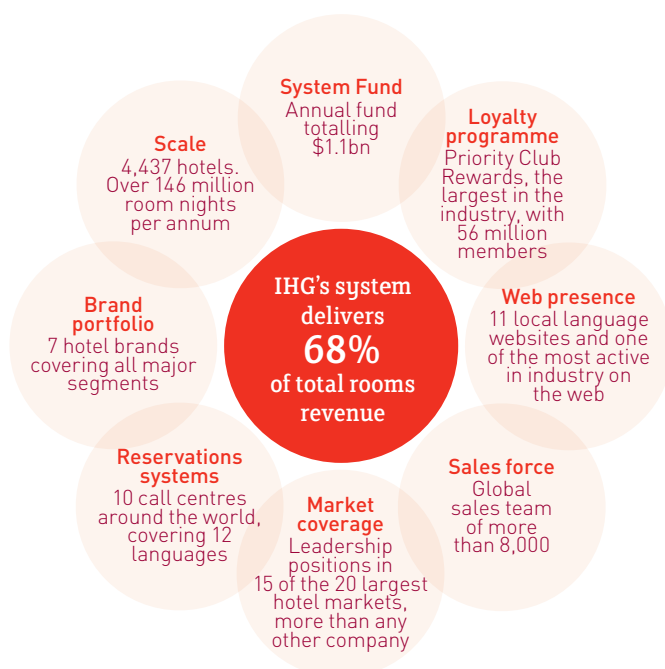
Staybridge Suites is our upscale extended stay brand, offering a sociable, family-like atmosphere. It was the fastest upper-tier extended stay brand to reach the 50-hotel and 100-hotel milestones, and was ranked highest in the prestigious J.D. Power and Associates' 2009 North America Hotel Guest Satisfaction Index Study for extended stay hotels. In 2008, Staybridge Suites opened its first EMEA hotel in Liverpool, and has since opened properties in Cairo, Abu Dhabi and Newcastle.

Candlewood Suites is our midscale extended stay brand that gives its guests all the essentials they need for a home-like stay at great value. Shortly after being acquired by IHG in 2003, Candlewood Suites won J.D. Power's award for highest extended stay guest satisfaction in North America in 2004 whilst also ranking first in the Market Metrix Hospitality Index survey for customer satisfaction. Candlewood Suites continues to lead the way in midscale extended stay lodging, with the most properties under development.

These brands tend to be a mixture of franchise and management agreements.

Winning with our scale and expertise

The major benefit IHG brings to guests who stay with us, and owners who invest with us, is our system to help guests book and stay with us, and then maintain the relationship with them after they leave. This includes having hotels in key locations, great brands with consumer appeal, efficient reservations systems, global web presence, our loyalty rewards schemes, along with other elements. Together, these form the largest such 'system' in the industry and are the engine of our business, delivering on average, 68% of total rooms revenue.



With continued focus on the success of this global system, we have developed best-in-class marketing and technology to support our hotels and drive incremental revenues. From the 'Stay You' campaign

for the Holiday Inn relaunch to sophisticated technology allowing for highly targeted marketing and communications, to market-leading brand websites and innovative booking technologies, we are well on our way to strengthening our leading delivery systems.

Our focus on key geographical markets where we operate a large number of hotels, such as the US, UK, China, Middle East and Germany, means we can run hotels and our operating system with greater efficiencies, delivering more to the consumer at a lower cost.

The size of the global hotel market is estimated to be close to 20m rooms. This has grown at approximately 2% per annum over the past five years. However, new rooms growth reached its peak during 2009 as it caught up with the economic cycle. Competitors in the market include other branded hotel companies, both large and small, international and domestic, and independently owned hotels.

We remain the largest branded hotel company, with our share currently at approximately 10% of the branded rooms, and a presence in 100 countries and territories. Leading research (Smith Travel Research) calculates that there are 6.6m branded hotel rooms, with the remainder a combination of independent hotels, guesthouses and other types of lodging.

Although currently less than half of all hotel rooms are branded, the benefits of being part of a brand are clear to many owners – the growth of branded rooms has exceeded the growth of unbranded over the last 10 years.

Raising finance is still an issue globally, and branded hotels are perceived as offering greater security through global reservations systems, loyalty schemes and international networks. Branded hotel companies, such as IHG, are attractive to independent hotel owners and are therefore gaining market share at the expense of the unbranded portion of the industry. IHG is well positioned to benefit from this trend.

Hotel owners are increasingly recognising the benefits of franchising or managing with IHG, which can offer a portfolio of brands to suit the different real estate opportunities an owner may have, together with effective revenue delivery through global reservations channels. Furthermore, hotel ownership is increasingly being separated from hotel operations, encouraging hotel owners to use third parties, such as IHG, to manage their hotels.

Winning with our people and values

Our Vision can only be realised if we have collaborative and engaged employees, delivering the right experience to our guests through shared values and living our brands. We have extensive on-boarding, communication, development and recognition programmes, aligned under our employment brand, 'Room to be yourself', providing the right environment for our people to be successful.

Our people dictate our culture, and IHG is aligned around great values which are consistently brought to life through a set of five IHG behaviours, the 'Winning Ways':

- do the right thing;
- show we care;
- aim higher;
- celebrate difference; and
- work better together.

See pages 24 to 27 for more information.

Business review continued

Business relationships with others

IHG maintains effective relationships across all aspects of its operations. The Group's operations are not dependent upon any single customer, supplier or hotel owner due to the extent of its brands, market segments and geographical coverage. For example, IHG's largest third-party hotel owner controls just 3% of the Group's total room count.

IHG continued to enhance and streamline its procurement processes during 2010, and with the implementation of initiatives to combat waste and enhance relationships with suppliers, IHG is striving to ensure best-practice is employed throughout the Group. With a focus on ensuring high-quality goods and services are sourced at the most competitive prices, IHG strives to ensure enhanced value for the Group, our hotel owners and shareholders.

IHG is proud of its strong and important relationship with the IAHI, the Owners' Association for owners of hotels in IHG's seven brands across the world. IHG meets with the IAHI, in large and small groups, on a regular basis and works together to support and facilitate the continued development of IHG's brands and systems. During 2010, the combined work of the two organisations implemented several enhancements to the IHG system.

Examples include:

- **Holiday Inn relaunch** – the near completion of the \$1bn global relaunch of the Holiday Inn brand family;
- **InnSupply** – improving purchasing efficiencies and streamlining procurement processes across both organisations;
- **IHG Way of Sales** – developing best-in-class practices for the sales operations of both organisations, having identified critical roles for generating revenues;
- **Celebrate Service week** – giving recognition and thanks to the many thousands of front-line employees, and emphasising engagement through the IHG brands; and
- **People Tools** – enhancing the recruitment, hiring, training and retention practices across both organisations, with specific focus on reflecting the individual qualities of each brand. These tools are supplied to all hotels: managed, franchised and owned and leased.

Many jurisdictions and countries regulate the offering of franchise agreements and recent trends indicate an increase in the number of countries adopting franchise legislation. As a significant percentage of the Group's revenue is derived from franchise fees, the Group's continued compliance with franchise legislation is important to the successful deployment of the Group's strategy.

Measuring our success

Already we see the market responding to the comparatively strong position IHG reinforced during the recovery. The Group's share price increased by 39% in the 12 months to 31 December 2010, from £8.93 to £12.43, and our Total Shareholder Returns (TSR) outperformed our benchmark, the Dow Jones World Hotels index, by 8% on an annualised basis over the past three years.

In addition to measuring our success against shareholder value, we have a holistic set of strategic priorities. These form our key performance indicators (KPIs) to ensure a consistent approach to running the business. These include 'Where we compete', including the appropriate business model, key target markets and consumer segments; and 'How we win', including financial returns, our people, the guest experience and responsible business.

Where we compete

Strategic priorities	Key performance indicators (KPIs)	Current status and 2010 developments	2011 priorities
To accelerate profitable growth of our core business in the largest markets where presence and scale really count and also in key global gateway cities. Seek opportunities to leverage our scale in new business areas.	• Sustained system size growth; and • deal signings focused in scale markets and key gateway cities.	• System size maintained at 647,161 rooms; • over 90% of deals signed in scale markets and key gateway cities; • re-entry into Hawaii with a Holiday Inn Resort; • opening our second Hotel Indigo in London, and our first in Asia Pacific, on the Bund in Shanghai; • 17 signings of Hotel Indigo and Staybridge Suites outside of North America; and • 259 hotels opened globally.	• Continue international roll-out of Staybridge Suites and Hotel Indigo; • accelerate growth strategies in quality locations in agreed scale markets; and • continue to leverage scale and build upon improved strategic position during the economic downturn.

How we win

Strategic priorities	Key performance indicators (KPIs)	Current status and 2010 developments	2011 priorities																
Financial returns To generate higher returns for owners and IHG through increased revenue share, improved operating efficiency and growing margins.	Total gross revenue (TGR) Actual US\$bn <table border="1"> <thead> <tr> <th>Year</th> <th>2008</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>TGR (US\$bn)</td> <td>19.1</td> <td>16.8</td> <td>18.7</td> </tr> </tbody> </table> System contribution to revenue (reservations channels and PCR members direct) As percentage of rooms revenue <table border="1"> <thead> <tr> <th>Year</th> <th>2008</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>Contribution (%)</td> <td>64%</td> <td>68%</td> <td>68%</td> </tr> </tbody> </table>	Year	2008	2009	2010	TGR (US\$bn)	19.1	16.8	18.7	Year	2008	2009	2010	Contribution (%)	64%	68%	68%	- Further procurement efficiencies made; - enhanced Customer Relationship Management with new technology and campaign management tools to involve non-Priority Club Rewards members; and - enhanced communications with Priority Club Rewards loyalty programme members with refreshed loyalty systems.	- Capitalise on recovery of group and meetings business; - strengthen global sales force effectiveness; - optimise revenues from third party and IHG websites; - ensure IHG's industry leading system of delivering demand and revenue to hotels retains competitive advantage; and - strengthen loyalty programme, with enhanced member offer.
Year	2008	2009	2010																
TGR (US\$bn)	19.1	16.8	18.7																
Year	2008	2009	2010																
Contribution (%)	64%	68%	68%																
Our people Creating hotels that are well run, with brands brought to life by people who are proud of the work they do.	Employee engagement scores <table border="1"> <thead> <tr> <th>Year</th> <th>2008</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>Score (%)</td> <td>68%</td> <td>69%</td> <td>73%</td> </tr> </tbody> </table>	Year	2008	2009	2010	Score (%)	68%	69%	73%	- Launched and cascaded our Vision to become one of the world's great companies; - developed management tools to deliver a branded guest experience; - further emphasis on our culture of learning and development, with industry recognition; 'Celebrate Service' week – a global event to recognise our people, in partnership with the IAH ownership community; and - managing employee engagement.	- Cascade of branded management tools to whole IHG estate, including our franchised hotels; - ongoing partnership with IAH ownership community for people events; - continued focus on developing skills to deliver our Vision and branding capability; and - opportunities for employees and communities to be involved with Olympics partnership.								
Year	2008	2009	2010																
Score (%)	68%	69%	73%																
Guest experience To operate a portfolio of brands attractive to both owners and guests that have clear market positions and differentiation in the eyes of the guest.	Global RevPAR growth/decline Comparable hotels, constant US\$ <table border="1"> <thead> <tr> <th>Year</th> <th>2008</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>Growth/decline (%)</td> <td>0.9%</td> <td>[14.7%]</td> <td>6.2%</td> </tr> </tbody> </table>	Year	2008	2009	2010	Growth/decline (%)	0.9%	[14.7%]	6.2%	- Global pilots to identify opportunities to create branded hallmarks with guest appeal; - near completion of the Holiday Inn relaunch; and - grew our industry-leading loyalty programme to 56 million members, contributing \$6.5bn of global system rooms revenue.	- Leverage strong position of Holiday Inn relaunch with roll-out of global marketing initiatives; - ensure growth plans of each brand aligns fully with corporate Vision; - focus on strength of Priority Club Rewards and visibly enhance offering to its members in hotels and across global reservations channels; and - increase IHG business from Priority Club Rewards members.								
Year	2008	2009	2010																
Growth/decline (%)	0.9%	[14.7%]	6.2%																
Responsible business To take a proactive stance and seek creative solutions through innovation and collaboration on environment and community issues, and to drive increased value for IHG, owners, guests and the communities where we operate.	Hotels signed-up to 'Green Engage' Hotels, cumulative <table border="1"> <thead> <tr> <th>Year</th> <th>2008</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>Hotels</td> <td>Pilot stage</td> <td>911</td> <td>1,122</td> </tr> </tbody> </table>	Year	2008	2009	2010	Hotels	Pilot stage	911	1,122	'Green Engage' developed (patent pending): rolled out to over 1,000 hotels by 31 December 2010; - collaborated with the University of Oxford's Department of Plant Sciences to understand better how hotel design and development impacts the environment; and - Corporate Responsibility approach defined and agreed.	- Continue to roll out 'Green Engage' to our owned and managed hotels, and expand into the franchised estate in all regions; - work with stakeholders, such as Harvard University, to educate decision-makers on IHG's economic impacts; and - continue to embed our community strategy, including establishing the IHG Academy programme and activating our strategic partner in providing disaster recovery.								
Year	2008	2009	2010																
Hotels	Pilot stage	911	1,122																

Business review continued

Group performance

Group results

12 months ended 31 December			
	2010 \$m	2009 \$m	% change
Revenue			
Americas	807	772	4.5
EMEA	414	397	4.3
Asia Pacific	303	245	23.7
Central	104	124	(16.1)
	1,628	1,538	5.9
Operating profit			
Americas	369	288	28.1
EMEA	125	127	[1.6]
Asia Pacific	89	52	71.2
Central	(139)	(104)	(33.7)
Operating profit before exceptional items	444	363	22.3
Exceptional operating items	15	(373)	n/m
	459	(10)	n/m
Net financial expenses	(62)	(54)	(14.8)
Profit/(loss) before tax	397	(64)	n/m
Earnings per ordinary share			
Basic	101.7¢	74.7¢	36.1
Adjusted	98.6¢	102.8¢	(4.1)

n/m – non meaningful

Revenue increased by 5.9% to \$1,628m and operating profit before exceptional items increased by 22.3% to \$444m during the 12 months ended 31 December 2010.

The 2010 results reflect a return to RevPAR growth in a recovering market, with an overall RevPAR increase of 6.2% led by occupancy. Fourth quarter comparable RevPAR increased 8.0% against 2009, including a 2.4% increase in average daily rate. Over the full year average daily rate grew for the InterContinental and Holiday Inn brands by 1.3% and 0.5% respectively.

The \$1bn roll-out of the Holiday Inn brand family relaunch is substantially complete, enabling the consistent delivery of best in class service and physical quality in all Holiday Inn and Holiday Inn Express hotels. By 31 December 2010, 2,956 hotels were converted globally under the relaunch programme, representing 89% of the total estate. The required improvement in quality standards contributed to the removal of a total of 35,262 rooms from the system during 2010. In spite of this necessary reduction, the closing global system size was 647,161 rooms, in line with 2009 levels.

The ongoing focus on efficiency across the Group largely sustained underlying cost reductions achieved in 2009. Regional and central overheads increased by \$49m, from \$209m in 2009 to \$258m in 2010, driven by incremental performance-based incentive costs of \$47m and charges of \$4m relating to a self-insured healthcare benefit plan.

Primarily as a result of these actions taken across the Group to improve efficiencies, operating profit margin was 35.7%, up 1.1 percentage points on 2009 after adjusting for owned and leased hotels, Americas managed leases, significant liquidated damages received in 2009, an onerous contract provision established in 2009 and non-payment of performance-based incentive costs in 2009.

In 2010 the InterContinental Buckhead, Atlanta and the Holiday Inn Lexington were sold, with proceeds used to reduce net debt. These disposals result in a reduction in owned and leased revenue and operating profit of \$19m and \$4m respectively compared to 2009.

The average US dollar exchange rate to sterling strengthened during 2010 (2010 \$1=£0.65, 2009 \$1=£0.64). Translated at constant currency, applying 2009 exchange rates, revenue increased by 6.0% and operating profit increased by 22.3%.

Profit before tax increased by \$461m from a loss of \$64m in 2009 to a profit of \$397m. Adjusted earnings per ordinary share decreased by 4.1% to 98.6¢ as a result of the particularly low tax rate of 5% in 2009, compared to 26% in 2010.

Total gross revenue

12 months ended 31 December			
	2010 \$bn	2009 \$bn	% change
InterContinental	4.2	3.8	10.5
Crowne Plaza	3.5	3.0	16.7
Holiday Inn	5.8	5.4	7.4
Holiday Inn Express	4.0	3.6	11.1
Staybridge Suites	0.5	0.4	25.0
Candlewood Suites	0.4	0.3	33.3
Other	0.3	0.3	–
Total	18.7	16.8	11.3

One measure of overall IHG hotel system performance is the growth in total gross revenue, defined as total room revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels. Total gross revenue is not revenue attributable to IHG, as it is derived mainly from hotels owned by third parties.

Total gross revenue increased by 11.3% from \$16.8bn in 2009 to \$18.7bn in 2010. All brands grew total gross revenue, with most brands growing by more than 10% compared to 2009.

Global hotel and room count

At 31 December	Hotels		Rooms	
	2010	Change over 2009	2010	Change over 2009
Analysed by brand				
InterContinental	171	5	58,429	2,308
Crowne Plaza	388	22	106,155	5,161
Holiday Inn	1,241	(78)	227,225	(13,343)
Holiday Inn Express	2,075	6	191,228	3,221
Staybridge Suites	188	6	20,762	877
Candlewood Suites	288	34	28,253	2,970
Hotel Indigo	38	5	4,548	518
Holiday Inn Club Vacations	6	–	2,892	–
Other	42	(1)	7,669	(1,230)
Total	4,437	(1)	647,161	482
Analysed by ownership type				
Franchised	3,783	(16)	479,320	(4,221)
Managed	639	17	162,711	5,424
Owned and leased	15	(2)	5,130	(721)
Total	4,437	(1)	647,161	482

Global pipeline

At 31 December	Hotels		Rooms	
	2010	Change over 2009	2010	Change over 2009
Analysed by brand				
InterContinental	60	(3)	19,374	(799)
Crowne Plaza	123	(6)	38,994	439
Holiday Inn	313	(25)	57,505	(1,503)
Holiday Inn Express	494	(69)	53,219	(4,537)
Staybridge Suites	101	(22)	10,760	(2,600)
Candlewood Suites	120	(49)	10,506	(4,345)
Hotel Indigo	62	9	7,627	967
Other	2	2	6,874	6,874
Total	1,275	(163)	204,859	(5,504)
Analysed by ownership type				
Franchised	970	(188)	113,940	(12,446)
Managed	305	25	90,919	6,942
Total	1,275	(163)	204,859	(5,504)

Global pipeline signings

At 31 December	Hotels		Rooms	
	2010	Change over 2009	2010	Change over 2009
Total	319	(26)	55,598	2,707

During 2010, the IHG global system (the number of hotels and rooms which are franchised, managed, owned or leased by the Group) remained in line with 2009 at 4,437 hotels (647,161 rooms). Openings of 259 hotels (35,744 rooms) were driven, in particular, by continued expansion in the US and China and offset the removal of 260 hotels (35,262 rooms).

In Asia Pacific, demand for upscale brands (InterContinental, Crowne Plaza and Hotel Indigo) contributed 65% of total room openings in the region.

The Holiday Inn brand family relaunch is substantially complete with 2,956 hotels (89% of the total Holiday Inn brand family) open under the updated signage and brand standards as at 31 December 2010. During 2010, the removal of non-brand-conforming hotels contributed to the total removal of 247 Holiday Inn and Holiday Inn Express hotels (30,892 rooms).

At the end of 2010, the pipeline totalled 1,275 hotels (204,859 rooms). The IHG pipeline represents hotels and rooms where a contract has been signed and the appropriate fees paid.

Signings of 319 hotels (55,598 rooms) represent an increase in rooms signed from 2009 levels. Demonstrating the continued demand for IHG brands globally, 50% of the rooms pipeline is now outside the Americas region. There were 25 hotel signings (3,025 rooms) for Hotel Indigo as it gains real momentum in Europe and Asia Pacific where, together, 12 hotels (1,456 rooms) were signed. IHG also entered into an InterContinental Alliance relationship with the Las Vegas Sands Corp. to bring the 6,874 all-suite Venetian and Palazzo Resorts into the system in 2011.

During 2010, the opening of 35,744 rooms contributed to a net pipeline decline of 5,504 rooms. Terminations from the pipeline in 2010 totalled 25,358 rooms, down 21% from 2009. Terminations occur for a number of reasons such as withdrawal of financing and changes in local market conditions.

Business review continued

The Americas

Americas strategic role

To leverage our outstanding brand portfolio, focusing on our substantial midscale franchise sector.

2011 priorities

- Execute our strategic plans of becoming a brand-led business by delivering Great Hotels Guests Love and increasing revenue share;
- build upon the success of the Holiday Inn relaunch to continue to grow the Holiday Inn brand family;
- optimise Crowne Plaza's position within its segment; and
- deliver our People Tools to include the franchised estate.

Americas results

	12 months ended 31 December		
	2010 \$m	2009 \$m	% change
Revenue			
Franchised	465	437	6.4
Managed	119	110	8.2
Owned and leased	223	225	[0.9]
Total	807	772	4.5
Operating profit before exceptional items			
Franchised	392	364	7.7
Managed	21	[40]	152.5
Owned and leased	13	11	18.2
	426	335	27.2
Regional overheads	[57]	[47]	[21.3]
Total	369	288	28.1

Americas comparable RevPAR movement on previous year

	12 months ended 31 December 2010
Franchised	
Crowne Plaza	4.5%
Holiday Inn	4.1%
Holiday Inn Express	4.4%
All brands	4.5%
Managed	
InterContinental	10.2%
Crowne Plaza	6.2%
Holiday Inn	7.1%
Staybridge Suites	6.3%
Candlewood Suites	3.7%
All brands	7.5%
Owned and leased	
InterContinental	8.7%

Revenue and operating profit before exceptional items increased by \$35m to \$807m (4.5%) and \$81m to \$369m (28.1%) respectively.

Franchised revenue increased by \$28m to \$465m (6.4%) and operating profit by \$28m to \$392m (7.7%). Royalties growth was driven by RevPAR gains across all brands and by 4.5% in total. While year end system size was lower than opening system size, the weighting of removals towards the end of the year meant that daily rooms available actually grew in 2010 from 2009 levels, further boosting royalty growth. Non-royalty revenues and profits remained flat on 2009, as real estate financing for new activity remained constrained.

Managed revenue increased by \$9m to \$119m (8.2%) in line with the RevPAR growth of 7.5%. Operating profit increased by \$61m to \$21m from a \$40m loss in 2009. The prior year loss included a charge for priority guarantee shortfalls relating to a portfolio of hotels. A provision for onerous contracts was established on 31 December 2009 and further payments made during 2010 were charged against this provision. Excluding the effect of the provision, managed operating profit increased by \$3m, driven by RevPAR growth of 23.3% in Latin America.

Results from managed operations included revenues of \$71m (2009 \$71m) and operating profit of \$1m (2009 nil) from properties that are structured, for legal reasons, as operating leases but with the same characteristics as management contracts.

Owned and leased revenue declined by \$2m to \$223m (0.9%) and operating profit increased by \$2m to \$13m (18.2%). Improving trading conditions led to RevPAR growth of 6.4%, including 8.1% at the InterContinental New York Barclay. The disposal of the InterContinental Buckhead, Atlanta in July 2010 and its subsequent conversion to a management contract resulted in reductions of \$15m in revenue and \$4m in operating profit when compared to 2009. The Holiday Inn Lexington was also sold in March 2010, which has led to a \$4m reduction in revenue and no reduction in operating profit compared to last year. Excluding the impact of these two disposals, owned and leased revenue grew by \$17m (9.0%) and operating profit by \$6m (150.0%).

Regional overheads increased by \$10m (21.3%) during the year, from \$47m to \$57m. The increase comes primarily from performance-based incentives and \$4m from increased claims in a self-insured healthcare benefit plan.

Americas hotel and room count

At 31 December	Hotels		Rooms	
	2010	Change over 2009	2010	Change over 2009
Analysed by brand				
InterContinental	56	1	19,120	621
Crowne Plaza	209	7	57,073	1,383
Holiday Inn	812	(72)	144,683	(13,518)
Holiday Inn Express	1,847	1	159,867	1,583
Staybridge Suites	183	5	20,014	694
Candlewood Suites	288	34	28,253	2,970
Hotel Indigo	35	3	4,254	288
Holiday Inn Club Vacations	6	–	2,892	–
Other brands	22	–	3,219	–
Total	3,458	(21)	439,375	(5,979)
Analysed by ownership type				
Franchised	3,230	(15)	392,536	(5,468)
Managed	219	(4)	43,848	210
Owned and leased	9	(2)	2,991	(721)
Total	3,458	(21)	439,375	(5,979)

The Americas hotel and room count in the year decreased by 21 hotels (5,979 rooms) to 3,458 hotels (439,375 rooms). Openings of 194 hotels (20,980 rooms) included key openings of the InterContinental New York Times Square and the first Staybridge Suites in New York, taking IHG's room count in the city to 6,570. The Holiday Inn brand family generated openings of 137 hotels (13,446 rooms) and IHG's extended stay brands, Staybridge Suites and Candlewood Suites, achieved openings of 41 hotels (3,862 rooms). Removals of 215 hotels (26,959 rooms) were mainly from Holiday Inn and Holiday Inn Express hotels.

Americas pipeline

At 31 December	Hotels		Rooms	
	2010	Change over 2009	2010	Change over 2009
Analysed by brand				
InterContinental	5	(1)	1,340	(700)
Crowne Plaza	27	(6)	5,669	(1,293)
Holiday Inn	187	(29)	25,260	(2,682)
Holiday Inn Express	407	(79)	37,011	(6,427)
Staybridge Suites	96	(20)	10,116	(2,392)
Candlewood Suites	120	(49)	10,506	(4,345)
Hotel Indigo	46	(1)	5,733	(254)
Other	2	2	6,874	6,874
Total	890	(183)	102,509	(11,219)
Analysed by ownership type				
Franchised	878	(185)	100,072	(11,036)
Managed	12	2	2,437	(183)
Total	890	(183)	102,509	(11,219)

The Americas pipeline totalled 890 hotels (102,509 rooms) as at 31 December 2010. Overall signings of 30,223 rooms were flat on 2009 as slow real estate and construction activity continued into 2010. Notable signings included the InterContinental Alliance established with the Las Vegas Sands Corp., and the re-entry to the Hawaii market with the Holiday Inn Beachcomber Resort in Waikiki Beach.

Business review continued

Europe, Middle East and Africa

EMEA strategic role

To manage margins in a diverse and complex region; and seek ways to achieve scale in key geographic areas.

2011 priorities

- Execute our strategic plans of becoming a brand-led business by delivering Great Hotels Guests Love and increasing revenue share;
- drive growth strategies of our portfolio of brands in agreed scale markets and key gateway cities;
- build upon the success of the Holiday Inn relaunch to continue to grow the Holiday Inn brand family;
- deliver our People Tools to include the franchised estate; and
- support London 2012 Olympics.

EMEA results

	12 months ended 31 December		
	2010 \$m	2009 \$m	% change
Revenue			
Franchised	81	83	(2.4)
Managed	130	119	9.2
Owned and leased	203	195	4.1
Total	414	397	4.3
Operating profit before exceptional items			
Franchised	59	60	(1.7)
Managed	62	65	(4.6)
Owned and leased	40	33	21.2
	161	158	1.9
Regional overheads	(36)	(31)	(16.1)
Total	125	127	(1.6)

EMEA comparable RevPAR movement on previous year

	12 months ended 31 December 2010
Franchised	
All brands	7.6%
Managed	
All brands	3.3%
Owned and leased	
InterContinental	11.4%
All ownership types	
UK	3.8%
Continental Europe	10.1%
Middle East	(1.0)%

Revenue increased by \$17m to \$414m (4.3%) and operating profit before exceptional items decreased by \$2m to \$125m (1.6%). At constant currency, revenue increased by \$30m (7.6%) and operating profit before exceptional items increased by \$3m (2.4%). Excluding \$3m of liquidated damages received in 2009, revenue at constant currency increased by 8.4% and operating profit by 4.8%.

Franchised revenue and operating profit decreased by \$2m to \$81m (2.4%) and \$1m to \$59m (1.7%) respectively. At constant currency, revenue increased by 1.2% and operating profit increased by 1.7% respectively. Excluding the impact of \$3m in liquidated damages received in 2009, revenue and operating profit at constant currency increased by 5.0% and 7.0% respectively. The underlying increase was driven by RevPAR growth of 7.6% across the franchised estate. Revenues associated with new signings, relicensing and terminations decreased compared to 2009 as real estate activity remained slow.

EMEA managed revenue increased by \$11m to \$130m (9.2%) and operating profit decreased by \$3m to \$62m (4.6%). At constant currency, revenue increased by 10.9% while operating profit declined by 3.1%. Positive RevPAR growth in key European cities and markets, including growth of 14.8% in IHG's managed properties in Germany, was offset by unfavourable trading across much of the Middle East where RevPAR declined overall by 0.7%. At the year end, a provision of \$3m was made for future estimated cash outflows relating to guarantee obligations for one hotel.

In the owned and leased estate, revenue increased by \$8m to \$203m (4.1%) and operating profit increased by \$7m to \$40m (21.2%), or at constant currency by 8.2% and 27.3% respectively. RevPAR growth of 11.9% benefited from average daily rate growth of 6.5% across the year. The InterContinental London Park Lane and InterContinental Paris Le Grand delivered strong year-on-year RevPAR growth of 15.0% and 11.5% respectively. Margins improved in both these hotels as the focus remained on cost control.

Regional overheads increased by \$5m to \$36m (16.1%), mainly attributable to performance-based incentive costs.

EMEA hotel and room count

At 31 December	Hotels		Rooms	
	2010	Change over 2009	2010	Change over 2009
Analysed by brand				
InterContinental	64	(1)	20,111	(475)
Crowne Plaza	98	5	22,941	784
Holiday Inn	325	(8)	52,945	(427)
Holiday Inn Express	198	1	23,706	447
Staybridge Suites	5	1	748	183
Hotel Indigo	2	1	110	46
Other	2	–	291	(2)
Total	694	(1)	120,852	556
Analysed by ownership type				
Franchised	523	3	79,950	1,734
Managed	167	(4)	39,456	(1,178)
Owned and leased	4	–	1,446	–
Total	694	(1)	120,852	556

During 2010, EMEA system size decreased by one hotel (a net increase of 556 rooms) to 694 hotels (120,852 rooms). Activity included openings of 33 hotels (5,767 rooms) and removals of 34 hotels (5,211 rooms). The net decrease of seven Holiday Inn and Holiday Inn Express hotels comprised 25 openings and 32 removals.

EMEA pipeline

At 31 December	Hotels		Rooms	
	2010	Change over 2009	2010	Change over 2009
Analysed by brand				
InterContinental	24	1	6,469	369
Crowne Plaza	25	1	7,599	958
Holiday Inn	41	(4)	9,128	(1,301)
Holiday Inn Express	47	(2)	6,523	(565)
Staybridge Suites	5	(2)	644	(208)
Hotel Indigo	11	7	1,072	721
Total	153	1	31,435	(26)
Analysed by ownership type				
Franchised	90	(3)	13,542	(1,410)
Managed	63	4	17,893	1,384
Total	153	1	31,435	(26)

The pipeline in EMEA increased by one hotel (a net decrease of 26 rooms) to 153 hotels (31,435 rooms). There were 9,303 room signings in 2010, with continued demand for IHG brands in the UK and Germany. Demand was particularly strong in the midscale segment which represented 61% of room signings. There were eight signings for IHG's lifestyle brand, Hotel Indigo, including four in the UK and entry into new markets in Lisbon, Madrid and Berlin. There were also six Crowne Plaza signings including the strategic markets of Istanbul, St. Petersburg and Amsterdam.

Business review continued

Asia Pacific

Asia Pacific strategic role

Within the region, Greater China is one of the specific growth opportunities and will be a major contributor to IHG, where we can leverage scale, drive margin and expand our outstanding portfolio of brands, whilst the focus in Asia Australasia is to drive profitable growth in emerging key markets and cities.

2011 priorities

- Execute our strategic plans of becoming a brand-led business by delivering Great Hotels Guests Love and increasing revenue share;
- grow our portfolio of brands in key strategic markets, especially India and resort locations;
- continue rapid expansion, particularly of our upscale brands, in established and emerging cities in China;
- build upon the success of the Holiday Inn relaunch to continue to grow the Holiday Inn brand family; and
- localise systems, processes, brands and People Tools to drive efficiency, consumer preference and margin performance.

Asia Pacific results

	12 months ended 31 December		
	2010 \$m	2009 \$m	% change
Revenue			
Franchised	12	11	9.1
Managed	155	105	47.6
Owned and leased	136	129	5.4
Total	303	245	23.7
Operating profit before exceptional items			
Franchised	7	5	40.0
Managed	73	44	65.9
Owned and leased	35	30	16.7
	115	79	45.6
Regional overheads	(26)	(27)	3.7
Total	89	52	71.2

Asia Pacific comparable RevPAR movement on previous year

	12 months ended 31 December 2010
Managed – all brands	
Asia Pacific	13.4%
Greater China	26.7%
Owned and leased	
InterContinental	15.3%
All ownership types	
Greater China	25.8%

Asia Pacific revenue and operating profit before exceptional items increased by \$58m to \$303m (23.7%) and by \$37m to \$89m (71.2%) respectively.

Continued strong economic growth in the region was given a further boost by the World Expo held in Shanghai from May to October 2010. Resulting RevPAR growth in key Chinese cities was exceptional, with Shanghai and Beijing growing 55.9% and 29.9% respectively.

Franchised revenue increased by \$1m to \$12m (9.1%) and operating profit grew by \$2m to \$7m (40.0%).

Managed revenue increased by \$50m to \$155m (47.6%) and operating profit increased by \$29m to \$73m (65.9%). In addition to strong comparable RevPAR performance, there was a positive contribution from recently opened hotels, with a 9% room increase in the size of the Asia Pacific managed estate during the year following a 10% increase in 2009, and a \$4m operating profit benefit due to the collection of old or previously provided for debts.

In the owned and leased estate, revenue increased by \$7m to \$136m (5.4%) and operating profit by \$5m to \$35m (16.7%). These results were driven by the InterContinental Hong Kong, where RevPAR increased 15.3% during the year.

Regional overheads decreased by \$1m to \$26m (3.7%), with an increase in performance based incentive costs offset by the effect of the 2009 restructuring.

Asia Pacific hotel and room count

At 31 December	Hotels		Rooms	
	2010	Change over 2009	2010	Change over 2009
Analysed by brand				
InterContinental	51	5	19,198	2,162
Crowne Plaza	81	10	26,141	2,994
Holiday Inn	104	2	29,597	602
Holiday Inn Express	30	4	7,655	1,191
Hotel Indigo	1	1	184	184
Other	18	(1)	4,159	(1,228)
Total	285	21	86,934	5,905
Analysed by ownership type				
Franchised	30	(4)	6,834	(487)
Managed	253	25	79,407	6,392
Owned and leased	2	–	693	–
Total	285	21	86,934	5,905

Asia Pacific hotel and room count increased by 21 hotels (5,905 rooms) to 285 hotels (86,934 rooms). Openings of 32 hotels (8,997 rooms) were partially offset by the removal of 11 hotels (3,092 rooms). The growth was driven by 24 hotel openings in 17 cities across Greater China (7,253 rooms), seven hotels (1,477 rooms) more than in 2009. This included key hotel openings in Shanghai of the InterContinental at the Expo site and the Hotel Indigo on the Bund, the first opening for this brand in Asia Pacific. Across the region 65% of rooms opened were in upscale brands (InterContinental, Crowne Plaza and Hotel Indigo).

Asia Pacific pipeline

At 31 December	Hotels		Rooms	
	2010	Change over 2009	2010	Change over 2009
Analysed by brand				
InterContinental	31	(3)	11,565	(468)
Crowne Plaza	71	(1)	25,726	774
Holiday Inn	85	8	23,117	2,480
Holiday Inn Express	40	12	9,685	2,455
Hotel Indigo	5	3	822	500
Total	232	19	70,915	5,741
Analysed by ownership type				
Franchised	2	–	326	–
Managed	230	19	70,589	5,741
Total	232	19	70,915	5,741

The pipeline in Asia Pacific increased by 19 hotels (5,741 rooms) to 232 hotels (70,915 rooms). Pipeline growth was evenly balanced between the Greater China market (nine hotels, 3,128 rooms) and Asia Australasia (10 hotels, 2,613 rooms) including six hotel signings in India taking its total pipeline to 10,073 rooms.

Across the region there were 18 Holiday Inn Express signings, more than double the number for this brand in 2009 indicating the potential for midscale growth in the region. In Vietnam two new Holiday Inn resorts were signed in prime beach-front locations of Cam Ranh Bay and Phu Quoc. There were also 12 Crowne Plaza signings, including the Crowne Plaza Lumpini Park in Bangkok.

Business review continued

Central

Central results

	12 months ended 31 December		
	2010 \$m	2009 \$m	% change
Revenue	104	124	(16.1)
Gross central costs	(243)	(228)	(6.6)
Net central costs	(139)	(104)	(33.7)

During 2010, net central costs increased by \$35m from \$104m to \$139m (33.7%). The movement was primarily driven by an increase in performance based incentive costs where no payments were made on some plans in 2009. At constant currency, net central costs increased by \$36m (34.6%).

System Fund

System Fund results

	12 months ended 31 December		
	2010 \$m	2009 \$m	% change
Assessment fees and contributions received from hotels	944	875	7.9
Proceeds from sale of Priority Club Rewards points	106	133	(20.3)
	1,050	1,008	4.2

In the year to 31 December 2010, System Fund income increased by 4.2% to \$1.1bn primarily as a result of growth in hotel room revenues and marketing programmes. Sale of Priority Club Rewards points declined due to the impact of a special promotional programme in 2009.

In addition to management or franchise fees, hotels within the IHG system pay cash assessments and contributions which are collected by IHG for specific use within the System Fund (the Fund). The Fund also receives proceeds from the sale of Priority Club Rewards points. The Fund is managed for the benefit of hotels in the system with the objective of driving revenues for the hotels. The Fund is used to pay for marketing, the Priority Club Rewards loyalty programme and the global reservation system. The operation of the Fund does not result in a profit or loss for the Group and consequently the revenues and expenses of the Fund are not included in the Group Income Statement.

Other financial information

Exceptional operating items

Exceptional operating items of \$15m consisted of gains of \$35m from the disposal of assets, including \$27m profit on the sale of the InterContinental Buckhead, Atlanta offset by an impairment charge of \$7m, severance costs of \$4m and costs of \$9m to complete the Holiday Inn brand family relaunch.

Compared with the previous year, exceptional operating items were significantly lower as 2009 was impacted by difficult trading which resulted in exceptional costs of \$373m largely down to the recognition of impairment charges, an onerous contract provision and the cost of office closures.

Exceptional operating items are treated as exceptional by reason of their size or nature and are excluded from the calculation of adjusted earnings per ordinary share in order to provide a more meaningful comparison of performance.

Net financial expenses

Net financial expenses increased from \$54m in 2009 to \$62m in 2010, as the effect of the £250m 6% bond offset lower net debt levels and low interest rates. Average net debt levels in 2010 were lower than 2009 primarily as a result of improved trading, the disposal of the InterContinental Buckhead, Atlanta and a continuing focus on cash.

Financing costs included \$2m (2009 \$2m) of interest costs associated with Priority Club Rewards where interest is charged on the accumulated balance of cash received in advance of the redemption points awarded. Financing costs in 2010 also included \$18m (2009 \$18m) in respect of the InterContinental Boston finance lease.

Other financial information continued

Taxation

The effective rate of tax on the combined profit from continuing and discontinued operations, excluding the impact of exceptional items, was 26% (2009 5%). The rate was particularly low in 2009 due to the impact of prior year items relative to a lower level of profit than in 2010. By excluding the impact of prior year items, which are included wholly within continuing operations, the equivalent tax rate would be 35% (2009 42%). This rate is higher than the UK statutory rate of 28% due mainly to certain overseas profits (particularly in the US) being subject to statutory rates higher than the UK statutory rate, unrelieved foreign taxes and disallowable expenses.

Taxation within exceptional items totalled a charge of \$8m (2009 credit of \$287m) in respect of continuing operations. This represented the release of exceptional provisions relating to tax matters which were settled during the year, or in respect of which the statutory limitation period had expired, together with tax relief on exceptional costs, tax arising on disposals and also tax relating to an internal reorganisation in 2010.

Net tax paid in 2010 totalled \$68m (2009 \$2m) including \$4m paid (2009 \$1m) in respect of disposals. Tax paid is lower than the current period income tax charge, primarily due to the receipt of refunds in respect of prior years, together with provisions for tax for which no payment of tax has currently been made.

Earnings per ordinary share

Basic earnings per ordinary share in 2010 was 101.7¢, compared with 74.7¢ in 2009. Adjusted earnings per ordinary share was 98.6¢, against 102.8¢ in 2009.

Dividends

The Board has proposed a final dividend per ordinary share of 35.2¢ (22.0p). With the interim dividend per ordinary share of 12.8¢ (8.0p), the full-year dividend per ordinary share for 2010 will total 48.0¢ (30.0p).

Share price and market capitalisation

The IHG share price closed at £12.43 on 31 December 2010, up from £8.93 on 31 December 2009. The market capitalisation of the Group at the year end was £3.6bn.

Capital structure and liquidity management

Net debt* at 31 December	2010 \$m	2009 \$m
Borrowings:		
US dollar	715	863
Euro	100	216
Other	6	53
Cash	(78)	(40)
Net debt	743	1,092
Average debt levels	923	1,231

*Including the impact of currency derivatives.

Facilities at 31 December	2010 \$m	2009 \$m
Committed	1,605	1,693
Uncommitted	53	25
Total	1,658	1,718

Interest risk profile of gross debt for major currencies at 31 December	2010 %	2009 %
At fixed rates	100	90
At variable rates	–	10

In 2010, the Group continued its focus on cash management. During the year, \$462m of cash was generated from operating activities, with the other key elements of the cash flow being:

- proceeds from the disposal of hotels and investments of \$135m, including \$105m from the sale of the InterContinental Buckhead, Atlanta on 1 July 2010; and
- capital expenditure of \$95m including \$23m for the purchase of the InterContinental San Francisco Mark Hopkins ground lease and \$16m in relation to Global Technology projects.

The Group is mainly funded by a \$1.6bn syndicated bank facility which matures in May 2013.

In December 2009, the Group issued a seven-year £250m public bond, at a coupon of 6%, which was initially priced at 99.465% of face value. The £250m was immediately swapped into US dollar debt using currency swaps and the proceeds were used to reduce the existing term loan from \$500m to \$85m. The term loan was completely paid down in September 2010. Additional funding is provided by a finance lease on the InterContinental Boston.

Net debt at 31 December 2010 decreased by \$349m to \$743m and, in the table above, included \$206m in respect of the finance lease commitment for the InterContinental Boston and \$27m in respect of currency swaps related to the sterling bond.

Further information on the Group's treasury management can be found in note 21 on pages 91 to 95 in the notes to the Group financial statements 2010.

Business review continued

Our people

IHG directly employed an average of 7,858 people worldwide during 2010 whose costs are borne by the Group. When the whole IHG estate is taken into account (including staff working in the franchised and managed hotels) approximately 335,000 people are employed globally across IHG's brands.

Unless otherwise stated, any data in this section relates to the people directly employed by IHG and those who work in managed hotels or as part of our joint venture with All Nippon Airways in Japan – in total approximately 115,000 people.

During 2010, our trading environment began to recover but we continued to focus on balancing greater efficiencies in our operations, while continuing to engage with our people.

Furthermore, we developed and cascaded a compelling Vision of the Company for our people – to become one of the world's great companies. This Vision builds on our core purpose of creating Great Hotels Guests Love.

To achieve our Vision we need to develop a clear articulation of what makes each brand great. We will help our people understand their role in delivering the Vision, the values and ways of working required and the results that will measure our progress.

We have been focusing on these areas over the past four years and this report provides an update on these activities.

Our Vision to become great



Our Vision explained

We launched and cascaded our Vision to be a great company during 2010 and we have given our people clear direction on what is important for us as a business. This effort will continue throughout 2011.

Having great brands

As part of our Vision to be a great company, we know we need to develop a strong family of brands. Our brands need to be distinctive and consistently deliver the promises made to guests. This will require our people to deliver a consistent, brand-specific guest experience in all our hotels so that the guests feel that our brands are a perfect fit for them.

Delivered by great people: Room to be yourself

IHG has developed a strong culture of engagement that provides the environment which helps us attract and retain great people. As part of our brand, we make four key promises which are described as part of our Room to be yourself commitment. People processes have been aligned to our commitment to ensure that we can meet a set of defined standards.

Sharing great values: Winning Ways

Winning Ways, a set of behaviours that defines how IHG interacts with guests, colleagues and hotel owners, was developed in 2006 and integrated into the business in 2007. IHG's people have embraced these behaviours with enthusiasm and creativity worldwide.

With great ways of working

We have developed ways of working to help us work together more efficiently. These include teams working towards IHG's set of four agreed strategic priorities, centralised procurement, making greater use of our scale to drive cost savings, and the planning and co-ordination of activities across our corporate, regional and hotel teams, so that initiatives are delivered even more effectively to guests.

One of the world's great companies

When we have achieved this we will have:

- Guests who love to stay with us;
- People who love to work for us;
- Owners who love our brands; and
- Investors who love our performance.

Room to be yourself

Room to have a great start

You will be treated with respect and we will make sure you have everything you need to have a great start.

Room to be involved

You will have the opportunity to work with great teams, know what is going on and make a real difference in your workplace.

Room to grow

You will be supported and given opportunities to develop yourself and pursue a rewarding career.

Room for you

You will be rewarded and recognised for your contributions and we will value the significance of your life beyond work.



Veronica
Holiday Inn

Winning Ways



Do the right thing



Show we care



Aim higher



Celebrate
difference



Work better
together

Strategic priorities

The key success factors:

- Financial returns
- Our people
- Guest experience
- Responsible business

Activities that support our Vision

Having great brands

During 2010 we have been working closely to define the guest experience and personality for each brand. This has allowed us to design training that will help employees understand what each brand stands for and to deliver each unique brand experience.

IHG has updated its comprehensive 'Holiday Inn refresh' training programme and has developed a number of tools to help managers and employees understand what they need to do to deliver the service experience expected by guests. This will be launched in 2011 across all hotels. The other hotel brands are updating their training programmes to reflect the service experience expected by guests, and these will also launch in 2011.

Room to be yourself

Room to have a great start

With such a robust hotel development pipeline we have been focusing on how to recruit the people we need over the next few years. IHG's online recruitment system attracts and matches candidates to job vacancies. Over 1.8 million people visited the site during 2010 and more than a million potential candidates have expressed an interest to work at IHG.

In China, we have established a number of initiatives as part of our focus on recruiting talented individuals to support the anticipated number of openings over the next few years. We have continued to focus our efforts in two ways: the pipeline of hotel staff and the pipeline of General Managers.

The pipeline of hotel staff is supported by a number of fast-track programmes aimed at bringing in professionals from human resources and finance backgrounds to support our growth plans. We also run IHG Academies in partnership with a number of educational bodies to provide training to students to equip them with skills required by the hotel industry. These Academies operate in 10 locations, are supported by 23 partners in the region and in December 2010 had more than 4,800 students enrolled on one of these programmes.

Our franchisee in Panama continues to provide a school to teach our employees the skills required in all aspects of hotel management, particularly in areas of skills shortage such as food and beverage management.

We also continue to provide an extensive range of training to our employees including e-learning curricula from respected business schools such as Cornell University in the US.

To manage our graduate pipeline, both our Asia Pacific and EMEA regions run graduate programmes. The I-grad and Future Leaders programmes rotate graduates through departments in our hotels and corporate offices to develop their operational and leadership capabilities. In 2010 we had 25 graduates on rotation in our hotels and 22 have so far secured permanent jobs since the programmes started.

Business review continued

Room to be involved

Great emphasis is placed on employee communication, particularly on matters relating to the Group's business and its performance.

Communication channels include global management conferences, team meetings, informal briefings, in-house publications and intranets. The Group has continued to improve the capability of the corporate intranet site, 'Merlin', which now provides continuous access to information about people, policies and news across all hotels, corporate offices and reservations centres.

Regular employee feedback is obtained to ensure that IHG meets expectations and delivers on its commitments. The Group conducts a twice-yearly survey that measures employee opinion and attitudes. This survey covers employees in owned and managed hotels, corporate offices and reservations centres. We have not reported the survey data on our joint venture partners.

Since the first survey in 2007, we have continued to achieve very high response rates with over 96,000 employees participating in the October 2010 survey.

Division/region	2010 response rates %	2009 response rates %
Americas hotels	92	90
EMEA hotels	91	89
Asia Pacific hotels	93	93
Corporate offices	91	89
Reservations centres	86	91

IHG's key measure from the survey is the Engagement Index, constructed from a set of questions which measure employee advocacy, retention and effort.

During 2010, IHG's Engagement Index improved by three percentage points to 73%. The survey also highlights that 93% of our people are proud to work for IHG, while retention and advocacy have both improved during the year.

We have used our survey to track awareness and understanding of Great Hotels Guests Love. Our October 2010 employee survey results show that 91% of our people understand Great Hotels Guests Love and that it has helped them focus on the right things for the business.

Room to grow

To meet the demands of our growth and to deliver our Vision of becoming one of the world's great companies, IHG continues to focus on developing talent.

During 2010, we again conducted our annual review of the Group's corporate managers and hotel general managers to identify skills required for the future and how to develop individuals. The outcome is to increase clarity around our talented individuals, their key development needs and the ability to move these individuals into the positions which will enable them to enhance their skills and meet IHG's key objectives. The succession planning process for senior leadership roles has continued in 2010, enabling IHG to manage changes in leadership.

During the year, IHG continued to place importance on the growth and development of its people in the owned and managed hotels, and within its corporate and reservations offices, and ensured training programmes were available to all of its employees. The Group's internal survey indicates that 87% of employees agree that IHG delivers training to assist with their current roles, which is a two percentage point improvement on 2009.

We have continued to leverage technology through our learning management system, which helps people learn flexibly and to develop their skills in the workplace rather than attend courses in classrooms.

Over 100,000 employees received some form of training and development. We introduced a number of new online programmes and our most popular training courses were around optimising IHG channels and managing revenue.

IHG has a number of development programmes in place to support managers in hotels and corporate offices. These include the assessment of individual potential and capability, together with clarity on expectations and business-related education.

The Leaders Lounge, an online leadership development system for IHG senior managers, provides cost-effective and high-quality development and communication to all of our senior leaders. This forum provides input from the Chief Executive and the Executive Committee on key issues and challenges for the business as well as inputs from external business thinkers.

In 2010 we expanded The Lounge by opening a Leadership Academy within it. The Academy gives leaders a curriculum of IHG-specific e-learning modules on strategy, finance, coaching and other key areas of leadership. The Leaders Lounge was recognised in 2010 with a Chief Learning Officer Magazine Global Learning Award, an ASTD (American Society for Training and Development) citation for Excellence in Practice and a Training Magazine Best Practice award. Since its launch, over 3,000 'how to lead' tools have been downloaded from The Lounge by IHG leaders. 88% of Lounge members use the site to develop themselves and their teams at least once a month.

Room for you

In July 2010 IHG and our Owners' Association, the IAHI, sponsored a global event to recognise our people – Celebrate Service. For one week we recognised those people in our hotels who deliver great service to our guests and colleagues. Around 3,000 hotels participated in this event along with all our corporate offices and reservations centres. We gathered over 1,500 stories of great service, many of which featured on our corporate intranet.



InterContinental Shenzhen, China

Feedback from employees suggest the event was very well received and over 75% of employees responding to a survey said that they felt recognised and thanked for their efforts. There is strong support for Celebrate Service to become an annual event, and part of the IHG culture.

IHG's compensation and benefits programmes are designed to be competitive and to recognise and reward achievement. The benefits offered to employees vary according to region. IHG contributes to both mandatory and company-sponsored retirement plans to ensure benefits are competitive within each local market. IHG's employee survey indicates that the majority of employees believe they are fairly paid for the work they do.

The Group offers a range of benefits that are aimed at helping employees to achieve a better work/life balance. Healthcare is provided to some staff groups and, in our Americas region, programmes are in place to help employees maintain a healthy lifestyle and also reduce the cost of health insurance claims. In some regions employee assistance programmes offer a confidential counselling service to help employees deal with financial and legal matters, relationship problems and stress.

IHG manages performance by helping people to align their objectives to our core purpose. The Group also encourages managers to acknowledge employee achievements or contributions as part of our Winning Ways culture.



London 2012 Olympic and Paralympic Games

The selection of Holiday Inn and Holiday Inn Express as the Official Hotel Services Provider to the London 2012 Olympic and Paralympic Games continues to provide a great opportunity to engage and motivate our people to build our business and our Holiday Inn brand. It also helps us to reinforce our commitment to the community and our approach to corporate responsibility.

In 2010 we began an 'employ an athlete' programme. We have employed six athletes who work in our hotels while continuing to train for 2012. We have also seconded two employees to LOCOG – the London Organising Committee for the Olympic Games. This number will increase to 120 by 2012.

Celebrating diversity

IHG benefits from the diversity of its employees, owners, business partners and guests. The Group regards diversity as a fundamental factor in its success in operating as a global organisation and this principle is embedded in IHG's Winning Ways.

The Group is committed to providing equality of opportunity to all employees without discrimination and continues to be supportive of the employment of disabled persons. Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practical in the same or a suitable alternative position.

We were proud to receive the 2010 Personnel Today award for Innovation in Recruitment. The award was made in acknowledgement of the work we do to connect recruitment with our responsible business values. Since 2006 we have been in partnership with the Learning and Skills Council and Her Majesty's Prison Service to help those who have completed their sentences, get back to work. Each year about 32 people take part in hotel chef training as part of the 14-week programme. 250 ex-offenders have now been trained, with many going on to take jobs in the industry.

External recognition

During the year, IHG won a number of prestigious awards in recognition of its people management and HR practices.

In March 2010 IHG was named as one of the 'Best 25 Big Companies' to work for by the Sunday Times (UK). Each year the Sunday Times celebrates the best companies in the UK to work for. The list is created from the views of employees across eight indicators of engagement and the policies and processes of employers. The Sunday Times says that being one of the best companies goes beyond the bottom line – it is about excelling in every area throughout the workplace and a business's commitment to its employees.

Tracy Robbins, Executive Vice President, Human Resources & Group Operations Support, received the HR Director of the year award in December 2010 at the Personnel Today Awards in London. This prestigious award recognised HR's commercial approach and its contribution to creating the coherent culture enjoyed at IHG. Tracy was specifically recognised for her work around the Vision, Room to be yourself, and our Winning Ways.

In October 2010 IHG was named the World's 'BEST' Learning and Development Organisation by the American Society for Training and Development (ASTD). IHG was compared with 103 global companies, including IBM and Deloitte. The award winners set the standard for exceptional learning practices to create a skilled workforce. Learning is used as a strategic tool and senior leaders champion a learning culture.

IHG has remained one of Britain's Most Admired leisure and hospitality companies over the past four years. The awards are a peer review of corporate reputation and are presented by Management Today and the Birmingham City Business School.

A number of IHG people have also been recognised for achievements and service excellence.

Ensuring health and safety

Providing and supporting a safe and secure environment for our guests, employees and visitors is paramount and IHG applies high standards of health and safety across the Group. Our Risk Management team evaluates policies and procedures, operating a range of health and safety and security measures and we require all parties to comply with relevant health and safety legislation.

All of our Group companies are responsible for protecting the health of our employees through suitable work-based strategies; minimising the risk of injury from work activity; ensuring that sufficient resources, information and systems are in place to address health and safety; and involving employees in continuous improvement, reporting and review of health and safety matters.

Further information on our approach towards safety and security can be found on pages 31 to 36 of this Business Review and in the online Corporate Responsibility Report at www.ihgplc.com/responsibility

Business review continued

Corporate responsibility

Corporate responsibility (CR) is central to the way we do business. Acting responsibly creates value for our brands while helping our hotels to manage costs, drive revenue and be prepared for the future. It also keeps us in tune with the thinking of our stakeholders, and supports our mission to champion and protect IHG's trusted reputation. Doing the right thing reinforces trust in our brands, builds competitive advantage and strengthens our corporate reputation.

With over 4,400 hotels worldwide and almost 1,300 in the pipeline, we have a tremendous opportunity to help make tourism responsible, from the energy we use to the economic opportunities we create in the communities where we operate. We work to achieve this by treating CR as a strategic business issue, and an integral part of our Vision to become one of the world's great companies through our core purpose, Great Hotels Guests Love.

Our approach

Our strategy is based on innovation and collaboration and our CR Board Committee, formed in 2009, oversees that we have the right policies, management and measurement systems in place to deliver against our strategy. The Committee is chaired by Jennifer Laing, a Non-Executive Director. It met three times in 2010, focusing on the role of hotels in society, our community and environmental strategies, our response to carbon regulation and a LEED (Leadership in Energy and Environmental Design) endorsement for Green Engage.

Innovation

We develop innovative concepts and technologies, and we work closely with our partners to find creative solutions to the challenges we face. Rather than purchasing carbon offsets, for example, we have chosen to develop innovative technologies, such as Green Engage, and to implement practical measures to make real carbon and energy reductions across our hotel estate. Our efforts were recognised this year when we were awarded LEED endorsement and the Carbon Trust Standard, for showing genuine carbon reductions and a commitment to ongoing reductions.

Collaboration

Our stakeholders play a key role in helping us identify and tackle our priorities. They include guests and corporate clients, hotel owners and franchise holders, local communities, employees, shareholders, suppliers, academic institutions, non-government organisations, governments and industry-specific institutions. We engage with them through forums, meetings, individual interviews, surveys and our award-winning online Innovation Hotel, where stakeholders propose ideas that contribute to the way we design, build and operate more responsible hotels.

As a member of the World Travel and Tourism Council we work with our competitors to share knowledge and resources, develop policy and implement programmes that have a positive social, economic and environmental impact.

During the year we collaborated with some of the world's best minds and institutions in order to revise our Community Strategy and find the right strategic partner. We worked with Harvard University, and with Business in the Community (BiTC) who facilitated the set up of partnerships through which we deliver IHG Academy in the UK. The IHG Academy is a public/private partnership that helps us create local economic opportunities.

We provided quarterly updates to elements of our online CR report this year. Feedback on our report shapes the way we report in the future. In 2010, IHG senior management met with students from Harvard University for an interactive critique. In 2011 we will continue to keep the report updated and move to our second version of the Innovation Hotel, a website which invites feedback on the latest ideas in sustainable hotel design and operations.

Review of 2010

Our innovation and collaboration activities are focused on the areas that make most sense to our business, and where we believe we can make most difference in our communities. Our CR strategy has two pillars:

- Environment – reduce energy in our owned and managed estate by between 6% and 10% over three years (2010 – 2012) via the use of Green Engage; and
- Community – generate local economic opportunities, particularly through the IHG Academy, and provide shelter in a storm through disaster relief.

To help our work, we have established committees to support and drive globally-aligned decisions around environment and community.

In response to feedback from users, we enhanced the usability of our industry-leading online sustainability tool, Green Engage. We also further developed our online Innovation Hotel to make it even more dynamic and interactive.

We signed up to the UN Global Compact, aligning our operations, culture and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption. This aligns with and supports our existing Environmental, Community and Human Rights policies.

Reducing our environmental footprint

Energy is the second biggest cost to our business, with the average IHG hotel spending over \$500,000 on energy usage each year. Taking measures to conserve energy makes environmental sense. At the same time it helps our hotels to stop losing money on energy costs, which makes good financial sense.

Green Engage is our innovative system, designed to help hotels reduce energy costs, with hotels achieving energy savings of up to 25%. The system, which has recently received a LEED endorsement, allows hotels to track, measure and report on their energy, water and waste, and recommends actions that will cut energy bills without compromising the guest experience.

Over 1,000 of our hotels are registered to use Green Engage and 2,000 individuals are registered as users. Our aim is to have our entire estate using it over time. In 2011 we will launch version 2.0 based on feedback from existing users. The new version retains all the features and benefits of the original but is easier to use, with better benchmarking.



Green Engage is driving revenue too. Our research shows that many US and UK frequent travellers prefer hotels which are meaningfully engaged in corporate responsibility. For this growing band of environmentally-aware customers, the recent LEED endorsement of Green Engage is proof that we are making environmental responsibility part of the way we do business.

Supporting communities – generating local economic opportunities

This year we revised our Community Strategy and made good progress on implementing our new key initiatives.

With hotels in 100 countries and territories we have a great opportunity to improve the lives of local people. Making a tangible difference is also a key element in building a strong reputation for our business and our brands. As such, our Community Strategy, which outlines how we seek to create local economic opportunities, is critical to our core purpose of Great Hotels Guests Love and to achieving economic success.



IHG Academy

Through our IHG Academy we partner with education providers and community organisations to create local education and employment opportunities and drive economic growth. This is a truly sustainable business proposition. The Academy partnerships help to ensure the future of our hotels in areas where skilled employees can be hard to find and give people the skills and access to careers that they would not have otherwise had. They provide our existing employees with a chance to participate and make a difference, and ensure we provide high quality guest experiences throughout the world.

The IHG Academy was first established in China, where we have 23 partners in 10 locations, training more than 4,800 students each year. We are now establishing similar partnerships in other countries.

Focusing on creating economic opportunity puts us at the leading edge in our sector, giving us a competitive advantage and resonating with key external stakeholders, such as corporate clients. IHG Academy has also featured in case studies written by Harvard University and the International Tourism Partnership.

Disaster relief

Hotels are places to celebrate, provide opportunities for employment and have an economic impact on local communities. When disaster strikes, they also provide shelter in a storm.

While our hotels already took action in times of need, this year we drew up plans to formalise the way we respond in a disaster. We will be partnering with one of the world's three biggest aid agencies to develop a rapid, cohesive response strategy, including operating guidelines to help hotels make the best use of their resources in times of disaster. We are also putting in place simple and effective donation channels to leverage our global scale and employee and guest base.

Regulation and legislation

Over and above complying with legal requirements wherever we operate, our systems and programmes are helping to put us ahead of regulatory demands. Green Engage is core to helping hotel owners manage current regulatory performance and prepare for anticipated regulations.

This year we were able to use Green Engage to comply with the requirements of UK's Carbon Reduction Commitment, a mandatory carbon emissions reporting and pricing scheme.

These and other complex regulatory matters are overseen by our Global Carbon Strategy Team. We review our carbon strategy regularly with our CR Committee and discuss it with our owners' association, the IAHI, to make sure our franchise partners support our aims.

External recognition

Our activities received external recognition, including:

- LEED endorsement of Green Engage;
- Best 2010 Corporate Responsibility Report in the Travel and Leisure sector – Radley Yeldar;
- IHG was recognised as the most environmentally and socially responsible hotelier in Australasia, after being awarded the inaugural Responsible Travel Management Award by the National Business Travel Association 2010; and
- Worldwide Hospitality Award judges award 2010 for our approach to sustainability.

Policies and Code of Ethics

We have detailed policies on the environment, human rights, the community and a Code of Ethics and Business Conduct.

Among the Group's core values is the concept that all employees should have the courage and conviction to do what is right. The Group's global Code of Ethics and Business Conduct consolidates and clarifies expected standards of behaviour and communicates the ethical values of the Group. It states clearly that IHG's reputation is built upon the trust and confidence of our stakeholders and is fundamental to our operations worldwide. A Confidential Disclosure Channel also provides employees with a means to report any ethical concerns they may have. The Code is applicable to all employees and is available on the Company's website at www.ihgplc.com/investors under corporate governance.

Business review continued

Priorities, performance and targets

The following table outlines IHG's overall CR priorities, developments and achievements during the year and priorities for 2011. The main headings, Innovation, Collaboration, Environment and Community reflect the areas our CR strategy focuses on.

CR priorities	2010 developments and achievements	2011 priorities
Innovation	• Developed commercial applications for our CR innovations; and • developed the blueprint for the second version of the Innovation Hotel to showcase new ideas in sustainable hotel design.	• Continue to identify and develop ways to commercialise CR to build competitive advantage; and • launch version 2.0 of the online Innovation Hotel.
Collaboration	• Began to integrate CR into the brand planning process; • refined our stakeholder engagement process; • made CR an integral part of staff induction; • held a staff 'lunch and learn' event to present ideas for the hotel of the future; and • developed Green Engage version 2.0 based on user feedback.	• Continue to integrate CR into brand strategies; • utilise the CR and its supporting committees to drive globally-aligned decisions around environment and community; • add a CR component to IHG employee engagement survey; and • work with stakeholders such as Harvard University to educate decision-makers on IHG's economic impacts.
Environment	• Rolled out Green Engage to our owned and managed hotels and to 400 franchised hotels; • completed Green Engage studies to guide the development of Green Engage version 2.0; • LEED endorsement of Green Engage; • Global Carbon Strategy Team developed a carbon strategy; • awarded Carbon Trust Standard in the UK for showing genuine carbon reductions and a commitment to ongoing reductions; and • worked with Oxford University department of plant sciences to understand better how hotel design and development impacts the environment – funding provided by Priority Club Rewards members who want to convert to email statements and pass the savings to a good cause.	• Roll out version 2.0 of Green Engage; and • explore 'green' standards with our hotel brands.
Community	• Refined Community Strategy; - surveyed all owned and managed hotels to understand their current and future community activities; - at corporate level, defined areas of focus and aligned corporate community activities accordingly; and - established a Community Strategy Committee. • expanded the IHG Academy concept with pilots in the UK and US; • established a new partnership with Business in the Community; and • continued to work with the London Organising Committee of the Olympic and Paralympic Games to support the sustainability goals of London 2012, sharing our learning on community and Green Engage.	• Expand IHG Academy concept across major regions; • refine General Managers' survey so we have an awareness of activity in our hotels; • continue to align corporate efforts to support new strategy; • create IHG volunteer portal to encourage and track volunteerism; • align corporate responsibility activity with 2012 Olympic activation plan; and • announce a strategic partner in providing disaster relief.

For more information please visit our Corporate Responsibility website at www.ihgplc.com/responsibility and the Innovation Hotel at www.ihgplc.com/innovation

Risk management

As a business, IHG manages and takes risks every day. However, we recognise that by managing risks effectively, particularly the major risks that may affect our business plans and strategic objectives, we are able to protect or enhance our key assets appropriately. Amongst our key assets, we have:

- brands and market position;
- financial strength and performance;
- business capability and systems including people, IT systems and ways of working; and
- business reputation and relationships with our stakeholders.

Accordingly, we have established a risk management framework applied to IHG's Business and Hotel Safety risks. The aim in 2011 is to embed and mature this approach to risk management even further.

Business risk management

Capability, process and framework

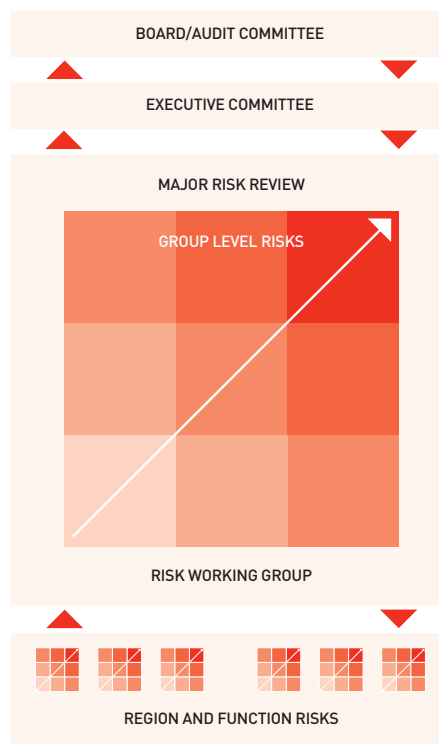
In 2010, the Group improved its risk management capability across the business by fine-tuning the process and focusing on emerging risks. For all key risks, existing controls were identified and assessed as well as the ability, benefit and cost to improve them. The work is documented in 'heat maps' and risk action plans which support the risks.

The process for identifying and managing key risks to IHG begins with risk assessments involving a wide range of stakeholder inputs. These result in risk profiles and actions for all regions and functions, which are monitored and reported regularly by senior leadership teams.

The region and function risks are consolidated, refined and calibrated with a strategic view of risks at the Risk Working Group chaired by the Company Secretary and comprising the heads of IHG's strategy, risk management and internal audit functions. The resultant set of risks and action plans are discussed and further refined at the Executive Committee and finally considered and agreed by the Board. The Audit Committee focuses on the robustness of the risk management process and the effectiveness of actions in managing these risks. This may include calling on risk owners to report on progress in managing key risks and actions.

At each stage of the process communications are two way, facilitated by the Risk Management department and nominated risk coordinators embedded in the business.

This process is referred to as the Major Risk Review, the key elements of which are represented in the diagram below:



Working together to manage corporate risk

The development of IHG's risk management culture and capability is a collaborative effort led by the Company Secretary. IHG's vision for risk management is to foster a culture that becomes instinctive, well-informed, curious, alert, responsive, consistent and accountable.

Risk management activity permeates the whole Group and is embedded in our business processes. For example, risk management is included in the strategic review process between the Chief Executive and individual Executive Committee members twice a year. This 'tone from the top' support for risk management is cascaded into the business.

In addition, the strategy, risk management, internal audit and legal and regulatory compliance teams are all represented at the Risk Working Group to align activities, leverage skills and relationships and provide consistent key messages to the Executive Committee and the Board.

Strategy:

The strategy function provides a strong link to forward-looking value creation opportunities and asset protection requirements of the business.

Risk Management:

The risk management function focuses on driving action to support the strategy and protect assets by building a risk-aware and proactive culture and capability amongst management, focusing on risks prioritised by the business leaders.

Business review continued

Assurance:

Global Internal Audit uses a risk-based approach to provide assurance and identify vulnerabilities and opportunities for improving existing controls that business leaders might not have identified for themselves.

Global Internal Audit is separately responsible for providing assurance across the Group and provides reports on the internal control framework to the Audit Committee. This ensures appropriate allocation of duties between the risk management and internal audit functions and hence supports good governance.

Legal/Compliance:

Our legal and regulatory compliance teams protect and support the business by identifying and interpreting regulations applicable to IHG, using a risk-based approach to create awareness and achieve compliance.

Risk governance:

Risk governance is included in the roles and responsibilities of the Board, Executive Committee and Audit Committee and is described in the Corporate Governance section of this Annual Report on pages 42 to 46.

The Risk Working Group and the Company Secretary provide operational leadership to risk governance and appropriate access to the Board, its Committees and both the Chief Executive and the Chairman.



Major Risk Review and risk mitigation activity

The Board is ultimately responsible for the Group's strategy, risk management and system of internal control, and for reviewing their effectiveness. In discharging this responsibility, the Board considered the 2010 Major Risk Review.

The 2010 Major Risk Review focused on all key, changing or emerging risks and in particular the mitigating actions and controls necessary or already in place. The following section gives insight into some of these risks and control activities:

Capital availability – the recent difficult economic conditions have made capital availability a challenge for our current and potential hotel owners which could impact the size of the existing estate or the delivery and growth of the hotel development pipeline. In response to the market conditions, specialist teams were formed within the mature markets focused on monitoring and analysing market conditions, supporting owners with distressed assets and reviewing financial alternatives with lenders. In addition, development teams focused on opportunities with less capital requirement, to improve likelihood of completion.

Data security and credit card fraud – studies from credit card companies report that global incidents related to data security or credit card fraud in the hotel and hospitality industry is increasing. IHG takes this risk very seriously and has been using risk-based methods to build capability and resilience into our systems for a number of years, as well as moving to Payment Card Industry – Data Security Standards (PCI-DSS). In the last year, the Group has achieved PCI compliance for core systems, increased data security resources and efforts globally, formed a Data Security Task Force to bolster our response to incidents and continued with the Information Security Council, as a governing body, which is attended by senior executives across the business, directly focused on containing this risk.

Maintenance and upgrading of systems and platforms – IHG is reliant on a number of key IT systems and platforms which require continuous investment, maintenance and system upgrades to meet changing user requirements, system capabilities and specifications. In 2010, the Group continued to invest substantially in IT systems, with a number of key projects. The Group also strengthened project risk management and project governance capability to ensure alignment of strategic projects, successful project delivery and to minimise business, interruption.

Distribution channels and intermediaries – there has been a shift towards online sales and distribution channels over recent years. This includes increasing dependence on comparison websites and search engines. Sales through these channels typically have high commission rates and are taking a larger share across the travel and hospitality sector. IHG has responded well in this area by devoting more than half of its discretionary marketing budget to non-traditional tools such as online search, loyalty programmes and direct/incentive-based marketing. The Group has also continually invested in developing IHG's own internet presence and we have the scale to negotiate favourable terms with business partners.

Terrorism and security – security risks, particularly the threat of terrorism, continue to be a significant concern for the hospitality industry as a whole. IHG has implemented a sophisticated risk mitigation and response programme that is intelligence-led and risk-based. For the highest risk sites, detailed threat and vulnerability assessments have been conducted. This year, IHG also launched a new Crisis Management Toolkit to ensure that hotels and corporate offices are prepared to respond to crisis events or scenarios.

Managing risk in hotels

Process and framework

IHG has an established risk management process and framework embedded in owned and managed hotels in all regions. These are also made available to our franchised hotels. The long-term strategic goals are aligned with the IHG core purpose Great Hotels Guests Love and include three key elements:

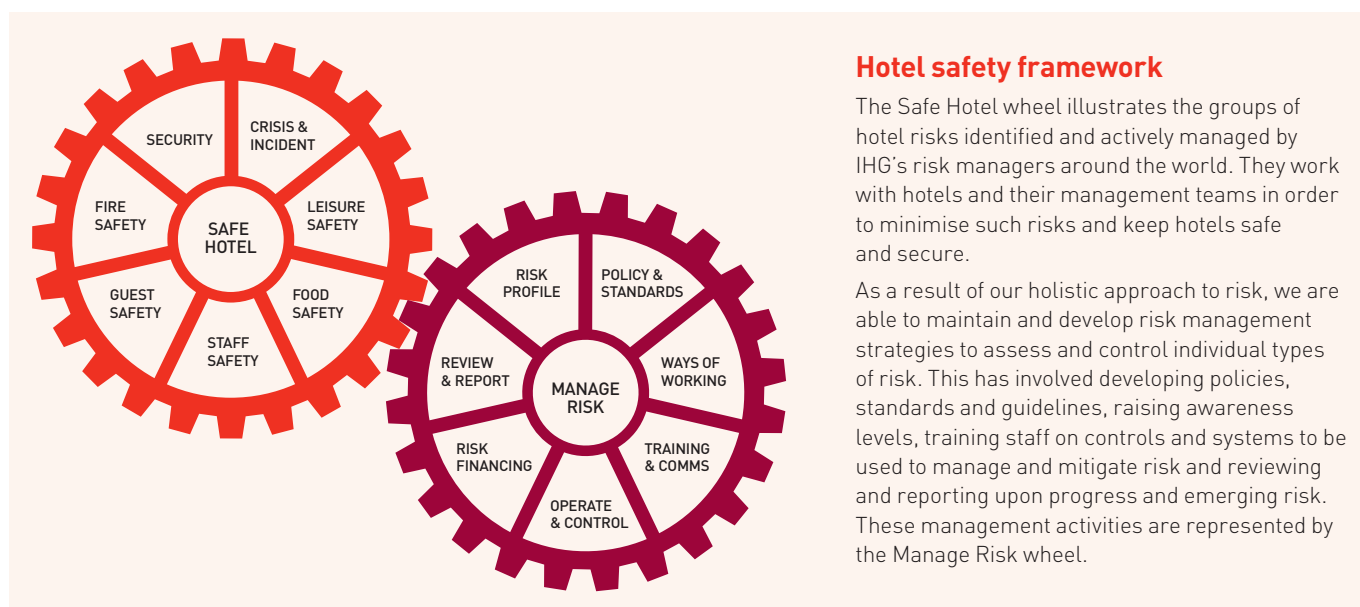
- safety and security of guests, employees and other third parties;
- brand strength supported by operational excellence in risk management at all hotels and corporate locations; and
- maintenance and promotion of IHG's reputation.

Our approach has been to enable and support hotel owners, staff and corporate functions to manage risk effectively. This is accomplished by giving them a systematic approach and framework to follow and by providing them with tools to do the job.

The Risk Management function aims to share specialist knowledge and capability globally whilst being aligned to the operational structure of the business to ensure local circumstances are understood and respected and greater engagement of our people is achieved.

Safety and security risks in hotels

A strategic framework for hotel safety and security has been designed for owned and managed hotels and is illustrated below, showing the identified groups of risks and describing the management activities carried out to mitigate those risks.



Mitigating hotel safety and security risks

Risks are identified at the hotel level through various means including intelligence gathering, quality audits, risk management assessments and internal audits. They are also identified as a result of guest satisfaction surveys, incidents, customer audits and self-assessment. IHG hotel management discuss issues at monthly safety meetings and action plans are developed. Risks are prioritised, assigned and improvement actions are identified, progressed and monitored. Action plans are reviewed at appropriate levels in the organisation for issues that need to be escalated either to drive action or to develop common solutions.

IHG believes it has a mature and capable systemic and systematic approach to managing hotel safety and security risk which reduces both the likelihood and impact of events. The embedded culture within IHG makes hotels and the corporation more resilient to unexpected or unidentifiable risks.

Business review continued

2011 risk factors

Whilst the Major Risk Review focused on a number of changing or emerging risks, the Group is subject to a variety of inherent risks which may have an adverse impact on the business, results of operations, cash flow, financial condition, turnover, profits, assets, liquidity and capital reserves. The following section describes some of the main risks that could materially affect the Group's business. The factors below should be considered in connection with any financial and forward-looking information in this Annual Report and the cautionary statements regarding forward-looking statements contained on page 121.

The risks below are not the only ones that the Group faces. Some risks are not yet known to IHG and some that IHG does not currently believe to be material could later turn out to be material.

The Group is reliant on the reputation of its brands and the protection of its intellectual property rights

Any event that materially damages the reputation of one or more of the Group's brands and/or failure to sustain the appeal of the Group's brands to its customers may have an adverse impact on the value of that brand and subsequent revenues from that brand or business.

In addition, the value of the Group's brands is influenced by a number of other factors, some of which may be outside the Group's control, including commoditisation (whereby price and/or quality becomes relatively more important than brand identifications due, in part, to the increased prevalence of third-party intermediaries), consumer preference and perception, failure by the Group or its franchisees to ensure compliance with the significant regulations applicable to hotel operations (including fire and life safety requirements), or other factors affecting consumers' willingness to purchase goods and services, including any factor which adversely affects the reputation of those brands.

In particular, where the Group is unable to enforce adherence to its operating and quality standards, or the significant regulations applicable to hotel operations, pursuant to its franchise and management contracts, there may be further adverse impact upon brand reputation or customer perception and therefore the value of the hotel brands.

Given the importance of brand recognition to the Group's business, the Group has invested considerable resources in protecting its intellectual property, including registration of trademarks and domain names. However, the controls and laws are variable and subject to change. Any widespread infringement, misappropriation or weakening of the control environment could materially harm the value of the Group's brands and its ability to develop the business.

The Group is exposed to a variety of risks related to identifying, securing and retaining franchise and management agreements

The Group's growth strategy depends on its success in identifying, securing and retaining franchise and management agreements. This is an inherent risk for the hotel industry and franchise business model. Competition with other hotel companies may generally reduce the number of suitable franchise, management and investment opportunities offered to the Group and increase the bargaining position of property owners seeking to become a franchisee or engage a manager. The terms of new franchise or management agreements may not be as favourable as current arrangements and the Group may not be able to renew existing arrangements on similarly favourable terms or at all.

There can also be no assurance that the Group will be able to identify, retain or add franchisees to the Group system or to secure management contracts. For example, the availability of suitable sites, planning and other local regulations or the availability and affordability of finance may all restrict the supply of suitable hotel development opportunities under franchise or management agreements. In connection with entering into franchise or management agreements, the Group may be required to make investments in, or guarantee the obligations of, third parties or guarantee minimum income to third parties. There are also risks that significant franchisees or groups of franchisees may have interests that conflict, or are not aligned, with those of the Group including, for example, the unwillingness of franchisees to support brand improvement initiatives.

Changes in legislation or regulatory changes may be implemented that have the effect of favouring franchisees relative to brand owners.

The Group is exposed to the risks of political and economic developments

The Group is exposed to the inherent risks of global and regional adverse political, economic and financial market developments, including recession, inflation, availability of affordable credit and currency fluctuations that could lower revenues and reduce income. A recession reduces leisure and business travel to and from affected countries and adversely affects room rates and/or occupancy levels and other income-generating activities. This may result in deterioration of results of operations and potentially reduce the value of properties in affected economies. The owners or potential owners of hotels franchised or managed by the Group face similar risks which could adversely impact IHG's ability to retain and secure franchise or management agreements. More specifically, the Group is highly exposed to the US market and, accordingly, is particularly susceptible to adverse changes in the US economy.

Further political or economic factors or regulatory action could effectively prevent the Group from receiving profits from, or selling its investments in, certain countries, or otherwise adversely affect operations. For example, changes to tax rates or legislation in the jurisdictions in which the Group operates could decrease the proportion of profits the Group is entitled to retain, or the Group's interpretation of various tax laws and regulations may prove to be incorrect, resulting in higher than expected tax charges.

The Group requires the right people, skills and capability to manage growth and change

In order to remain competitive, the Group must employ the right people. This includes hiring and retaining highly skilled employees with particular expertise or leadership capability. The implementation of the Group's strategic business plans could be undermined by failure to build resilient corporate culture, recruit or retain key personnel, unexpected loss of key senior employees, failures in the Group's succession planning and incentive plans, or a failure to invest in the development of key skills.

Some of the markets in which the Group operates are experiencing economic growth and the Group must compete against other companies inside and outside the hospitality industry for suitably qualified or experienced employees. Failure to attract and retain these employees may threaten the success of the Group's operations in these markets. Additionally, unless skills are supported by a sufficient infrastructure to enable knowledge and skills to be passed on, the Group risks losing accumulated knowledge if key employees leave the Group.

The Group is exposed to the risk of events that adversely impact domestic or international travel

The room rates and occupancy levels of the Group could be adversely impacted by events that reduce domestic or international travel, such as actual or threatened acts of terrorism or war, epidemics, travel-related accidents, travel-related industrial action, increased transportation and fuel costs and natural disasters, resulting in reduced worldwide travel or other local factors impacting individual hotels. A decrease in the demand for hotel rooms as a result of such events may have an adverse impact on the Group's operations and financial results. In addition, inadequate preparedness, contingency planning or recovery capability in relation to a major incident or crisis may prevent operational continuity and consequently impact the value of the brand or the reputation of the Group.

The Group is reliant upon its proprietary reservations system and is exposed to the risk of failures in the system and increased competition in reservations infrastructure

The value of the brands of the Group is partly derived from the ability to drive reservations through its proprietary HolidexPlus reservations system, a central repository of all hotel room inventories linked electronically to multiple sales channels including IHG's own websites, call centres and hotels, third-party intermediaries and travel agents.

Lack of resilience in operational availability could lead to prolonged service disruption and may result in significant business interruption and subsequent impact on revenues. Lack of investment in these systems may also result in reduced ability to compete. Additionally, failure to maintain an appropriate e-commerce strategy and select the right partners could erode the Group's market share.

The Group is exposed to inherent risks in relation to technology and systems

The Group is reliant upon certain technologies and systems (including IT systems) for the running of its business, particularly those which are highly integrated with business operational processes. Disruption to those technologies or systems could adversely affect the efficiency of the business, notwithstanding business continuity or disaster recovery processes. The Group may have to make substantial additional investments in new technologies or systems to remain competitive. Failing to keep pace with developments in technologies or systems may put the Group at a competitive disadvantage. The technologies or systems that the Group chooses may not be commercially successful or the technology or system strategy employed may not be sufficiently aligned with the needs of the business or responsive to changes in business strategy. As a result, the Group could lose customers, fail to attract new customers or incur substantial costs or face other losses.

The Group is exposed to the risks of the hotel industry supply and demand cycle

The future operating results of the Group could be adversely affected by industry overcapacity (by number of rooms) and weak demand due, in part, to the cyclical nature of the hotel industry, or other differences between planning assumptions and actual operating conditions. Reductions in room rates and occupancy levels would adversely impact the results of Group operations.

The Group may experience a lack of selected development opportunities

While the Group is operating in 100 countries and territories, if the availability of suitable development sites becomes limited for IHG and its prospective hotel owners, for example due to saturation or changing geo-political circumstances, this could adversely affect the Group's future growth pipeline.

The Group is exposed to risks related to corporate responsibility

The reputation of the Group and the value of its brands are influenced by a wide variety of factors, including the perception of key stakeholders and the communities in which the Group operates. The social and environmental impacts of business are under increasing scrutiny, and the Group is exposed to the risk of damage to its reputation if it fails to demonstrate sufficiently responsible practices, ethical behaviour, or fails to comply with regulatory requirements in a number of areas such as fraud, bribery and corruption, safety and security, sustainability and responsible tourism, environmental management, equality, diversity and human rights, and support for local communities.

Business review continued

The Group is exposed to the risk of litigation	The Group could be at risk of litigation from many parties, including guests, customers, joint venture partners, suppliers, employees, regulatory authorities, franchisees and/or the owners of hotels we manage. Claims filed in the US may include requests for punitive damages as well as compensatory damages. Exposure to litigation or fines imposed by regulatory authorities may also affect the reputation of the Group.
The Group may face difficulties insuring its business	Historically, the Group has maintained insurance at levels determined to be appropriate in light of the cost of cover and the risk profiles of the business in which it operates. However, forces beyond the Group's control, including market forces, may limit the scope of coverage the Group can obtain and the Group's ability to obtain coverage at reasonable rates. Other forces beyond the Group's control, such as terrorist attacks or natural disasters may be uninsurable or simply too expensive to insure. Inadequate or insufficient insurance could expose the Group to large claims or could result in the loss of capital invested in properties, as well as the anticipated future revenue from properties, and could leave the Group responsible for guarantees, debt or other financial obligations related to such properties.
The Group is exposed to a variety of risks associated with its financial stability, ability to borrow and satisfy debt covenants	While the strategy of the Group is to extend the hotel network through activities that do not involve significant amounts of its own capital, we do require capital to fund some development opportunities and to maintain and improve owned hotels. The Group is reliant on having financial strength and access to borrowing facilities to meet these expected capital requirements. The majority of the Group's borrowing facilities are only available if the financial covenants in the facilities are complied with. Non-compliance with covenants could result in the lenders demanding repayment of the funds advanced. If the Group's financial performance does not meet market expectations, it may not be able to refinance existing facilities on terms considered favourable.
The Group is required to comply with data privacy regulations	Existing and emerging data privacy regulations limit the extent to which the Group can use personal identifiable information. Compliance with these regulations in each jurisdiction in which the Group operates may require changes in the way data is collected, monitored, stored and used, which could increase operating costs or limit the advantages from possessing such data. In addition, non-compliance with data privacy regulations may result in fines, damage to reputation or restrictions on the use or transfer of information.
The Group is exposed to the risks related to information security	The Group is increasingly dependent upon the availability, integrity and confidentiality of information including, but not limited to, guest and employee credit card, financial and personal data, business performance and financial reporting. The reputation and performance of the Group may be adversely affected if it fails to maintain appropriate confidentiality of information and ensure relevant controls are in place to enable the release of information only through the appropriate channels in a timely and accurate manner.
The Group is exposed to funding risks in relation to the defined benefits under its pension plans	The Group is required by law to maintain a minimum funding level in relation to its ongoing obligation to provide current and future pensions for members of its UK pension plans who are entitled to defined benefits. In addition, if certain plans of the Group are wound up, the Group could become statutorily liable to make an immediate payment to the trustees to bring the funding of defined benefits to a level which is higher than the minimum legal requirements. The contributions payable by the Group must be set with a view to making prudent provision for the benefits accruing under the plans of the Group. In particular, the trustees of IHG's UK defined benefit plan may demand increases to the contribution rates relating to the funding of this plan, which would oblige relevant employers of the Group to contribute extra amounts. The trustees must consult the plan's actuary and principal employer before exercising this power. In practice, contribution rates are agreed between the Group and the trustees on actuarial advice, and are set for three-year terms. The funding implications of the last actuarial review are disclosed in the notes to the Group financial statements on pages 98 to 101.

The Board, senior management and their responsibilities

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In this section we present our Board and senior management team, our governance processes and procedures, and our compliance with the codes and regulations to which we are committed. We also present details of Directors' remuneration in 2010, and the structure of senior executives' pay for 2011.

The Board of Directors

David Webster

Non-Executive Chairman*

Chairman of the Nomination Committee

Appointed Deputy Chairman and Senior Independent Director of InterContinental Hotels Group on the separation of Six Continents PLC in April 2003. Appointed Non-Executive Chairman on 1 January 2004. Also Non-Executive Chairman of Makinson Cowell Limited, a capital markets advisory firm, a Non-Executive Director of Amadeus IT Holding SA, a transaction processing and technology solutions company for the travel and tourism industry, a member of the Appeals Committee of the Panel on Takeovers and Mergers and a Director of Temple Bar Investment Trust PLC. Formerly Chairman of Safeway plc and a Non-Executive Director of Reed Elsevier PLC. Age 66.

Andrew Cosslett

Chief Executive†

Appointed Chief Executive in February 2005, joining the Group from Cadbury Schweppes plc where he was most recently President, Europe, Middle East & Africa. During his career at Cadbury Schweppes he held a variety of senior regional management and marketing roles in the UK and Asia Pacific. Also has over 11 years' experience in brand marketing with Unilever. A member of the Executive Committee of the World Travel & Tourism Council and a member of the President's Committee of the CBI. Age 55.

Richard Solomons

Chief Financial Officer and Head of Commercial Development†

Qualified as a chartered accountant in 1985, followed by seven years in investment banking, based in London and New York. Joined the Group in 1992 and held a variety of senior finance and operational roles. Appointed Finance Director of the Hotels business in October 2002 in anticipation of the separation of Six Continents PLC in April 2003. Responsible for corporate and regional finance, Group financial control, strategy, investor relations, tax, treasury, commercial development and procurement. Age 49.

James Abrahamson

President, The Americas†

Appointed a Director in August 2010. Has over 32 years' experience in hotel operations, branding, development and franchise relations. Joined the Group as an Executive Committee member with responsibility for the Americas region in January 2009 from Global Hyatt Corporation, where he served as Head of Development, The Americas. Previously Senior Vice President, Hilton Hotels Corporation for 12 years. Responsible for the business development and performance of all the hotel brands and properties in the Americas region. Age 55.

Kirk Kinsell

President, EMEA†

Appointed a Director in August 2010, retaining his responsibility for the EMEA region, which he had held as an Executive Committee member since September 2007. Has over 28 years' experience in the hospitality industry, including senior franchise positions with Holiday Inn Corporation and ITT Sheraton, prior to joining the Group in 2002 as Senior Vice President, Chief Development Officer for the Americas region. Responsible for the business development and performance of all the hotel brands and properties in the EMEA region. Age 56.

David Kappler

Senior Independent Non-Executive Director#

Chairman of the Audit Committee

Appointed a Director and Senior Independent Director in June 2004. A Non-Executive Director of Shire plc. A qualified accountant and formerly Chief Financial Officer of Cadbury Schweppes plc and Non-Executive Chairman of Premier Foods plc. Also served as a Non-Executive Director of Camelot Group plc and HMV Group plc. A member of the Trilantic Europe Advisory Council. Age 63.

Graham Allan

Non-Executive Director*

Appointed a Director in January 2010. Became Chief Executive Officer of Yum! Restaurants International (YRI), a subsidiary of Yum! Brands, Inc., in 2010 after serving as President since 2003. Previously Executive Vice President and Chief Operating Officer of YRI and Managing Director of YRI in Europe. Has over 19 years' experience in brand management, marketing, franchising and retail development. Age 55.

Ralph Kugler

Non-Executive Director*

Chairman of the Remuneration Committee

Appointed a Director in April 2003. Also Chairman of Byotrol plc, a hygiene technology company, a Non-Executive Director of Discovery Group Holdings Ltd, a PR services company, Board Adviser at Mars, Incorporated, the global consumer business, a Non-Executive Director of Spotless Holding Sas, a consumer products business, and Senior Adviser to 3i plc. Previously Director on the boards of Unilever PLC and Unilever N.V. until May 2008, with his last role as Global President, Unilever Home and Personal Care. Age 54.

Jennifer Laing

Non-Executive Director*

Chairman of the Corporate Responsibility Committee

Appointed a Director in August 2005. Was Associate Dean, External Relations at London Business School, until 2007. A Fellow of the Marketing Society and of the Institute of Practitioners in Advertising, has over 30 years' experience in advertising including 16 years with Saatchi & Saatchi. Also a Non-Executive Director of Hudson Highland Group, Inc., a US human resources company. Age 63.

Jonathan Linen

Non-Executive Director†

Appointed a Director in December 2005. Was formerly Vice Chairman of the American Express Company, having held a range of senior positions throughout his career of over 35 years with American Express. A Non-Executive Director of Yum! Brands, Inc. and Modern Bank, N.A., a US private banking company. Also serves on a number of US Councils and advisory boards. Age 67.

Ying Yeh

Non-Executive Director†

Appointed a Director in December 2007. Vice President and Chairman, Greater China Region, Nalco Company, a water treatment and process improvement company. Previously Chairman and President, North Asia Region, President, Business Development, Asia Pacific Region and Vice President, Eastman Kodak Company. Also a Non-Executive Director of AB Volvo. Was, for 15 years, a diplomat with the US Foreign Service in Hong Kong and Beijing until 1997. Age 62.

Other members of the Executive Committee

Tom Conophy

Executive Vice President and Chief Information Officer^{†§}

Has over 30 years' experience in the IT industry, including management and development of new technology solutions within the travel and hospitality business. Joined the Group in February 2006 from Starwood Hotels & Resorts International where he held the position of Executive Vice President & Chief Technology Officer. Responsible for global technology, including IT systems and information management throughout the Group. Age 50.

Tracy Robbins

Executive Vice President, Human Resources & Group Operations Support^{†§}

Has over 25 years' experience in line and HR roles in service industries. Joined the Group in December 2005 from Compass Group PLC, a world leading food service company, where she was Group Human Resources Leadership & Development Director. Previously Group HR Director for Forte Hotels Group. Has global responsibility for talent management, leadership development, reward strategy, organisational capability and operations support. Age 47.

Tom Seddon

Executive Vice President and Chief Marketing Officer^{†§}

Has over 18 years' experience in sales and marketing in the hospitality industry, including with IHG's predecessor parent companies from 1994 to 2004. Rejoined the Group in November 2007, from restaurant business SUBWAY® where he was responsible for worldwide sales and marketing activities. Has responsibility for worldwide brand management, reservations, e-commerce, global sales, relationship and distribution marketing, and loyalty programmes. Age 42.

George Turner

Executive Vice President, General Counsel and Company Secretary^{†§}

Solicitor, qualified to private practice in 1995. After 12 years with Imperial Chemical Industries PLC, where he was most recently Deputy Company Secretary, he joined the Group in September 2008. Appointed Executive Vice President, General Counsel and Company Secretary in January 2009. Responsible for corporate governance, risk management, insurance, data privacy, internal audit, company secretariat, legal and corporate responsibility & public affairs. Age 40.

The Board of Directors and members of the Executive Committee together comprise the IHG Senior Leadership Team.

While the Directors have certain specific legal and regulatory duties and responsibilities, they work with and rely on the detailed knowledge and experience of the Executive Committee members to secure the effective running of the business in support of IHG's core purpose to create Great Hotels Guests Love, and its Vision to become one of the world's great companies.

- * A Non-Executive Director and a member of the Nomination Committee
- + A member of the Executive Committee
- # An independent Non-Executive Director and a member of the Audit, Remuneration and Nomination Committees
- An independent Non-Executive Director and a member of the Audit, Nomination and Corporate Responsibility Committees
- An independent Non-Executive Director and a member of the Audit, Remuneration, Nomination and Corporate Responsibility Committees
- ‡ An independent Non-Executive Director and a member of the Remuneration and Nomination Committees
- § Not a main Board Director

Directors' report

The Directors present their report for the financial year ended 31 December 2010.

Certain information required for disclosure in this report is provided in other appropriate sections of the Annual Report and Financial Statements 2010. These include the Business Review, the Corporate Governance and Remuneration Reports and the Group financial statements, and these are, accordingly, incorporated into this report by reference.

Activities of the Group

The principal activities of the Group are in hotels and resorts, with franchising, management, ownership and leasehold interests in over 4,400 establishments, with more than 640,000 guest rooms in 100 countries and territories around the world.

Business review

This Directors' Report should be read in conjunction with the Chairman's statement and the Chief Executive's review on pages 3 to 5, and the Business Review on pages 8 to 36. Taken together, these provide a fair review of the Group's strategy and business, significant developments during the year and a description of the principal risks and uncertainties it faces. The development and performance of the business during and at the end of the year are described, together with main trends, factors and likely developments, key performance indicators, environmental and employee matters, and social and community issues.

Results and dividends

The operating profit before exceptional items was \$444m: the Group's income statement is set out on page 64 of the Group financial statements. An interim dividend of 8.0p per share (12.8 cents per ADR) was paid on 1 October 2010. The Directors are recommending a final dividend of 22.0p per share (35.2 cents per ADR) to be paid on 3 June 2011 to shareholders on the Register of Members at the close of business on 25 March 2011. Total dividends relating to the year are expected to amount to \$101m.

Share capital

During the year, 2,496,584 new shares were issued under employee share plans. The Company's issued share capital at 31 December 2010 consisted of 289,472,651 ordinary shares of 13²/₄₇p each.

There are no special control rights or restrictions on transfer attaching to these ordinary shares.

IHG operates an Employee Share Option Trust (ESOT) for the benefit of employees and former employees. The ESOT purchases shares in the market and releases them to current and former employees in satisfaction of share awards. During the year, the ESOT released 1,492,859 shares and at 31 December 2010 it held 1,900,036 shares in the Company. The ESOT adopts a prudent approach to purchasing shares, using funds provided by the Group, based on expectations of future requirements.

No awards or grants over shares were made during 2010 that would be dilutive of the Company's ordinary share capital. Current policy is to settle the majority of awards or grants under the Company's share plans with shares purchased in the market. A number of options granted up to 2005 are yet to be exercised and will be settled with the issue of new shares.

The Company has not utilised the authority given by shareholders at any of its Annual General Meetings to allot shares for cash without first offering such shares to existing shareholders.

Share repurchases

No shares were purchased or cancelled under the authority granted by shareholders at the Annual General Meeting held on 28 May 2010. The share buyback authority remains in force until the Annual General Meeting in 2011, and a resolution to renew the authority will be put to shareholders at that Meeting.

Substantial shareholdings

As at 14 February 2011, the Company had been notified, in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority, of the following significant holdings of voting rights in its ordinary shares:

Cedar Rock Capital Limited	5.07%	Direct interest
BlackRock, Inc.	5.02%	Indirect interest
Capital Research and Management Company	5.02%	Indirect interest
Legal & General Group plc	3.96%	Direct interest

Directors

Details of Directors who served on the Board during the year are shown on page 38. Details of the beneficial share interests of Directors who were on the Board at the year end are shown below. No changes to these interests occurred between the year end and the date of this Report.

31 December 2010 InterContinental Hotels Group PLC ordinary shares ¹	
Executive Directors	
James Abrahamson	52,203
Andrew Cosslett	496,133
Kirk Kinsell	63,136 ²
Richard Solomons	171,522
Non-Executive Directors	
Graham Allan	2,000
David Kappler	1,400
Ralph Kugler	1,169
Jennifer Laing	3,998
Jonathan Linen	7,343 ³
David Webster	34,905
Ying Yeh	–

¹ These shareholdings are all beneficial interests and include shares held by Directors' spouses and other connected persons. None of the Directors has a beneficial interest in the shares of any subsidiary. These shareholdings do not include Executive Directors' entitlements to share awards under the Company's share plans, which are set out separately in the Remuneration Report on pages 58 to 60.

² 62,499 ordinary shares and 637 American Depositary Receipts.

³ Held in the form of American Depositary Receipts.

Subject to the Company's Articles of Association, any relevant legislation and to any directions given by special resolution, the business is managed by the Board which may exercise all the powers of the Company. These include the power to allot and to purchase shares. The Articles of Association may only be amended by special resolution of the shareholders.

During the year, IHG has maintained cover for its Directors and officers, and those of its subsidiary companies, under a directors' and officers' liability insurance policy, as permitted by the Companies Act 2006.

The Group has provided to all of its Directors, indemnities in respect of costs of defending claims against them and third-party liabilities. These are all qualifying third-party indemnity provisions for the purposes of the Companies Act 2006 and are all currently in force.

There were no indemnity provisions relating to the UK pension plan, for the benefit of the Directors of the Company, in place during the period.

Employees

IHG directly employed an average of 7,858 people worldwide during 2010, whose costs are borne by the Group. When the whole IHG estate is taken into account (including staff working in the franchised and managed hotels) approximately 335,000 people are employed globally across IHG's brands.

Further information regarding the Group's employment policies, including its obligations under equal opportunities legislation, its commitment to employee communications and its approach towards staff development, can be found on pages 24 to 27 of the Business Review.

Charitable donations

During the year, the Group donated \$649,760 (2009 \$813,900) in support of community initiatives and charitable causes. In addition, IHG employees and guests made contributions during 2010 to a variety of causes through IHG facilitated channels. Taking all these contributions into account, total donations in 2010 are estimated at \$1,650,000 (2009 \$1,675,000).

Political donations

The Group made no political donations during the year and proposes to maintain its policy of not making such payments.

Financial risk management

The Group's financial risk management objectives and policies, including its use of financial instruments, are set out on page 23 of the Business Review and in notes 21 to 23 to the Group financial statements on pages 91 to 97.

A number of IHG's financing arrangements are terminable upon a change of control of the Company.

Policy on payment of suppliers

InterContinental Hotels Group PLC is a holding company and has no trade creditors. Group companies apply standard payment terms which are considered reasonable, transparent and consistent with prevailing commercial practices. These are agreed with suppliers and payments are contingent on goods or services being supplied to the required standard.

Auditors

The Directors who held office as at the date of approval of this report confirm that they have taken steps to make themselves aware of relevant audit information. None of the Directors is aware of any relevant audit information which has not been disclosed to the auditors.

Ernst & Young LLP have expressed their willingness to continue in office as auditors of the Company and their reappointment will be put to members at the Annual General Meeting.

Annual General Meeting

The Notice convening the Annual General Meeting to be held at 11.00am on Friday, 27 May 2011 is contained in a circular sent to shareholders at the same time as this Report.

Going concern

An overview of the business activities of IHG, including a review of the key business risks that the Group faces is given in the Business Review on pages 8 to 36. Information on the Group's treasury management policies can be found in note 21 to the Group financial statements on pages 91 to 95. The Group refinanced its debt in May 2008 and issued a £250m seven-year bond in December 2009 which was used to retire most of the \$500m bank facility that expired in November 2010. At the end of 2010, the Group was trading comfortably within its banking covenants and debt facilities.

The Group's fee-based model and wide geographic spread means that it is well placed to manage through uncertain times and our forecasts and sensitivity projections, based on a range of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and, accordingly, they continue to adopt the going concern basis in preparing the financial statements.

By order of the Board

George Turner

Company Secretary

InterContinental Hotels Group PLC

Registered in England, Number: 5134420

14 February 2011

Corporate governance

In May 2010 the Financial Reporting Council issued a revised UK Corporate Governance Code (the new UK Code), building on the contents of the familiar Combined Code on Corporate Governance (the Combined Code). The new UK Code applies to financial years beginning on or after 29 June 2010.

IHG takes its corporate governance responsibilities very seriously and aims to implement and uphold robust and responsible business processes and policies throughout the Group. The Board has therefore already fully reviewed the overall objectives and contents of the new UK Code, anticipates implementing a number of improved practices arising from its recommendations and will report on the Group's compliance with the new UK Code as part of its 2011 Corporate Governance statement.

In this section of the Annual Report, we continue formally to report our compliance against the provisions of the Combined Code, applicable for our 2010 financial year. However, we also aim to describe IHG's evolving approach towards governance, control, risk management and compliance, recognising the changes expected ahead.

Combined Code compliance

The Board considers that the Company has complied with all the provisions of the Combined Code, available at www.frc.org.uk, throughout the year ended 31 December 2010.

Control environment

The Board is responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. In order to discharge that responsibility, the Board has established the procedures necessary to apply the Combined Code, including clear operating procedures, lines of responsibility and delegated authorities.

The Board, the Executive Committee and the Regional Operating Committees have established processes, as part of the normal good management of the business, to monitor:

- strategic plan achievement, through a comprehensive series of Group and regional strategic reviews;
- financial performance, within a comprehensive financial planning and accounting framework;
- capital investment performance, with detailed appraisal and authorisation processes; and
- risk management (through an ongoing process, which has been in place up to the date of the accounts). This provides assurance through reports from the Head of Risk Management, the Head of Global Internal Audit, and, as appropriate, from management, that the significant risks faced by the Group are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.

In addition, the Audit Committee reviews:

- regular reports from management, Global Internal Audit and the external auditor on the effectiveness of systems for internal control, financial reporting and risk management;
- the timeliness and effectiveness of corrective action taken by management; and
- material financial and non-financial risks.

The Board has conducted a review of the effectiveness of the system of risk management and internal control during the year ended 31 December 2010. This covered all material controls, including financial, operational and compliance controls, and risk management systems, and took into account any material developments since the year end.

The review was carried out through the monitoring process set out above, which accords with the Turnbull Guidance. The system of risk management and internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and it must be recognised that it can only provide reasonable and not absolute assurance against material misstatement or loss. Whilst areas for improvement have been identified and actions initiated as a result of the above process, no significant shortcomings have been identified from the annual assessment.

As IHG's shares are also listed on the New York Stock Exchange (NYSE), the Company is subject to the rules of the NYSE, US securities laws and the rules of the Securities and Exchange Commission (SEC). To comply with our US obligations, arising from the Sarbanes-Oxley Act 2002, the key financial controls across all our business units have been identified and evaluated. This has enabled appropriate representations regarding the effectiveness of internal financial controls to be made in the Company's Annual Report on Form 20-F.

With regard to insurance against risk, whilst the insurance market has again softened in some areas, certain risks remain difficult to insure both as to breadth and cost of coverage. In some cases external insurance is not available at all or not at an economic price. The Group regularly reviews both the type and amount of external insurance that it buys, bearing in mind the availability of such cover, its price and the likelihood and magnitude of the risks involved. Our approach to risk management, key risk mitigating activities and the principal risk factors that could affect the Group are set out in the Business Review on pages 31 to 36.

Board and Committee structure

To support the principles of good corporate governance, the Board and Committee structure operates as set out below.

The Board

The Board's current composition of the Non-Executive Chairman, four Executive and six Non-Executive Directors meets the requirement of the Combined Code for at least half the Board, excluding the Chairman, to be independent Non-Executive Directors. In the Board's view, all of the current Non-Executive Directors are independent. The Chairman was independent on his original appointment to the Board. Collectively, the Board has an appropriate balance of skills, experience, independence and knowledge to enable it to discharge its duties and responsibilities effectively. The roles of the Chairman and of the Chief Executive are separate and have been defined in writing and approved by the Board.

The Board is responsible to the shareholders for the strategic direction, development, performance and control of the Group. It therefore approves strategic plans and capital and revenue budgets. It reviews significant investment proposals and the performance of past investments and maintains an overview and control of the Group's operating and financial performance. It monitors the Group's overall system of internal controls, risk management, governance and compliance and considers regulatory changes and developments in advance, to ensure that IHG is well-positioned to maintain the Group's trusted reputation in these areas. The Board also ensures that the necessary financial and human resources are in place for the Group to meet its objectives.

The Board has responsibility for the planned and progressive refreshing of the Board and its Committees. It establishes and regularly reviews its policy in both of these areas. It is the Nomination Committee's responsibility to evaluate formally the required skills, knowledge and experience of the Board, in a structured way.

The schedule of matters which are reserved for the Board's attention and decision may be found on the Company's website at www.ihgplc.com/investors under corporate governance/main board and executive committee.

Directors of the Company during 2010 were:

	Position	Date of original appointment ¹
David Webster	Non-Executive Chairman	15.4.03
Andrew Cosslett	Chief Executive	3.2.05
James Abrahamson	President, The Americas	1.8.10
Kirk Kinsell	President, Europe, Middle East and Africa	1.8.10
Richard Solomons	Chief Financial Officer and Head of Commercial Development	10.2.03
David Kappler	Non-Executive Director and Senior Independent Director	21.6.04
Graham Allan	Non-Executive Director	1.1.10
Ralph Kugler	Non-Executive Director	15.4.03
Jennifer Laing	Non-Executive Director	25.8.05
Jonathan Linen	Non-Executive Director	1.12.05
Ying Yeh	Non-Executive Director	1.12.07

¹ The capital reorganisation of the Group, effective on 27 June 2005, entailed the insertion of a new parent company of the Group. All Directors serving at that time signed new letters of appointment effective from that date. The dates shown above represent the original dates of appointment of each of the Directors to the Group's parent company.

Current Directors' biographical details are set out on page 38 of this Annual Report. These include their main external commitments.

On appointment, Non-Executive Directors participate in induction programmes designed to meet their individual needs and to introduce them to, and familiarise them with, the principal activities of the Group and with central and regional management. Comprehensive induction programmes are also put in place for any Executive Director who may join the Group and tailored induction is provided for newly appointed Executive Directors from within the Group, focusing on their responsibilities as Board Directors. Such programmes were implemented for James Abrahamson and Kirk Kinsell on their appointments in August 2010. These induction programmes accord with best practice guidelines.

The updating of all Directors' skills and knowledge and understanding of the Group's operations is a progressive exercise. This is accomplished at Board and strategy meetings, through business presentations and visits to hotels and other premises in the regions, and through contact with employees. Going forward, it is intended that the Chairman will regularly review and agree training and development needs with each Director.

Eight regular Board meetings are scheduled each year, including a two-day meeting which considers the Group's strategy. Further meetings are held as needed. All Directors are briefed by means of comprehensive papers in advance of and by presentations at these meetings.

During 2010, eight Board meetings were held. These were attended by all Directors. Should any Director be unable to attend a meeting, he or she would be provided with all the papers and information relevant to that meeting and be able to discuss matters arising with the Chairman and the Chief Executive.

Corporate governance continued

The Company's Articles of Association allow the Directors to authorise conflicts and potential conflicts of interest, where appropriate. The Board has conflicts of interest as a standing agenda item at each meeting and during 2010 asked each of the Directors to identify any conflicts or potential conflicts by returning a questionnaire to the Company Secretary. The Board considered all the responses to the questionnaire and approved potential conflicts as it deemed appropriate.

Performance evaluations of the Board, its main Committees and the Directors were undertaken for 2010. An independent external facilitator assists in the performance evaluation in alternate years. This facilitator has no other connection with IHG. The 2010 evaluation was conducted internally by the Company Secretary.

The 2010 Board evaluations, including those of the Committees, the Chairman and all Directors, involved completion of comprehensive questionnaires and the Chairman having discussions with each Director individually.

The Board questionnaire covered its role and organisation, agenda, information flow, monitoring of Group performance, leadership and culture and focus on priority tasks, including strategy and corporate governance.

The Board received feedback through a presentation at a meeting of the full Board, and the findings were discussed. It was concluded that the Board was operating effectively and areas where more emphasis could be considered were identified.

The work and effectiveness during the year of the Audit, Remuneration, Nomination and Corporate Responsibility Committees and their respective Chairmen were also evaluated. These reviews concluded that each Committee was operating in an effective manner.

With regard to the performance of individual Directors, attention was focused on levels of skill, experience, attendance and contribution, ability to listen and to address key issues. As part of the evaluation process, the Chairman held meetings with each Director and it was concluded that they continue to make an effective contribution to the work of the Board. All Directors are well prepared and informed concerning items to be considered by the Board, have a good understanding of the Group's business and retain a strong commitment to their roles.

During the year, the Non-Executive Directors met together without the Chairman present, under the chairmanship of the Senior Independent Director, to appraise the Chairman's performance. All the Non-Executive Directors, including the Chairman, met to appraise the Chief Executive's performance.

In accordance with the recommendations of the new UK Code it is the Chairman's intention to report next year how the principles relating to the role and effectiveness of the Board have applied during 2011.

Chairman

David Webster was Non-Executive Chairman throughout the year. He is also Non-Executive Chairman of Makinson Cowell Limited, a member of the Appeals Committee of the Panel on Takeovers and Mergers, and a Director of Temple Bar Investment Trust PLC. In May 2010 he was appointed a Non-Executive Director of Amadeus IT Holding SA.

The Chairman has responsibility for ensuring the efficient operation of the Board and its Committees, for overseeing corporate governance matters and ensuring they are addressed, for representing the Group externally and communicating particularly with shareholders. Working closely with the Chief Executive and the Company Secretary, he also ensures that Directors receive a full, formal and tailored induction to the Group and its business and that all Directors are fully informed of relevant matters. The Chairman also meets with the Non-Executive Directors, without Executive Directors present.

Chief Executive

Andrew Cosslett was Chief Executive throughout the year. He has responsibility to recommend to the Board and to implement the Group's strategic objectives. He is responsible for the executive management of the Group. He is a member of the Executive Committee of the World Travel & Tourism Council and a member of the President's Committee of the CBI. Neither of these positions is remunerated.

Senior Independent Director

David Kappler was Senior Independent Director throughout the year. His responsibilities include being available to liaise with shareholders who have issues to raise and leading the performance evaluation of the Chairman.

Non-Executive Directors

A team of experienced independent Non-Executive Directors represents a strong source of advice and judgement. There are currently six such Directors, in addition to the Non-Executive Chairman, each of whom has significant external commercial experience. The Non-Executive Directors, including the Chairman, meet during the year to consider the Group's business and management.

Non-Executive Directors have the opportunity of continuing professional development during the year and of gaining further insight into the Group's business. In addition, the training requirements of the Non-Executive Directors are kept under review.

Company Secretary

All Directors have access to the advice and services of the Company Secretary. His responsibilities include ensuring good information flows to the Board and its Committees and between senior management and the Non-Executive Directors. He facilitates the induction of Directors, the regular updating and refreshing of their skills and knowledge and he assists them in fulfilling their duties and responsibilities. Through the Chairman, he is responsible for advising the Board on corporate governance and generally for keeping the Board up to date on all legal, regulatory and other developments. The Company Secretary acts as secretary to each of the main Board Committees. The appointment and removal of the Company Secretary is a matter reserved for the Board.

Committees

Each Committee of the Board has written terms of reference which are approved by the Board and which are subject to review every year.

Audit Committee

The Audit Committee is chaired by David Kappler who has significant recent and relevant financial experience and is the Committee's financial expert. During 2010 the other Committee members were Graham Allan, Ralph Kugler and Jennifer Laing. The Committee is scheduled to meet at least four times a year. The Committee met five times in 2010. The Audit Committee's role is described on page 47.

Remuneration Committee

The Remuneration Committee, chaired by Ralph Kugler, also comprises the following Non-Executive Directors: David Kappler, Jonathan Linen and Ying Yeh. It meets at least four times a year. The Committee met five times during 2010. The Remuneration Committee's role is described on page 49.

Nomination Committee

The Nomination Committee comprises the Chairman of the Board and all the Non-Executive Directors. It is chaired by the Chairman of the Board except when matters relating to this position are to be discussed, in which case it is chaired by an independent Non-Executive Director. It meets at least twice a year and additional meetings are held as necessary. The Committee met eight times during 2010.

The Committee leads the process for Board appointments and nominates candidates for approval by the Board. The balance of skills, experience, independence and knowledge of Board members is evaluated in order to define the requirements for a particular appointment. The Committee generally engages external consultants to advise on candidates for Board appointments and appointments are made on merit, against objective criteria, including ability to commit time, and with due regard for the benefits of diversity, including gender. The Committee also has responsibility for succession planning and assists in identifying and developing the role of the Senior Independent Director.

During 2010 the Committee discussed succession planning for both the Executive Committee and the Board, considered and recommended new Executive Director appointments, which have now been implemented, and considered the appointment of an additional Non-Executive Director.

Corporate Responsibility Committee

The Corporate Responsibility Committee, chaired by Jennifer Laing, was established in February 2009. The other Committee member during 2010 was Ralph Kugler. Graham Allan joined the Committee in January 2011. Meetings are regularly attended by other members of the Board and Executive Committee. The Committee is scheduled to meet at least twice a year and met three times in 2010. The Corporate Responsibility Committee's role is described on page 28.

A summary of each Director's attendance at the Board and its principal Committee meetings during 2010 is provided in the table below:

		Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Responsibility Committee
David Webster	Chairman	8	n/a	n/a	8	n/a
Andrew Cosslett	Executive Director	8	n/a	n/a	n/a	n/a
James Abrahamson	Executive Director	4*	n/a	n/a	n/a	n/a
Kirk Kinsell	Executive Director	4*	n/a	n/a	n/a	n/a
Richard Solomons	Executive Director	8	n/a	n/a	n/a	n/a
Graham Allan	Non-Executive Director	8	5	n/a	8	n/a
David Kappler	Non-Executive Director	8	5	5	8	n/a
Ralph Kugler	Non-Executive Director	8	5	5	7 [†]	2 [‡]
Jennifer Laing	Non-Executive Director	8	5	n/a	8	3
Jonathan Linen	Non-Executive Director	8	n/a	4 [‡]	8	n/a
Ying Yeh	Non-Executive Director	8	n/a	5	8	n/a
Total meetings held		8	5	5	8	3

* Appointed a Director on 1 August 2010: attended all Board meetings from this date onwards.

[†] Unable to attend one meeting due to overseas travel commitment.

[‡] Unable to attend one meeting due to family bereavement.

Executive Committee

The Executive Committee is chaired by the Chief Executive. It consists of the Executive Directors and the most senior executives from the Group and usually meets monthly. Its role is to consider and manage a range of important strategic and business issues facing the Group. It is responsible for monitoring the performance of the business. It is authorised to approve capital and revenue investment within levels agreed by the Board. It reviews and recommends to the Board the most significant investment proposals.

Corporate governance continued

Disclosure Committee

The Disclosure Committee, chaired by the Group's Financial Controller, and comprising the Company Secretary and other senior executives, reports to the Chief Executive, the Chief Financial Officer and to the Audit Committee. Its duties include ensuring that information required to be disclosed in reports pursuant to UK and US accounting, statutory or listing requirements, fairly represents the Group's position in all material respects.

General Purposes Committee

The General Purposes Committee comprises any one Executive Committee member together with a senior officer from an agreed and restricted list of senior executives. It is always chaired by an Executive Committee member. It attends to business of a routine nature and to the administration of matters, the principles of which have been agreed previously by the Board or an appropriate Committee.

Appointment, removal and re-election of Directors

The rules governing the appointment and removal of Directors are set out in the Company's Articles of Association. New Directors are subject to election by shareholders at the next Annual General Meeting following appointment, and the office of a Director shall be vacated in the circumstances defined in Article 85 of the Articles of Association, eg prohibition by law, bankruptcy, absence without leave.

The Company's Articles of Association provide that those Directors who have not been subject to election by shareholders within the last three years, must retire and stand for re-election at the next Annual General Meeting.

The new UK Code recommends that all Directors of FTSE 350 companies submit themselves for election or re-election (as appropriate) by shareholders every year. Although IHG is not obliged to follow this recommendation until its Annual General Meeting in 2012, the Board has decided to submit the appointment of all its Directors for shareholder approval in 2011. Therefore, all Directors will retire and offer themselves for election or re-election at the next Annual General Meeting.

The Notice of Annual General Meeting, sent to shareholders at the same time as this Report, provides further information about the Directors standing for election and re-election. Information on Executive Directors' service contracts is set out on page 55. The Non-Executive Chairman and the six independent Non-Executive Directors have letters of appointment. All Directors' service contracts and letters of appointment are available for inspection by shareholders in accordance with relevant legislation.

Independent advice

There is an agreed procedure by which members of the Board may take independent professional advice in the furtherance of their duties and they have access to the advice and services of the Company Secretary, the Company's external legal advisers and the external auditors.

Shareholder relations

The Group reports formally to shareholders twice a year when its half-year and full-year results are announced. The Chief Executive and the Chief Financial Officer give presentations on these results to institutional investors, analysts and the media. Telephone dial-in facilities and live audio webcasts enable access to these presentations for all shareholders. In addition, there are telephone conferences after the release of the first and third quarter results. The data used in these presentations and conferences may be found at www.ihgplc.com/investors under financial library.

IHG also has a programme of meetings throughout the year with its major institutional shareholders, which provides an opportunity to discuss, using publicly available information, the progress of the business, its performance, plans and objectives. The Chairman, the Senior Independent Director and other Non-Executive Directors are available to meet with major shareholders to understand their issues and concerns and to discuss governance and strategy. Facilitated, structured meetings are encouraged and any new Director is available for meetings with major shareholders as a matter of course.

A formal external review of shareholder opinion is presented to the Board on an annual basis and both the Executive Committee and the Board receive regular updates on shareholder relations activities.

Additionally, the Annual General Meeting (AGM) provides a useful interface with private shareholders, many of whom are also customers. IHG facilitates both postal and electronic voting and all resolutions are voted on by way of a poll. This ensures that all votes are counted on the basis of one vote for every share held. At the AGM itself shareholders receive presentations on the Company's performance and may ask questions of the Board, including the Chairman and Chairmen of the main Board Committees. All votes cast in respect of each resolution at the AGM are published on the Company's website immediately after the Meeting. A comprehensive range of information about the Group is maintained and available to shareholders through the Company's website.

Information on share capital and substantial shareholdings in the Company is set out on page 40 of the Directors' Report.

Further information

The terms of reference of all of the Committees of the Board were reviewed during the year against the latest best practice guidance. A number of amendments were made to update the Audit, Remuneration and Nomination Committees' terms of reference, which are available on the Company's website www.ihgplc.com/investors under corporate governance/committees or from the Company Secretary's office on request.

The Articles of Association of the Company are available on the Company's website www.ihgplc.com/investors under corporate governance.

As required by the SEC, a statement outlining the differences between the Company's corporate governance practices and those followed by US companies may be found on the Company's website at www.ihgplc.com/investors under corporate governance/NYSE differences.

George Turner
Company Secretary
14 February 2011

Audit Committee report

The Audit Committee supports the Board in meeting its responsibilities in relation to the integrity of the Group's financial statements and associated announcements, the adequacy of internal control and risk management systems and the appointment and work of the internal and external auditors. The role of the Audit Committee is summarised below and in full in its terms of reference, a copy of which is available on the Company's website www.ihgplc.com/investors under corporate governance/committees or on request.

The Committee's composition, and the attendance of its members in 2010, are set out on page 45.

The Committee's Chairman and financial expert, David Kappler, is a Chartered Management Accountant and until April 2004 was Chief Financial Officer of Cadbury Schweppes plc. He also chairs the Audit, Compliance and Risk Committee of Shire plc.

The Committee's principal responsibilities are to:

- review the Group's public statements on internal control, risk management and corporate governance compliance prior to their consideration by the Board;
- review the Group's processes for detecting and addressing fraud, misconduct and control weaknesses and to consider the response to any such occurrence, including overseeing the process enabling the anonymous submission of concerns;
- review reports from management, internal audit and external audit concerning the effectiveness of internal control, financial reporting and risk management processes;
- review with management and the external auditor any financial statements required under UK or US legislation before submission to the Board;
- establish, review and maintain the role and effectiveness of the internal audit function, including overseeing the appointment of the Head of Global Internal Audit;
- assume responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the external auditor, including review of the external audit, its cost and effectiveness;
- pre-approve non-audit work to be carried out by the external auditor, and the fees to be paid for that work, along with the monitoring of the external auditor's independence; and
- oversee the Group's Code of Ethics and Business Conduct and associated procedures for monitoring adherence.

The Committee discharges its responsibilities through a series of Audit Committee meetings during the year, at which detailed reports are presented for review. The Committee commissions reports, either from external advisers, the Head of Global Internal Audit, or Group management, after consideration of the major risks to the Group or in response to developing issues. The Chief Financial Officer attends its meetings, as do the external auditor and the Head of Global Internal Audit, both of whom have the opportunity to meet privately with the Committee, in the absence of Group management, at the conclusion of each meeting.

All proposals for the provision of non-audit services by the external auditor are pre-approved by the Audit Committee or its delegated member, the overriding consideration being to ensure that the provision of non-audit services does not impact the external auditor's independence and objectivity.

During the year, the Committee's deliberations included the following matters:

- quarterly, interim and full-year financial results. These public financial statements are reviewed by the Committee in advance of their consideration by the Board. There is adequate time between this review and the Board's approval to complete any actions or further work requested by the Committee;
- the scope and cost of the external audit;
- any non-audit work carried out by the Group's external auditor (and trends in the non-audit fees) in accordance with the Committee's policy to ensure the safeguarding of audit independence and objectivity;
- the external auditor's quarterly, interim and full-year reports;
- the effectiveness of the external auditors and consideration of their objectivity, independence and reappointment;
- the scope of the annual Global Internal Audit plan, Global Internal Audit's approach to delivering assurance, its resourcing and the results of its reviews;
- oversight of the financial control self-assessment process;
- the effectiveness of the Global Internal Audit function and its compliance with professional standards;
- any major changes in the Group's internal controls and control environment;
- the co-ordination of the internal and external audit functions;
- the Group's framework for the identification and control of major risks, and the results of the Group's risk review process;
- developments in corporate governance and accounting standards in the UK and the US;
- reports from the Head of Risk Management on the activities of that function;
- consideration of the results of the Group's tangible asset impairment review and going concern review;
- overseeing the Group's Sarbanes-Oxley Act compliance work;
- the disclosure controls and procedures operated by the Group, with reference to periodic reports from the Chairman of the Disclosure Committee;
- reviewing the Group's approach to managing tax risk, including related policies and initiatives;
- consideration of the Group's technology strategy and related risks;
- consideration of the Group's treasury objectives and policies;
- a review of changes to the Group's policy on delegation of authority;
- a review of the funding position and governance of the Group's main pension plan;
- periodic reports on any significant incidents of fraud or any allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures;
- any material litigation involving the Group; and
- consideration of the effectiveness of the Audit Committee and the continuing appropriateness of its terms of reference.

David Kappler

Chairman of the Audit Committee
14 February 2011

Remuneration report

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for 2010.

The year started with significant uncertainty and volatility in the economic environment. Early industry forecasts projected declining revenue per available room (RevPAR) for 2010, including –4% for the US market. However, by the end of 2010, the US market had achieved 5.5% growth in RevPAR. Market conditions improved progressively throughout the year as consumer confidence strengthened.

For IHG, global RevPAR grew 6.2% and rates are now showing positive growth in all regions. Other key performance indicators also improved:

2010 Key performance indicator growth (per annum)

	2010	2009
Earnings before interest and tax (EBIT)	+22.6%	–34%
Revenue per available room (RevPAR)	+6.2%	–14.7%
Employee engagement	+3%	+1%
Three-year total shareholder return (TSR)*	+8%	–8.7%
Three-year adjusted earnings per share (EPS)*	+9.6%	+15.2%

* Annualised.

Based on these results, annual bonus outcomes in respect of 2010 were 175% of base salary. The Remuneration Committee believes this to be an appropriate reflection of a strong recovery, noting that results significantly exceeded expectation at the start of the year.

Remuneration in 2010

No annual bonus payments were made in respect of 2009. Robust links between performance and reward were maintained in 2010 incentive plan designs. Targets were set at a challenging level in relation to IHG's strategic goals and to external analyst consensus. In light of the high level of continuing uncertainty in the industry, the Committee put in place the following safeguards for 2010 executive remuneration:

Annual Bonus Plan (ABP)

- the maximum bonus opportunity was temporarily capped at 175% of base salary;
- the target for maximum bonus achievement was temporarily increased from 110% to 120% for EBIT;
- the weighting of EBIT remained at 70% to ensure a continued strong focus on earnings; and
- as first introduced in 2009, no bonus is payable if EBIT performance is lower than 85% of target.

Long Term Incentive Plan (LTIP)

- maximum award levels were maintained at 205% of base salary (previously 270%); and
- EPS and relative TSR performance measures were restored to 50% weighting each.

Salaries were increased by an average of 2.8% following no increase in 2009.

The above actions were also applied to 2010 remuneration for all other Executive Committee members.

Remuneration in 2011

During 2010, the Remuneration Committee spent a significant amount of time considering more strategically relevant long-term performance measures, which also drive shareholder value. Based on this review and consultation with key institutional shareholders, the Committee concluded that relative TSR remains well aligned with the goal of achieving enduring top quartile returns; hence TSR will continue to account for 50% of the LTIP weighting.

However, the Committee also resolved that the LTIP would be better aligned with strategy by replacing EPS with two equally weighted measures – net Rooms growth and like-for-like RevPAR growth, both relative to major competitors.

Both net Rooms growth and RevPAR underpin IHG's strategy to drive shareholder value and have high relevance for most employees. Net Rooms growth focuses on the goal to increase system size. Like-for-like RevPAR growth reflects the importance of revenue share, guest preference and overall brand strength.

After testing the performance conditions set on grant, the Committee will review the vesting outcomes of the Rooms and RevPAR measures against an assessment of earnings and quality of the financial performance of the Company over the period. The Committee may reduce the number of shares which vest if they determine such an adjustment is appropriate. IHG's performance and vesting outcomes will be fully disclosed and explained in the relevant Remuneration Report.

The Committee is determined that the overall incentive package is based on an appropriate balance of performance measures. Earnings growth continues to account for a significant part of executive incentives, due to the 70% weighting of EBIT in the Annual Bonus Plan (increased from 50% in 2009).

In addition, the following changes have been made to executive remuneration arrangements for 2011:

- the maximum bonus opportunity will revert from 175% to 200% of base salary;
- the EBIT target for maximum bonus achievement will revert from 120% to 110% of budget; and
- the maximum LTIP award will be maintained at 205% of base salary.

In conclusion, the Committee believes that these changes will lead to greater management focus on the key drivers of superior performance, and that they are well aligned with the goal of increasing shareholding value.

Ralph Kugler

Chairman of the Remuneration Committee
14 February 2011

Introduction

This report sets out the remuneration policy for the Company's Directors, describes its implementation, and sets out the amounts paid in 2010. It has been prepared by the Remuneration Committee and has been approved by the Board. It complies with the Companies Act 2006 and related regulations. This report will be put to shareholders for approval at the forthcoming Annual General Meeting.

1. The Remuneration Committee

The independent Non-Executive Directors who served on the Committee during the year were as follows:

	Role	Meetings attended in 2010	Date of appointment to Committee
Ralph Kugler	Chairman	5 out of 5	1 June 2008*
David Kappler	Member	5 out of 5	21 June 2004
Jonathan Linen	Member	4 out of 5†	1 December 2005
Ying Yeh	Member	5 out of 5	1 December 2007

* Ralph Kugler was previously a member of the Remuneration Committee from 2003 to 2005.

† Unable to attend one meeting due to family bereavement.

Committee meetings are also regularly attended by the following individuals who provide advice to the Committee on remuneration proposals:

David Webster (Chairman of the Board)

Andrew Cosslett (Chief Executive)

Tracy Robbins (Executive Vice President, Human Resources & Group Operations Support)

Lori Gaytan (Senior Vice President, Global Compensation & Benefits)

None of the above is in attendance when his/her own remuneration is being discussed.

The Committee's remit is set out in its terms of reference which were updated by the Board in December 2010. The Committee agrees, on behalf of the Board, all aspects of the remuneration of the Executive Directors and the Executive Committee members, and agrees the strategy, direction and policy for the remuneration of other senior executives who have a significant influence over the Company's ability to meet its strategic objectives.

Throughout the year, the Committee was assisted in its work by PricewaterhouseCoopers LLP (PwC), as independent consultants appointed by the Committee. PwC also support management in developing and implementing remuneration proposals. In addition, PwC provided additional services to IHG, including advice on employer and employee tax compliance processes for expatriate employees and on tax withholding obligations in relation to employee share plans. The following advisers were retained on behalf of the Company and provide information to the Committee on relevant matters:

- Towers Watson provided advice on reward structures and levels applicable in the markets relevant to the Group. Towers Watson did not provide any other services to the Group during 2010; and
- Linklaters LLP and Freshfields Bruckhaus Deringer LLP provided advice to the Committee and also other legal services to the Group throughout 2010.

The terms of engagement for PwC and Towers Watson are available from the Company Secretary's office on request.

The Committee meets several times a year to discuss matters relating to the operation of the remuneration policy and emerging market practices. In 2010, the Committee met five times and discussed, amongst others, the following matters:

Meeting	Agenda items discussed	Meeting	Agenda items discussed
11 February 2010	• 2009 Annual Bonus Plan and 2007/2009 Long Term Incentive Plan results and awards • 2010 Annual Bonus Plan and 2010/2012 Long Term Incentive Plan designs • Executive Committee performance and salary review • 2010 Executive Committee Key Performance Objectives (KPOs) • 2009 Remuneration Report	5 August 2010	• Long Term Incentive Plan measures review, including alternative approaches to structure and targets
23 June 2010	• IHG Pension Plan arrangements • Executive remuneration trends, including a review of market practice and latest developments • Review of corporate governance developments • 2010 Board appointments of James Abrahamson and Kirk Kinsell	4 November 2010	• Long Term Incentive Plan measures review for 2011 • UK Pensions Provision review
		15 December 2010	• Long Term Incentive Plan measures review • Review of Chairman and Non-Executive Director fees • Terms of reference annual review

Remuneration report continued

2. Remuneration policy and structure

IHG's overall remuneration is intended to:

- attract and retain high-quality executives in an environment where compensation is based on global market practice;
- drive aligned focus of the senior executive team and reward the achievement of strategic objectives;
- align rewards of executives with returns to shareholders;
- support equitable treatment between members of the same executive team; and
- facilitate global assignments and relocation.

The Committee believes that it is important to reward management, including the Executive Directors, for targets achieved, provided those targets are stretching and aligned with shareholders' interests.

IHG's remuneration structure for senior executives places a strong emphasis on performance-related reward. The individual elements are designed to provide the appropriate balance between fixed remuneration and variable 'risk' reward, linked to both the performance of the Group and the achievements of the individual. Approximately two-thirds of variable reward is delivered in the form of shares, to enhance alignment with shareholders.

In reaching its decisions, the Committee takes into account a number of factors, including the relationship between remuneration and risk, strategic direction and affordability. Performance-related measures are chosen to ensure a strong link between reward and underlying financial and operational performance.

Summarised below are the individual elements of remuneration provided to Executive Directors and other Executive Committee members, including the purpose of each element. For variable incentive plans, the plan measures and link to Group strategic objectives are also included:

Element	Maximum value	Purpose	Measures and link to strategic objectives
Base Salary (cash)	n/a	• Recognises the market value of the role and the individual's skill, performance and experience	n/a
Annual Bonus (one-half cash and one-half deferred shares)	200% of base salary ¹	• Drives and rewards annual performance of individuals and teams against both financial and non-financial metrics • Aligns individual employee objectives with those of the Group • Aligns short-term annual performance with long-term returns to shareholders	Group EBIT Provides focus on earnings growth, driven by core operating inputs, namely rooms growth, RevPAR, royalty fees and profit margins Individual Overall Performance Rating (OPR) Provides focus on KPOs and leadership competencies relative to the individual role. KPOs are linked to strategic priorities, notably: Financial returns – deliver budget and growth targets (EBIT, system size, margin, overheads) Our people – employee engagement survey results Guest experience – deliver brand performance targets (guest satisfaction, market share) Responsible business – continue hotel roll-out and adoption of Green Engage sustainability management system
Long Term Incentive Plan (shares)	205% of base salary ²	• Drives and rewards delivery of sustained long-term performance on measures that are aligned with the interests of shareholders	TSR growth relative to Dow Jones World Hotels index Aligned with our Vision to become one of the world's great companies by creating Great Hotels Guests Love Net Rooms growth relative to major competitors³ Aligned with 'Where we compete', supporting our business model, segment and market strategies to grow system size Like-for-like RevPAR growth relative to major competitors³ Aligned with 'How we win', reflecting the power of our brands, scale and experience, and engaged workforce
Pension and benefits (varied)	n/a	• Provides a competitive level of benefits, including short-term protection and long-term savings opportunities	n/a

¹ Combined Annual Bonus award (cash and shares) was subject to a temporary maximum cap of 175% of base salary in 2010.

² Until 2009, maximum awards were normally granted at 270% of salary.

³ As outlined on page 48, from 2011, EPS is replaced by net Rooms growth and RevPAR growth in the LTIP.

The normal policy for all Executive Directors and Executive Committee members is that their target performance-related incentives will equate to approximately 70% of total annual remuneration (excluding pensions and benefits).

The following table shows the split of fixed and variable compensation for the Executive Directors, assuming target performance is achieved (where applicable):

Director	Fixed pay	Short-term variable pay	Long-term variable pay
Andrew Cosslett	30%	35%	35%
James Abrahamson	30%	35%	35%
Kirk Kinsell	30%	35%	35%
Richard Solomons	30%	35%	35%

The Committee also reviews the balance of fixed and variable remuneration provided to the wider management population to ensure these are appropriate, given relativities to the Executive Directors and to market practice.

The Company recognises that its Executive Directors may be invited to become Non-Executive Directors of other companies and that such duties can broaden experience and knowledge, and benefit the Company. Executive Directors are, therefore, permitted to accept one non-executive appointment (in addition to any positions where the Director is appointed as the Group's representative), subject to Board approval, as long as this is not, in the reasonable opinion of the Board, likely to lead to a conflict of interest. Executive Directors are generally authorised to retain the fees received. Current Executive Directors hold no Non-Executive Directorships of other companies.

3. Base salary and benefits

The salary for each Executive Director is reviewed annually and is based on both individual performance and relevant competitive market data. Base salary is the only element of remuneration which is pensionable. In addition, benefits are provided to Executive Directors in accordance with local market practice.

In assessing levels of pay and benefits, IHG analyses those offered by different groups of comparator companies. These groups are chosen having regard to participants':

- size – market capitalisation, turnover, profits and the number of people employed;
- diversity and complexity of business;
- geographical spread of business; and
- relevance to the hotel industry.

Internal relativities and Group-wide remuneration approaches are also taken into account. The Committee reviews average base salary levels and average salary increase percentages for the broader IHG workforce.

Executive Directors' annual base salaries are shown in the table below:

Director	2011 £	2010 £
Andrew Cosslett	850,780	826,000
James Abrahamson	477,117*	469,348
Kirk Kinsell	477,117*	462,875
Richard Solomons	540,000	523,000

* Messrs Abrahamson and Kinsell are paid in US dollars. James Abrahamson's annual base salary for 2010 was \$725,000 and for 2011 is \$737,000. Kirk Kinsell's annual base salary for 2010 was \$715,000 and for 2011 is \$737,000. The sterling values in the table above have been calculated using an exchange rate of \$1=£0.65.

4. Annual Bonus Plan

Structure and outcomes in 2010

Awards under the ABP require the achievement of challenging performance goals before bonus is payable. Achievement of target performance results in a bonus of 115% of salary. Half of any bonus earned is compulsorily deferred in the form of shares for three years. No matching shares are awarded by the Company.

Awards under the ABP are linked to individual performance and EBIT. Individual performance is measured by the achievement of specific KPOs linked directly to the Group's strategic objectives, a selection of which is set out in the table on page 50, and an assessment against leadership competencies and behaviours.

Each year, specific quantitative targets are set for each Executive Director and Executive Committee member, as relevant to their role. Performance is reviewed at the end of each year to determine an OPR. The OPR determines 30% of the bonus outcome.

EBIT performance determines 70% of the bonus outcome. In 2010, under the financial measure (EBIT), threshold payout was 90% of target performance, with maximum payout at 120% or more of target. Payout for individual performance would be reduced by half if EBIT performance was below threshold. In addition, no annual bonus would be payable on any measure if EBIT performance was lower than 85% of target.

The maximum result for each measure is double its target value. However, the combined payout result of the two measures was capped at 175% of base salary.

The 2010 EBIT result was 159%, resulting in a maximum combined payout for all Directors, as shown below:

Measure	Key performance indicator	Payout as % of salary	
		Target	Max
Financial	EBIT (70%)	80.5	161
Individual	OPR (30%)	34.5	69
Total		115	175*

Actual 2010 result as % of salary

Andrew Cosslett	175
James Abrahamson	175
Kirk Kinsell	175
Richard Solomons	175

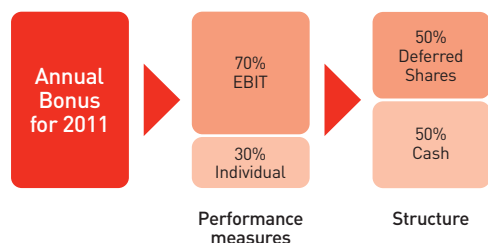
* Combined EBIT and OPR payout subject to a maximum of 175% of base salary.

Remuneration report continued

Structure in 2011

The annual bonus structure remains largely unchanged in 2011 with awards under the ABP continuing to require the achievement of challenging EBIT goals before target bonus is payable.

A summary of the operation of the 2011 ABP is shown below.



For 2011, the maximum bonus opportunity for the Executive Directors will revert to 200% of salary. Under the financial measure, the EBIT threshold for payout remains at 90% of target performance. However, maximum payout will revert to 110% or more of target.

As with previous years, the achievement of target performance will result in a bonus of 115% of salary. Half of any bonus earned will be deferred in the form of shares for three years. Payout for individual performance will be reduced by half if EBIT performance is below threshold, and no annual bonus will be payable on any measure if EBIT performance is lower than 85% of target.

5. Long Term Incentive Plan

The LTIP allows Executive Directors and eligible management employees to receive share awards, subject to the achievement of performance conditions set by the Committee, measured over a three-year period. Awards are made annually and, other than in exceptional circumstances, will not exceed three times annual salary for Executive Directors.

Structure for 2010/2012 cycle

For the 2010/2012 cycle awards were made at 205% of base salary.

The performance conditions for the cycle are:

- IHG's TSR relative to the Dow Jones World Hotels index (50% weighting); and
- growth in adjusted EPS over the period (50% weighting).

Awards under the LTIP lapse if performance conditions are not met – there is no re-testing. Performance conditions for all outstanding awards are shown in the table on page 53.

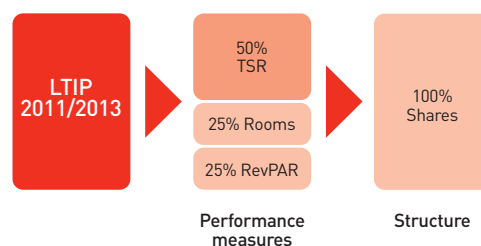
Structure for 2011/2013 cycle

For the 2011/2013 cycle, maximum award levels will remain at 205% of base salary. As outlined on page 48, the Committee believes relative TSR is well aligned with the goal of achieving enduring top quartile returns and so TSR will continue to retain a 50% weighting in the LTIP.

Furthermore, the Committee concluded that the LTIP can be better aligned with IHG's strategy by replacing EPS with two equally weighted relative growth measures, as follows:

- 25% of the maximum award will be based on cumulative annual growth of net Rooms; and
- 25% of the maximum award will be based on cumulative annual like-for-like RevPAR growth.

Growth in both Rooms and RevPAR will be measured on a relative basis against a comparator group of the major globally-branded competitors: Accor, Choice, Hilton, Hyatt, Marriott, Starwood and Wyndham. A summary of the operation of the 2011/2013 LTIP cycle is shown below.



Threshold vesting will occur if IHG's TSR growth is equal to the Dow Jones World Hotels index. Maximum vesting will occur if IHG's TSR growth exceeds the index by 8% or more.

In setting the TSR performance target, the Committee has taken into account a range of factors, including IHG's strategic plans, historical performance of the industry and FTSE 100 market practice.

For both Rooms growth and RevPAR measures, threshold vesting will occur if IHG performance at least equals the average of the comparator group. Maximum vesting for either measure will only occur if IHG is ranked first in the comparator group. Vesting for points between threshold and maximum will be calculated on a straight-line basis.

The vesting range and weighting for each measure is set out in the table below:

Performance	Threshold	Maximum	Weighting
% of award vesting	20%	100%	
TSR relative to Dow Jones World Hotels index	Match index	Index + 8% pa	50%
Net Rooms growth relative to comparator group	Average	1st position	25%
RevPAR growth relative to comparator group	Average	1st position	25%

After testing the performance conditions set on grant, the Committee will review the vesting outcomes of the Rooms and RevPAR measures against an assessment of earnings and quality of the financial performance of the Company over the period. The Committee may reduce the number of shares which vest if they determine such an adjustment is appropriate. IHG's performance and vesting outcomes will be fully disclosed and explained in the relevant Remuneration Report.

Outcomes in 2010 and progress on all current LTIP cycles

The specific vesting performance conditions and position as at 31 December 2010 for all conditional LTIP awards made between 2008 and 2010 are set out in the following table:

Performance measure	Threshold performance	Maximum performance	Threshold ¹ vesting	Maximum ¹ vesting	Weighting	Maximum award	Outcome/ current position
2008/2010 cycle							
TSR	Growth equal to the index	Growth exceeds the index by 8% or more	20%	100%	50%	135%	Growth outperformance of 8.0%
EPS	Growth of 6% pa	Growth of 16% pa or more	20%	100%	50%	135%	Growth of 9.6% pa
Total vesting							73.8% of maximum award
2009/2011 cycle²							
TSR	Growth equal to the index	Growth exceeds the index by 8% or more	20%	100%	66.7%	102.5%	Growth outperformance of 6.1%
EPS	Growth of 0% pa	Growth of 10% pa or more	0%	100%	33.3%	102.5%	Growth of -1.0% pa
2010/2012 cycle³							
TSR	Growth equal to the index	Growth exceeds the index by 8% or more	20%	100%	50%	102.5%	Growth outperformance of -5.4%
EPS	Growth of 5% pa	Growth of 15% pa or more	20%	100%	50%	102.5%	Growth of 26% pa

1 Vesting between threshold and maximum occurs on a straight-line basis.

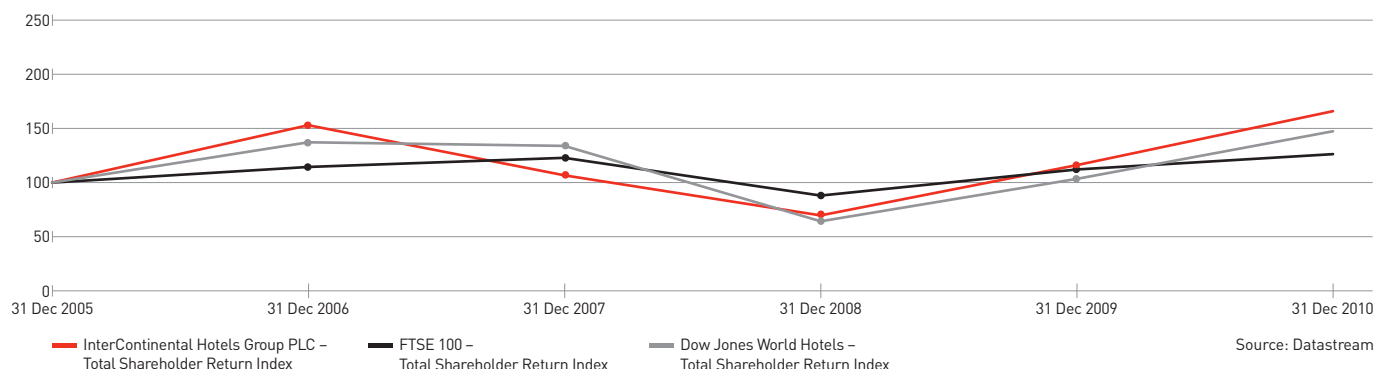
2 Two years of cycle completed.

3 One year of cycle completed.

6. Performance graph

Throughout 2010, the Company was a member of the FTSE 100 index and, for remuneration purposes, used a TSR comparator group of the Dow Jones World Hotels index. Accordingly, the Committee has determined that these are the most appropriate market indices against which to test the Company's performance. The graph below shows the TSR performance of IHG from 31 December 2005 to 31 December 2010, assuming dividends are reinvested, compared with the TSR performance achieved by the FTSE 100 index and the Dow Jones World Hotels index. Over the five-year period, IHG outperformed the FTSE 100 index by 39.6% and the Dow Jones World Hotels index by 18.5%.

Total Shareholder Return: InterContinental Hotels Group PLC v FTSE 100 and v Dow Jones World Hotels index



Remuneration report continued

7. Total compensation

The charts below show the total value of Executive Director remuneration at maximum and target performance levels and show the actual 2010 outcome:



Notes:

- Actual base salary represents actual salary paid during the financial year. Maximum and Target base salary is annual.
- Actual annual bonus represents the cash amount payable in respect of financial year 2010.
- Actual deferred annual bonus shares represent the value at vesting for shares released in 2010 in respect of the 2006 financial year.
- Actual Long Term Incentive Plan represents the value at vesting for the 2007/2009 LTIP cycle.
- Target Long Term Incentive Plan is assumed to be halfway between threshold and maximum.

8. Shareholding policy

Share ownership

The Committee believes that share ownership by Executive Directors and senior executives strengthens the link between the individual's personal interests and those of the shareholders. Executive Directors are expected to hold twice their base salary in shares, or three times in the case of the Chief Executive. Executives are expected to hold all shares earned (net of any share sales required to meet personal tax liabilities) until their shareholding requirement is achieved.

Executive share options

From 2006, executive share options have not formed part of the Company's remuneration structure. Details of prior share option grants are given on page 60.

Share capital

No awards or grants over shares were made during 2010 that would be dilutive of the Company's ordinary share capital. Current policy is to settle the majority of awards or grants under the Company's share plans with shares purchased in the market. A number of options granted up to 2005 are yet to be exercised and will be settled with the issue of new shares.

The following table shows the guideline and actual shareholdings of the Executive Directors.

Director	Guideline shareholding as % of salary	Actual shareholding at 31 Dec 2010 as % of salary ¹
Andrew Cosslett	300	747
James Abrahamson ²	200	138
Kirk Kinsell ²	200	170
Richard Solomons	200	408

¹ Based on share price of 1243p per share as at 31 December 2010.

² Shareholding requirement took effect upon appointment to the Board on 1 August 2010.

9. Policy regarding pensions

Andrew Cosslett, Richard Solomons and other senior UK-based executives participate on the same basis in the executive section of the registered defined benefit InterContinental Hotels UK Pension Plan and, if appropriate, the InterContinental Executive Top-Up Scheme (ICETUS). The latter is an unfunded arrangement, but with appropriate security provided via a fixed charge on a hotel asset. As an alternative to these unfunded arrangements, a cash allowance may be taken. Following recent changes to UK pensions legislation, the pension provision is under review. This Plan is now closed to new entrants.

James Abrahamson, Kirk Kinsell and other senior US-based executives participate in US retirement benefit plans. Executives outside the UK and US participate in the InterContinental Hotels Group International Savings and Retirement Plan or other local plans.

10. Non-Executive Directors' pay policy and structure

Non-Executive Directors are paid a fee which is approved by the Board, taking into account fees paid in other companies of a similar complexity. These fees also reflect the time commitment and responsibilities of the roles. Accordingly, higher fees are payable to the Senior Independent Director who chairs the Audit Committee and to the Chairmen of the Remuneration and Corporate Responsibility Committees, reflecting the additional responsibilities of these roles.

Non-Executive Directors' fee levels are reviewed annually. In the final quarter of 2010 an increase of 2% for the Chairman and 3% for the Non-Executive Directors was agreed by the Board to be effective from 1 January 2011. This increase is broadly in line with anticipated salary increases for executive and senior management employees across the wider organisation.

The following table sets out the change in annual fee rates from 2010 to 2011 for the Non-Executive Directors:

	Role	Fees at 1 Jan 2011 £	Fees at 1 Jan 2010 £
David Webster	Chairman	406,000	398,000
David Kappler	Senior Independent Director & Chairman of Audit Committee	103,000	99,750
Ralph Kugler	Chairman of Remuneration Committee	86,500	84,000
Jennifer Laing	Chairman of Corporate Responsibility Committee	76,000	73,500
Others	Non-Executive Director	65,000	63,000

11. Service contracts

Policy

The Remuneration Committee's policy is for Executive Directors to have rolling contracts with a notice period of 12 months. Messrs Cosslett, Abrahamson, Kinsell and Solomons have service agreements with a notice period of 12 months. All new appointments are intended to have 12-month notice periods. However, on occasion, to complete an external recruitment successfully, a longer initial notice period reducing to 12 months may be used, in accordance with the Combined Code.

No provisions for compensation for termination following change of control, nor for liquidated damages of any kind, are included in the current Directors' contracts. In the event of any early termination of an Executive Director's contract, the policy is to seek to minimise any liability.

Non-Executive Directors have letters of appointment. David Webster's appointment as Non-Executive Chairman, effective from 1 January 2004, is subject to six months' notice. The dates of appointment of the other Non-Executive Directors are set out on page 43.

All Directors' appointments and subsequent reappointments are subject to election and re-election by shareholders.

Biographies of each of the Directors and their main responsibilities can be found on page 38.

Directors' contracts

	Contract effective date	Notice period
Andrew Cosslett	3.02.05	12 months
James Abrahamson	1.08.10	12 months
Kirk Kinsell	1.08.10	12 months
Richard Solomons	15.04.03	12 months

Messrs Cosslett and Solomons signed a letter of appointment, effective from completion of the June 2005 capital reorganisation of the Group, incorporating the same terms as their original service agreements.

Remuneration report continued

From this point forward, the information provided has been audited by Ernst & Young LLP.

12. Audited information on Directors' emoluments

Directors' remuneration in 2010

The following table sets out the remuneration paid or payable to the Directors in respect of the year to 31 December 2010:

	Base salaries and fees		Performance payments ¹		Benefits ²		Total emoluments excluding pensions	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Executive Directors								
Andrew Cosslett	820	802	723	–	28	25	1,571	827
James Abrahamson ³	196	–	178	–	6	–	380	–
Kirk Kinsell ³	193	–	169	–	74	–	436	–
Richard Solomons	520	512	458	–	18	19	996	531
Non-Executive Directors								
David Webster	398	390	–	–	–	–	398	390
Graham Allan ⁴	63	–	–	–	–	–	63	–
David Kappler	100	95	–	–	–	–	100	95
Ralph Kugler	84	80	–	–	–	–	84	80
Jennifer Laing ⁵	74	68	–	–	–	–	74	68
Jonathan Linen	63	60	–	–	–	–	63	60
Ying Yeh	63	60	–	–	–	–	63	60
Former Directors⁶	–	–	–	–	1	1	1	1
Total	2,574	2,067	1,528	–	127	45	4,229	2,112

1 Performance payments comprise cash payments in respect of participation in the ABP but exclude bonus payments in deferred shares, details of which are set out in the ABP table on page 58. For Messrs Abrahamson and Kinsell, this also includes a cash payment in lieu of dividends relating to share awards as outlined on page 58.

2 Benefits incorporate all tax assessable benefits arising from the individual's employment. This includes, but is not limited to, benefits such as the provision of a fully expensed company car, private healthcare, financial counselling and other benefits as applicable to the individual's work location. This includes the cost of expatriate benefits related to Kirk Kinsell's international assignment.

3 Messrs Abrahamson and Kinsell were appointed as Directors on 1 August 2010. Base salaries, performance payments and benefits have been pro-rated from their date of appointment. James Abrahamson's pro-rated base salary is US\$302,083 and Kirk Kinsell's pro-rated base salary is US\$297,917. Sterling values have been calculated using an exchange rate of \$1=£0.65.

4 Graham Allan was appointed as a Director on 1 January 2010.

5 Jennifer Laing's fee was increased, pro rata, from 1 March 2009 when she became Chairman of the Corporate Responsibility Committee.

6 Sir Ian Prosser retired as a Director on 31 December 2003. However, he had an ongoing healthcare benefit of £1,179 during the year.

Directors' pension benefits

The following information relates to the pension arrangements provided for Messrs Cosslett and Solomons under the executive section of the InterContinental Hotels UK Pension Plan (the IC Plan) and the unfunded ICETUS.

The executive section of the IC Plan is a funded, registered, final salary, occupational pension scheme. The main features applicable to the Executive Directors are:

- a normal pension age of 60;
- pension accrual of $\frac{1}{30}$ th of final pensionable salary for each year of pensionable service;
- life assurance cover of four times pensionable salary;
- pensions payable in the event of ill health; and
- spouses', partners' and dependants' pensions on death.

When benefits would otherwise exceed a member's lifetime allowance under the post-April 2006 pensions regime, these benefits are limited in the IC Plan, but the balance is provided instead by ICETUS.

James Abrahamson has retirement benefits provided via the Six Continents Hotels, Inc. Deferred Compensation Plan (DCP).

Kirk Kinsell has retirement benefits provided via the 401(k) Retirement Plan for employees of Six Continents Hotels, Inc. (401(k)) and the DCP. The 401(k) is a tax qualified plan providing benefits on a defined contribution basis, with the member and the relevant company both contributing. The DCP is a non-tax qualified plan, providing benefits on a defined contribution basis, with the member and the relevant company both contributing.

The following table sets out the pension benefits of the Executive Directors in the final salary plans:

	Andrew Cosslett £	Richard Solomons £
Directors' contributions in the year ¹	40,100	25,500
Transfer value of accrued benefits at 1 January 2010	2,574,100	3,934,700
Transfer value of accrued benefits at 31 December 2010	3,438,100	4,708,400
Increase in transfer value over the year, less Directors' contributions	823,900	748,200
Absolute increase in accrued pension ² (pa)	30,300	21,500
Increase in accrued pension ³ (pa)	23,600	10,400
Accrued pension at 31 December 2010 ⁴ (pa)	161,500	239,200
Age at 31 December 2010	55	49

1 Contributions paid in the year by the Directors under the terms of the plans. Contributions were 5% of full pensionable salary.

2 The absolute increase in accrued pension during the year.

3 The increase in accrued pension during the year, excluding any increase for inflation.

4 Accrued pension is that which would be paid annually on retirement at 60, based on service to 31 December 2010.

Contributions made by and in respect of James Abrahamson and Kirk Kinsell in the defined contributions plans are*:

	James Abrahamson £	Kirk Kinsell £
Directors' contributions to DCP in the year	3,900	3,800
Directors' contributions to 401(k) in the year	–	3,500
Company contribution to DCP in the year	18,000	22,300
Company contribution to 401(k) in the year	–	–
Age at 31 December 2010	55	55

* Messrs Abrahamson and Kinsell were appointed as Directors on 1 August 2010. Pension contributions have been pro-rated from their date of appointment. Sterling values have been calculated using an exchange rate of \$1=£0.65.

Remuneration report continued

Annual Bonus Plan deferred share awards

All Directors participated in the ABP during the year ended 31 December 2010. No matching shares are provided on awards. Directors' pre-tax share interests during the year were as follows:

Directors	Financial year on which performance is based for award*	ABP awards held at 1 Jan 2010	ABP awards during the year	Award date	Market price per share at award	ABP shares vested during the year	Vesting date	Market price per share at vesting	Value at vesting £	ABP awards held at 31 Dec 2010	Planned vesting date	Value based on share price of 1243p at 31 Dec 2010 £
Andrew Cosslett	2006	55,870		26.2.07	1235p	55,870	26.2.10	914.66p	511,021			
	2007	71,287		25.2.08	819.67p					71,287	25.2.11	886,097
	2008	104,652		23.2.09	472.67p					104,652	23.2.12	1,300,824
	2009	–	–							–		–
Total		231,809								175,939		2,186,921
James Abrahamson	2009	–	–							–		–
Total		–								–		–
Kirk Kinsell	2006	13,610		26.2.07	1235p	13,610	26.2.10	914.66p	124,485			
	2007	19,731		25.2.08	819.67p					19,731	25.2.11	245,256
	2008	41,427		23.2.09	472.67p					41,427	23.2.12	514,938
	2009	–	–							–		–
Total		74,768								61,158		760,194
Richard Solomons	2006	35,757		26.2.07	1235p	35,757	26.2.10	914.66p	327,055			
	2007	45,634		25.2.08	819.67p					45,634	25.2.11	567,231
	2008	66,549		23.2.09	472.67p					66,549	23.2.12	827,204
	2009	–	–							–		–
Total		147,940								112,183		1,394,435

* For financial year 2006, the award was based on EPS and EBIT measures and total shares held include matching shares. For financial year 2007, the award was based on Group EBIT and net annual rooms additions measures and total shares held include matching shares. For financial year 2008, the award was based on Group EBIT, net annual rooms additions and individual performance measures. No matching shares were awarded. For financial year 2009, no bonus was paid.

Special share award

James Abrahamson received a special share award which vests over three years as part of his recruitment terms in 2009. Vesting each year is subject to continued service. The details are set out below:

Director	Awards held at 1 Jan 2010	Award date	Market price per share at award	Shares vested during the year	Vesting date	Market price per share at vesting	Value at vesting £	Awards held at 31 Dec 2010	Planned vesting date	Value based on share price of 1243p at 31 Dec 2010 £
James Abrahamson	45,000	23.2.09	454.25p	45,000	17.2.10	900.07p	405,032			
	45,000	23.2.09	454.25p					45,000	16.2.11	559,350
	45,000	23.2.09	454.25p					45,000	15.2.12	559,350
Total	135,000							90,000		1,118,700

Long Term Incentive Plan awards

The awards made in respect of cycles ending on 31 December 2009, 2010, 2011 and 2012 and the maximum pre-tax number of ordinary shares due if performance targets are achieved in full are set out in the table below. In respect of the cycle ending 31 December 2009, 46% of the award vested on 17 February 2010. In respect of the cycle ending on 31 December 2010, the Company outperformed the Dow Jones World Hotels index in TSR by 8 percentage points and achieved 9.6% per annum adjusted EPS growth. Accordingly, 73.8% of the award will vest on 16 February 2011.

Directors	End of year to which performance is based for award (31 Dec) ¹	Maximum LTIP awards held at 1 Jan 2010	Maximum LTIP shares awarded during the year	Award date	Market price per share at award	LTIP shares vested during the year	Market price per share at vesting	Value at vesting £	Vesting date	Maximum LTIP awards held at 31 Dec 2010	Maximum value based on share price of 1243p at 31 Dec 2010 £
Andrew Cosslett	2009	159,506		2.4.07	1256p	73,372 ²	901.5p	661,449	17.2.10		
	2010	253,559		19.5.08	854p				16.2.11	253,559	3,151,738
	2011	272,201		3.4.09	604p				15.2.12	272,201	3,383,458
	2012		160,807	8.4.10	1053p				13.2.13	160,807	1,998,831
Total		685,266	160,807							686,567	8,534,027
James Abrahamson	2009	82,486		23.2.09	457p	37,943 ²	901.5p	342,056	17.2.10		
	2010	164,973		23.2.09	457p				16.2.11	164,973	2,050,614
	2011	138,730		3.4.09	604p				15.2.12	138,730	1,724,414
	2012		79,008	8.4.10	1053p				13.2.13	79,008	982,069
Total		386,189	79,008							382,711	4,757,097
Kirk Kinsell	2009	30,156		2.4.07	1256p	13,871 ²	901.5p	125,047	17.2.10		
	2009	16,987		12.11.07	961.5p	7,814 ²	901.5p	70,443	17.2.10		
	2010	84,397		19.5.08	854p				16.2.11	84,397	1,049,055
	2011	132,256		3.4.09	604p				15.2.12	132,256	1,643,942
	2012		75,411	8.4.10	1053p				13.2.13	75,411	937,359
Total		263,796	75,411							292,064	3,630,356
Richard Solomons	2009	102,109		2.4.07	1256p	46,970 ²	901.5p	423,435	17.2.10		
	2010	161,241		19.5.08	854p				16.2.11	161,241	2,004,226
	2011	173,096		3.4.09	604p				15.2.12	173,096	2,151,583
	2012		101,818	8.4.10	1053p				13.2.13	101,818	1,265,598
Total		436,446	101,818							436,155	5,421,407

¹ All details of performance conditions in relation to the awards made in respect of cycles ending on 31 December 2010, 2011 and 2012 are provided on page 53.

² This award was based on performance to 31 December 2009. Performance was measured against both the Company's TSR relative to a group of eight other comparator companies and the cumulative annual growth rate (CAGR) in adjusted EPS over the performance period. The number of shares released was determined according to a) where the Company finished in the TSR comparator group, with 50% of the award being released for first position and 10% of the award being released for median position; and b) the cumulative annual growth in adjusted EPS, with 50% of the award being released for growth of 20% per annum or more and 10% of the award being released for growth of 10% per annum. The Company finished in fourth position in the TSR group and achieved 15.2% per annum adjusted EPS growth. Accordingly, 46% of the award vested on 17 February 2010.

Remuneration report continued

Share options

Between 2003 and 2005, grants of options were made under the IHG Executive Share Option Plan. No executive share options have been granted since then.

	Ordinary shares under option				Weighted average option price	Option price
	Options held at 1 Jan 2010	Lapsed during the year	Exercised during the year	Options held at 31 Dec 2010		
Directors						
Kirk Kinsell	77,110 ¹			77,110 ¹		494.17p
	32,040 ²			32,040 ²		619.83p
Total	109,150			109,150	531.06p	
Richard Solomons	230,320 ¹			230,320 ¹		494.17p
	100,550 ²			100,550 ²		619.83p
Total	330,870			330,870	532.36p	

1 Executive share options granted in 2004 became exercisable in April 2007 up to April 2014.

2 Executive share options granted in 2005 became exercisable in April 2008 up to April 2015.

Option prices during the year ranged from 494.17p to 619.83p per IHG share. The closing market value share price on 31 December 2010 was 1243p and the range during the year was 887p to 1266p per share.

No Director exercised options during the year; therefore there is no disclosable gain by Directors in aggregate for the year ended 31 December 2010 (2009 £437,732).

This report was approved by the Board on 14 February 2011.

Ralph Kugler

Chairman of the Remuneration Committee

Group financial statements

Group financial statements

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In this section we present the statements of Directors' responsibilities, the independent auditor's report and the consolidated financial statements of the Group for 2010.

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Statements of Directors' responsibilities

In relation to the Group financial statements

The following statement, which should be read in conjunction with the independent auditor's report set out on the opposite page, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditor in relation to the Group financial statements.

The Directors are responsible for preparing the Annual Report, the Remuneration report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The Directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors have responsibility for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure and Transparency Rules

The Annual Report and the Group financial statements comply with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority in respect of the requirement to produce an annual financial report.

The Annual Report and the Group financial statements are the responsibility of, and have been approved by, the Directors. The Directors confirm that to the best of their knowledge:

- the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Annual Report, including the Directors' report, and the Group financial statements include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board



Andrew Cosslett
Chief Executive
14 February 2011

Richard Solomons
Chief Financial Officer
14 February 2011

Independent auditor's report to the members of InterContinental Hotels Group PLC

We have audited the Group financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2010 which comprise the Group income statement, the Group statement of comprehensive income, the Group statement of changes in equity, the Group statement of financial position, the Group statement of cash flows, accounting policies and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statements of Directors' responsibilities set out on page 62, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 41, in relation to going concern;
- the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matters

We have reported separately on the parent company financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2010 and on the information in the Remuneration Report that is described as having been audited.

Alison Baker (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
14 February 2011

Group financial statements

Group income statement

		2010			2009		
		Before exceptional items \$m	Exceptional items (note 5) \$m	Total \$m	Before exceptional items \$m	Exceptional items (note 5) \$m	Total \$m
For the year ended 31 December 2010	Note						
Revenue	2	1,628	–	1,628	1,538	–	1,538
Cost of sales		(753)	–	(753)	(769)	(91)	(860)
Administrative expenses		(331)	(13)	(344)	(303)	(83)	(386)
Other operating income and expenses		8	35	43	6	(2)	4
		552	22	574	472	(176)	296
Depreciation and amortisation	2	(108)	–	(108)	(109)	–	(109)
Impairment	2	–	(7)	(7)	–	(197)	(197)
Operating profit/(loss)	2	444	15	459	363	(373)	(10)
Financial income	6	2	–	2	3	–	3
Financial expenses	6	(64)	–	(64)	(57)	–	(57)
Profit/(loss) before tax		382	15	397	309	(373)	(64)
Tax	7	(98)	(8)	(106)	(15)	287	272
Profit for the year from continuing operations		284	7	291	294	(86)	208
Profit for the year from discontinued operations	11	–	2	2	–	6	6
Profit for the year		284	9	293	294	(80)	214
Attributable to:							
Equity holders of the parent		284	9	293	293	(80)	213
Non-controlling interest		–	–	–	1	–	1
		284	9	293	294	(80)	214
Earnings per ordinary share	9						
Continuing operations:							
Basic				101.0¢			72.6¢
Diluted				98.3¢			70.2¢
Adjusted		98.6¢			102.8¢		
Adjusted diluted		95.9¢			99.3¢		
Total operations:							
Basic				101.7¢			74.7¢
Diluted				99.0¢			72.2¢
Adjusted		98.6¢			102.8¢		
Adjusted diluted		95.9¢			99.3¢		

Notes on pages 70 to 108 form an integral part of these financial statements.

Group statement of comprehensive income

	2010 \$m	2009 \$m
For the year ended 31 December 2010		
Profit for the year	293	214
Other comprehensive income		
Available-for-sale financial assets:		
Gains on valuation	17	11
Losses reclassified to income on impairment/disposal	1	4
Cash flow hedges:		
Losses arising during the year	(4)	(7)
Reclassified to financial expenses	6	11
Defined benefit pension plans:		
Actuarial losses, net of related tax credit of \$7m (2009 \$1m)	(38)	(57)
Change in asset restriction on plans in surplus and liability in respect of funding commitments, net of related tax credit of \$10m (2009 \$nil)	(38)	21
Exchange differences on retranslation of foreign operations, including related tax credit of \$1m (2009 \$4m)	(4)	43
Tax related to pension contributions	7	–
Other comprehensive (loss)/income for the year	(53)	26
Total comprehensive income for the year attributable to equity holders of the parent	240	240

Notes on pages 70 to 108 form an integral part of these financial statements.

Group financial statements continued

Group statement of changes in equity

	Equity share capital \$m	Capital redemption reserve \$m	Shares held by employee share trusts \$m	Other reserves \$m	Unrealised gains and losses reserve \$m	Currency translation reserve \$m	Retained earnings \$m	IHG share-holders' equity \$m	Non-controlling interest \$m	Total equity \$m
At 1 January 2010	142	11	(4)	(2,900)	29	215	2,656	149	7	156
Profit for the year	–	–	–	–	–	–	293	293	–	293
Other comprehensive income:										
Gains on valuation of available-for-sale financial assets	–	–	–	–	17	–	–	17	–	17
Losses reclassified to income on impairment/disposal of available-for-sale financial assets	–	–	–	–	1	–	–	1	–	1
Losses on cash flow hedges	–	–	–	–	(4)	–	–	(4)	–	(4)
Amounts reclassified to financial expenses on cash flow hedges	–	–	–	–	6	–	–	6	–	6
Actuarial losses on defined benefit pension plans	–	–	–	–	–	–	(38)	(38)	–	(38)
Change in asset restriction on pension plans in surplus and liability in respect of funding commitments	–	–	–	–	–	–	(38)	(38)	–	(38)
Exchange differences on retranslation of foreign operations	–	–	–	–	–	(4)	–	(4)	–	(4)
Tax related to pension contributions	–	–	–	–	–	–	7	7	–	7
Total other comprehensive income	–	–	–	–	20	(4)	(69)	(53)	–	(53)
Total comprehensive income for the year	–	–	–	–	20	(4)	224	240	–	240
Issue of ordinary shares	19	–	–	–	–	–	–	19	–	19
Purchase of own shares by employee share trusts	–	–	(53)	–	–	–	–	(53)	–	(53)
Release of own shares by employee share trusts	–	–	21	–	–	–	(26)	(5)	–	(5)
Equity-settled share-based cost	–	–	–	–	–	–	33	33	–	33
Tax related to share schemes	–	–	–	–	–	–	22	22	–	22
Equity dividends paid	–	–	–	–	–	–	(121)	(121)	–	(121)
Exchange	(6)	(1)	1	6	–	–	–	–	–	–
At 31 December 2010	155	10	(35)	(2,894)	49	211	2,788	284	7	291

All items above are shown net of tax.

Notes on pages 70 to 108 form an integral part of these financial statements.

Group statement of changes in equity continued

	Equity share capital \$m	Capital redemption reserve \$m	Shares held by employee share trusts \$m	Other reserves \$m	Unrealised gains and losses reserve \$m	Currency translation reserve \$m	Retained earnings \$m	IHG share-holders' equity \$m	Non-controlling interest \$m	Total equity \$m
At 1 January 2009	118	10	(49)	(2,890)	9	172	2,624	(6)	7	1
Profit for the year	–	–	–	–	–	–	213	213	1	214
Other comprehensive income:										
Gains on valuation of available-for-sale financial assets	–	–	–	–	11	–	–	11	–	11
Losses reclassified to income on impairment/disposal of available-for-sale financial assets	–	–	–	–	4	–	–	4	–	4
Losses on cash flow hedges	–	–	–	–	(7)	–	–	(7)	–	(7)
Amounts reclassified to financial expenses on cash flow hedges	–	–	–	–	11	–	–	11	–	11
Actuarial losses on defined benefit pension plans	–	–	–	–	–	–	(57)	(57)	–	(57)
Change in asset restriction on pension plans in surplus and liability in respect of funding commitments	–	–	–	–	–	–	21	21	–	21
Exchange differences on retranslation of foreign operations	–	–	–	–	1	43	–	44	(1)	43
Total other comprehensive income	–	–	–	–	20	43	(36)	27	(1)	26
Total comprehensive income for the year	–	–	–	–	20	43	177	240	–	240
Issue of ordinary shares	11	–	–	–	–	–	–	11	–	11
Purchase of own shares by employee share trusts	–	–	(6)	–	–	–	–	(6)	–	(6)
Release of own shares by employee share trusts	–	–	55	–	–	–	(61)	(6)	–	(6)
Equity-settled share-based cost	–	–	–	–	–	–	24	24	–	24
Tax related to share schemes	–	–	–	–	–	–	10	10	–	10
Equity dividends paid	–	–	–	–	–	–	(118)	(118)	–	(118)
Exchange	13	1	(4)	(10)	–	–	–	–	–	–
At 31 December 2009	142	11	(4)	(2,900)	29	215	2,656	149	7	156

All items above are shown net of tax.

Notes on pages 70 to 108 form an integral part of these financial statements.

Group financial statements continued

Group statement of financial position

31 December 2010	Note	2010 \$m	2009 \$m
ASSETS			
Property, plant and equipment	10	1,690	1,836
Goodwill	12	92	82
Intangible assets	13	266	274
Investment in associates	14	43	45
Retirement benefit assets	25	5	12
Other financial assets	15	135	130
Deferred tax assets	26	79	95
Total non-current assets		2,310	2,474
Inventories	16	4	4
Trade and other receivables	17	371	335
Current tax receivable		13	35
Cash and cash equivalents	18	78	40
Other financial assets	15	–	5
Total current assets		466	419
Total assets	2	2,776	2,893
LIABILITIES			
Loans and other borrowings	22	(18)	(106)
Derivative financial instruments	23	(6)	(7)
Trade and other payables	19	(722)	(668)
Provisions	20	(8)	(65)
Current tax payable		(167)	(194)
Total current liabilities		(921)	(1,040)
Loans and other borrowings	22	(776)	(1,016)
Derivative financial instruments	23	(38)	(13)
Retirement benefit obligations	25	(200)	(142)
Trade and other payables	19	(464)	(408)
Provisions	20	(2)	–
Deferred tax liabilities	26	(84)	(118)
Total non-current liabilities		(1,564)	(1,697)
Total liabilities	2	(2,485)	(2,737)
Net assets		291	156
EQUITY			
Equity share capital	28	155	142
Capital redemption reserve		10	11
Shares held by employee share trusts		(35)	(4)
Other reserves		(2,894)	(2,900)
Unrealised gains and losses reserve		49	29
Currency translation reserve		211	215
Retained earnings		2,788	2,656
IHG shareholders' equity		284	149
Non-controlling interest		7	7
Total equity		291	156

Signed on behalf of the Board

Richard Solomons

14 February 2011

Notes on pages 70 to 108 form an integral part of these financial statements.

Group statement of cash flows

For the year ended 31 December 2010	2010 \$m	2009 \$m
Profit for the year	293	214
Adjustments for:		
Net financial expenses	62	54
Income tax charge/(credit)	106	(272)
Depreciation and amortisation	108	109
Impairment	7	197
Other exceptional operating items	(22)	176
Gain on disposal of assets, net of tax	(2)	(6)
Equity-settled share-based cost, net of payments	26	14
Other items	1	1
Operating cash flow before movements in working capital	579	487
(Increase)/decrease in trade and other receivables	(35)	58
Net change in loyalty programme liability and System Fund surplus	10	42
Increase/(decrease) in other trade and other payables	131	(41)
Utilisation of provisions	(54)	-
Retirement benefit contributions, net of cost	(27)	(2)
Cash flows relating to exceptional operating items	(21)	(60)
Cash flow from operations	583	484
Interest paid	(59)	(53)
Interest received	2	2
Tax paid on operating activities	(64)	(1)
Net cash from operating activities	462	432
Cash flow from investing activities		
Purchases of property, plant and equipment	(62)	(100)
Purchases of intangible assets	(29)	(33)
Investment in associates and other financial assets	(4)	(15)
Disposal of assets, net of costs and cash disposed of	107	20
Proceeds from associates and other financial assets	28	15
Tax paid on disposals	(4)	(1)
Net cash from investing activities	36	(114)
Cash flow from financing activities		
Proceeds from the issue of share capital	19	11
Purchase of own shares by employee share trusts	(53)	(8)
Proceeds on release of own shares by employee share trusts	-	2
Dividends paid to shareholders	(121)	(118)
Issue of £250m 6% bonds	-	411
Decrease in other borrowings	(292)	(660)
Net cash from financing activities	(447)	(362)
Net movement in cash and cash equivalents in the year	51	(44)
Cash and cash equivalents at beginning of the year	40	82
Exchange rate effects	(13)	2
Cash and cash equivalents at end of the year	78	40

Notes on pages 70 to 108 form an integral part of these financial statements.

Accounting policies

General information

The consolidated financial statements of InterContinental Hotels Group PLC (the Group or IHG) for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Directors on 14 February 2011. InterContinental Hotels Group PLC (the Company) is incorporated in Great Britain and registered in England and Wales.

Summary of significant accounting policies

Basis of preparation

The consolidated financial statements of IHG have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

Changes in accounting policies

With effect from 1 January 2010, the Group has implemented the following new accounting standards, amendments and interpretations. None of these have had a material impact on the Group's financial performance or position during the year and there has been no requirement to restate prior year comparatives.

- IFRS 3 (Revised) 'Business Combinations' changes the accounting for transaction costs, the valuation of non-controlling interests, the initial recognition and subsequent measurement of contingent consideration, and business combinations achieved in stages. These changes will impact the amount of goodwill recognised and the reported results in the period when an acquisition occurs and future reported results. These changes only apply to new acquisitions and there have been none during the year.
- IAS 27 (Revised) 'Consolidated and Separate Financial Statements' requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and such transactions no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is remeasured to fair value with a gain or loss recognised in profit or loss.
- IFRIC 17 'Distribution of Non-cash assets to Owners' provides guidance on accounting for arrangements where non-cash assets are distributed to shareholders.
- IAS 39 (amendment) 'Financial Instruments: Recognition and Measurement – Eligible Hedged Items' clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The amendment also specifies that inflation is not a separately identifiable risk and cannot be designated as the hedged risk unless it represents a contractually specified cash flow.
- IFRS 2 (amendment) 'Share-based Payment: Group Cash-settled Share-based Payment Arrangements' provides guidance on accounting for inter-group cash-settled share-based payment transactions in the separate financial statements of an entity.
- IFRS 5 (amendment) 'Non-current Assets Held for Sale and Discontinued Operations' clarifies that disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5.

- IFRS 8 (amendment) 'Operating Segments' clarifies that segment assets and liabilities need only be reported when included in information reviewed by the chief operating decision maker.
- IAS 7 (amendment) 'Statement of Cash Flows' states that only expenditure resulting in recognition of an asset can be presented as a cash flow from investing activities.
- IAS 17 (amendment) 'Leases' clarifies that a lease of land should be classified as an operating or finance lease in accordance with the economic substance of the arrangement.
- IAS 36 (amendment) 'Impairment of Assets' clarifies that the largest permitted unit for allocation of goodwill is the IFRS 8 operating segment before aggregation for reporting purposes.
- IFRIC 16 (amendment) 'Hedges of a Net Investment in a Foreign Operation' removes the restriction on a hedged foreign operation holding the hedging instruments.

Changes in presentation

The Group statement of changes in equity has been expanded to include an analysis of other comprehensive income by each component of equity. The additional information is presented in accordance with best practice and will become mandatory in 2011.

The fair values of derivative financial instruments are presented separately on the face of the Group statement of financial position for the first time (previously included within current 'Trade and other payables') due to their increased materiality and in accordance with best practice.

Net debt has been redefined to include the exchange element of the fair value of currency swaps that fix the value of the Group's £250m 6% bonds. This change has been made to reflect the commercial rationale of the hedging relationship. See notes 23 and 24 for further details.

Presentational currency

The consolidated financial statements are presented in millions of US dollars following a management decision to change the reporting currency from sterling during 2008. The change was made to reflect the profile of the Group's revenue and operating profit which are primarily generated in US dollars or US dollar-linked currencies.

The currency translation reserve was set to nil at 1 January 2004 on transition to IFRS and this reserve is presented on the basis that the Group has reported in US dollars since this date. Equity share capital, the capital redemption reserve and shares held by employee share trusts are translated into US dollars at the rates of exchange on the last day of the period; the resultant exchange differences are recorded in other reserves.

The functional currency of the parent company remains sterling since this is a non-trading holding company located in the United Kingdom that has sterling denominated share capital and whose primary activity is the payment and receipt of interest on sterling denominated external borrowings and inter-company balances.

Basis of consolidation

The Group financial statements comprise the financial statements of the parent company and entities controlled by the Company. All intra-group balances and transactions have been eliminated.

The results of those businesses acquired or disposed of are consolidated for the period during which they were under the Group's control.

Foreign currencies

Transactions in foreign currencies are translated to the functional currency at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the relevant rates of exchange ruling on the last day of the period. All foreign exchange differences arising on translation are recognised in the income statement except on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to the currency translation reserve until the disposal of the net investment, at which time they are recycled against the gain or loss on disposal.

The assets and liabilities of foreign operations, including goodwill, are translated into US dollars at the relevant rates of exchange ruling on the last day of the period. The revenues and expenses of foreign operations are translated into US dollars at average rates of exchange for the period. The exchange differences arising on the retranslation are taken directly to the currency translation reserve. On disposal of a foreign operation, the cumulative amount recognised in the currency translation reserve relating to that particular foreign operation is recycled against the gain or loss on disposal.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any impairment.

Borrowing costs attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the asset cost. All other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. However, all borrowing costs relating to projects commencing before 1 January 2009 were expensed.

Repairs and maintenance costs are expensed as incurred.

Land is not depreciated. All other property, plant and equipment are depreciated to a residual value over their estimated useful lives, namely:

buildings – lesser of 50 years and unexpired term of lease; and

fixtures, fittings and equipment – three to 25 years.

All depreciation is charged on a straight-line basis. Residual value is reassessed annually.

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Assets that do not generate independent cash flows are combined into cash-generating units. If carrying values exceed their estimated recoverable amount, the assets or cash-generating units are written down to the recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses, and any subsequent reversals, are recognised in the income statement.

On adoption of IFRS, the Group retained previous revaluations of property, plant and equipment at deemed cost as permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

Goodwill

Goodwill arises on consolidation and is recorded at cost, being the excess of the cost of acquisition over the fair value at the date of acquisition of the Group's share of identifiable assets, liabilities and contingent liabilities. With effect from 1 January 2010, transaction costs are expensed and therefore not included in the cost of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment at least annually by comparing carrying values of cash-generating units with their recoverable amounts. Impairment losses cannot be subsequently reversed.

Intangible assets

Software

Acquired software licences and software developed in-house are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs are amortised over estimated useful lives of three to five years on a straight-line basis.

Internally generated development costs are expensed unless forecast revenues exceed attributable forecast development costs, at which time they are capitalised and amortised over the life of the asset.

Management contracts

When assets are sold and a purchaser enters into a franchise or management contract with the Group, the Group capitalises as part of the gain or loss on disposal an estimate of the fair value of the contract entered into. The value of management contracts is amortised over the life of the contract which ranges from six to 50 years on a straight-line basis.

Other intangible assets

Amounts paid to hotel owners to secure management contracts and franchise agreements are capitalised and amortised over the shorter of the contracted period and 10 years on a straight-line basis.

Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Accounting policies continued

Associates

An associate is an entity over which the Group has the ability to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the entity.

Associates are accounted for using the equity method unless the associate is classified as held for sale. Under the equity method, the Group's investment is recorded at cost adjusted by the Group's share of post-acquisition profits and losses. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to \$nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Financial assets

The Group classifies its financial assets into one of the two following categories: loans and receivables or available-for-sale financial assets. Management determines the classification of financial assets on initial recognition and they are subsequently held at amortised cost (loans and receivables) or fair value (available-for-sale financial assets). Interest on loans and receivables is calculated using the effective interest rate method and is recognised in the income statement as interest income. Changes in fair values of available-for-sale financial assets are recorded directly in equity within the unrealised gains and losses reserve. On disposal, the accumulated fair value adjustments recognised in equity are recycled to the income statement. Dividends from available-for-sale financial assets are recognised in the income statement as other operating income and expenses.

Financial assets are assessed for impairment at each period-end date. In the case of an equity investment classified as available-for-sale, a significant or prolonged decline in fair value below cost is evidence that the asset is impaired. If an available-for-sale financial asset is impaired, the difference between original cost and fair value is transferred from equity to the income statement to the extent of any cumulative loss recorded in equity, with any excess charged directly to the income statement. Impairment losses on equity instruments are not reversed through the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Trade receivables

Trade receivables are recorded at their original amount less provision for impairment. It is the Group's policy to provide for 100% of the previous month's aged receivables balances which are more than 180 days past due. Adjustments to the policy may be made due to specific or exceptional circumstances when collection is no longer considered probable. The carrying amount of the receivable is reduced through the use of a provision account and movements in the provision are recognised in the income statement within cost of sales. When a previously provided trade receivable is uncollectable, it is written off against the provision.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

In the statement of cash flows, cash and cash equivalents are shown net of short-term overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Assets held for sale

Non-current assets and associated liabilities are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is highly probable.

Assets designated as held for sale are held at the lower of carrying amount at designation and fair value less costs to sell.

Depreciation is not charged against property, plant and equipment classified as held for sale.

Financial liabilities

Financial liabilities are measured at amortised cost using the effective interest rate method. A financial liability is derecognised when the obligation under the liability expires, is discharged or cancelled.

Trade payables

Trade payables are non-interest-bearing and are stated at their nominal value.

Bank and other borrowings

Bank and other borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. They are subsequently measured at amortised cost. Finance charges, including the transaction costs and any discount or premium on issue, are charged to the income statement using the effective interest rate method.

Borrowings are classified as non-current when the repayment date is more than 12 months from the period-end date or where they are drawn on a facility with more than 12 months to expiry.

Derivative financial instruments and hedging

Derivatives are initially recognised and subsequently remeasured at fair value. The method of recognising the remeasurement depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Changes in the fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income and the unrealised gains and losses reserve to the extent that the hedges are effective. When the hedged item is recognised, the cumulative gains and losses on the related hedging instrument are reclassified to the income statement.

Changes in the fair value of derivatives designated as net investment hedges are recorded in other comprehensive income and the currency translation reserve to the extent that the hedges are effective. The cumulative gains and losses remain in equity until a foreign operation is sold, at which point they are reclassified to the income statement.

Changes in the fair value of derivatives which have either not been designated as hedging instruments or relate to the ineffective portion of hedges are recognised immediately in the income statement.

Documentation outlining the measurement and effectiveness of any hedging arrangements is maintained throughout the life of the hedge relationship.

Interest arising from currency derivatives and interest rate swaps is recorded in financial income or expenses on a net basis over the term of the agreement, unless the accounting treatment for the hedging relationship requires the interest to be taken to reserves.

Self insurance

The Group undertakes self insurance for various insurable risks including property damage/business interruption, fidelity guarantee, general liability, workers' compensation/employers' liability and employee medical and dental coverage from time to time in line with economic conditions and trends within the global insurance market. Insurance reserves for self insurance include projected settlements for known and incurred but not reported claims. Projected settlements are estimated based on historical trends and actuarial data.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that a payment will be made and a reliable estimate of the amount payable can be made. If the effect of the time value of money is material, the provision is discounted.

An onerous contract provision is recognised when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it.

Taxes

Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities including interest. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax assets and liabilities are recognised in respect of temporary differences between the tax base and carrying value of assets and liabilities, including accelerated capital allowances, unrelieved tax losses, unremitted profits from overseas where the Group does not control remittance, gains rolled over into replacement assets, gains on previously revalued properties and other short-term temporary differences.

Deferred tax assets are recognised to the extent that it is regarded as probable that the deductible temporary differences can be realised. The recoverability of all deferred tax assets is reassessed at the end of each reporting period.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the asset or liability will be settled, based on rates enacted or substantively enacted at the end of the reporting period.

Retirement benefits

Defined contribution plans

Payments to defined contribution schemes are charged to the income statement as they fall due.

Defined benefit plans

Plan assets are measured at fair value and plan liabilities are measured on an actuarial basis, using the projected unit credit method and discounting at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities. The difference between the value of plan assets and liabilities at the period-end date is the amount of surplus or deficit recorded in the statement of financial position as an asset or liability. An asset is recognised when the employer has an unconditional right to use the surplus at some point during the life of the plan or on its wind up. If a refund would be subject to a tax other than income tax, as is the case in the UK, the asset is recorded at the amount net of the tax. A liability is also recorded for any such tax that would be payable in respect of funding commitments based on the accounting assumption that the related payments increase the asset.

The service cost of providing pension benefits to employees for the year is charged to the income statement. The cost of making improvements to pensions is recognised in the income statement on a straight-line basis over the period during which any increase in benefits vests. To the extent that improvements in benefits vest immediately, the cost is recognised immediately as an expense.

Actuarial gains and losses may result from: differences between the expected return and the actual return on plan assets; differences between the actuarial assumptions underlying the plan liabilities and actual experience during the year; or changes in the actuarial assumptions used in the valuation of the plan liabilities. Actuarial gains and losses, and taxation thereon, are recognised in the Group statement of comprehensive income.

Actuarial valuations are normally carried out every three years and are updated for material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

Revenue recognition

Revenue is the gross inflow of economic benefits received and receivable by the Group on its own account where those inflows result in increases in equity.

Revenue is derived from the following sources: franchise fees; management fees; owned and leased properties and other revenues which are ancillary to the Group's operations, including technology fee income.

Generally, revenue represents sales (excluding VAT and similar taxes) of goods and services, net of discounts, provided in the normal course of business and recognised when services have been rendered. The following is a description of the composition of revenues of the Group.

Accounting policies continued

Franchise fees – received in connection with the license of the Group's brand names, usually under long-term contracts with the hotel owner. The Group charges franchise royalty fees as a percentage of rooms revenue. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

Management fees – earned from hotels managed by the Group, usually under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and an incentive fee, which is generally based on the hotel's profitability or cash flows. Revenue is recognised when earned and realised or realisable under the terms of the contract.

Owned and leased – primarily derived from hotel operations, including the rental of rooms and food and beverage sales from owned and leased hotels operated under the Group's brand names. Revenue is recognised when rooms are occupied and food and beverages are sold.

Share-based payments

The cost of equity-settled transactions with employees is measured by reference to fair value at the date at which the right to the shares is granted. Fair value is determined by an external valuer using option pricing models.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which any performance or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The income statement charge for a period represents the movement in cumulative expense recognised at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The Group has taken advantage of the transitional provisions of IFRS 2 'Share-based Payment' in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

Leases

Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease.

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Disposal of non-current assets

The Group recognises sales proceeds and any related gain or loss on disposal on completion of the sales process. In determining whether the gain or loss should be recorded, the Group considers whether it:

- has a continuing managerial involvement to the degree associated with asset ownership;
- has transferred the significant risks and rewards associated with asset ownership; and
- can reliably measure and will actually receive the proceeds.

Discontinued operations

Discontinued operations are those relating to hotels or operations sold or those classified as held for sale when the results relate to a separate line of business, geographical area of operations, or where there is a co-ordinated plan to dispose of a separate line of business or geographical area of operations.

Exceptional items

The Group discloses certain financial information both including and excluding exceptional items. The presentation of information excluding exceptional items allows a better understanding of the underlying trading performance of the Group and provides consistency with the Group's internal management reporting. Exceptional items are identified by virtue of either their size or nature so as to facilitate comparison with prior periods and to assess underlying trends in financial performance. Exceptional items can include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals, restructuring costs and the release of tax provisions.

Use of accounting estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions and conditions.

The estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements are:

Trade receivables – a provision for impairment of trade receivables is made on the basis of historical experience and other factors considered relevant by management.

Impairment – the Group determines whether goodwill is impaired on an annual basis or more frequently if there are indicators of impairment. Other non-current assets, including property, plant and equipment, are tested for impairment if there are indicators of impairment. Impairment testing requires an estimate of future cash flows and the choice of a suitable discount rate and, in the case of hotels, an assessment of recoverable amount based on comparable market transactions.

System Fund – in addition to management or franchise fees, hotels within the IHG system pay cash assessments and contributions which are collected by IHG for specific use within the System Fund (the Fund). The Fund also receives proceeds from the sale of Priority Club Rewards points. IHG exerts significant influence over the operation of the Fund, however the Fund is managed for the benefit of hotels in the system with the objective of driving revenues for the hotels. The Fund is used to pay for marketing, the Priority Club Rewards loyalty programme and the global reservation system. The Fund is planned to operate at breakeven with any short-term timing surplus or deficit carried in the Group statement of financial position within working capital.

As all Fund income is designated for specific purposes and does not result in a profit or loss for the Group, the revenue recognition criteria as outlined in the accounting policy above are not met and therefore the income and expenses of the Fund are not included in the Group income statement.

The assets and liabilities relating to the Fund are included in the appropriate headings in the Group statement of financial position as the related legal, but not beneficial, rights and obligations rest with the Group. These assets and liabilities include the Priority Club Rewards liability, short-term timing surpluses and deficits and any receivables and payables related to the Fund.

The cash flows relating to the Fund are reported within 'cash flow from operations' in the Group statement of cash flows due to the close interrelationship between the Fund and the trading operations of the Group.

Further information on the Fund is included in note 33.

Loyalty programme – the hotel loyalty programme, Priority Club Rewards, enables members to earn points, funded through hotel assessments, during each qualifying stay at an IHG branded hotel and redeem points at a later date for free accommodation or other benefits. The future redemption liability is included in trade and other payables and is estimated using eventual redemption rates determined by actuarial methods and points values. Actuarial gains and losses on the future redemption liability are borne by the System Fund and any resulting changes in the liability would correspondingly adjust the amount of short-term timing differences held in the Group statement of financial position.

Retirement and other post-employment benefits – the cost of defined benefit pension plans and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.

Tax – provisions for tax accruals require judgements on the interpretation of tax legislation, developments in tax case law and the potential outcomes of tax audits and appeals. In addition, deferred tax assets are recognised for unused tax attributes to the extent that it is probable that taxable profit will be available against which they can be utilised. Judgement is required as to the amount that can be recognised based on the likely amount and timing of future taxable profits, taking into account expected tax planning. Deferred tax balances are dependent on management's expectations regarding the manner and timing of recovery of the related assets.

Other – the Group also makes estimates and judgements in the valuation of franchise and management agreements acquired on asset disposals, the valuation of financial assets classified as available-for-sale, the outcome of legal proceedings and claims and in the valuation of share-based payment costs.

New standards issued but not effective

The following accounting standards, amendments and interpretations with an effective date after the date of these financial statements have not been adopted early by the Group and will be adopted in accordance with the effective date. The Directors do not anticipate that the adoption of these standards, amendments and interpretations will have a material impact on the Group's reported income or net assets in the period of adoption.

- IFRS 9 'Financial Instruments: Classification and Measurement' which is effective from 1 January 2013, introduces new requirements for classifying and measuring financial assets and for measuring financial liabilities at fair value through profit or loss.
- IAS 24 (amendment) 'Related Party Disclosures' which is effective from 1 January 2011, clarifies and simplifies the definition of a related party.
- IFRIC 14 (amendment) 'Prepayments of a Minimum Funding Requirement' which is effective from 1 January 2011 with retrospective application, permits an entity to treat the prepayment of a minimum funding requirement as an asset.
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' which is effective from 1 July 2010, clarifies that equity instruments issued to a creditor to extinguish a financial liability are measured at fair value with any gain or loss recognised immediately in profit or loss.
- IFRS 7 (amendment) 'Financial Instruments: Disclosures', which is effective from 1 January 2011, amends the credit risk disclosures for financial assets.
- IFRIC 13 (amendment) 'Customer Loyalty Programmes', which is effective from 1 January 2011, clarifies that when the fair value of an award is measured based on redemption value, the amount of discounts granted to customers not in the loyalty programme should be taken into account.

Note: the effective dates are in respect of accounting periods beginning on or after the date shown and so will be effective for the Group from 1 January 2011, other than IFRS 9 which will be effective for the Group from 1 January 2013.

Notes to the Group financial statements

1. Exchange rates

The results of operations have been translated into US dollars at the average rates of exchange for the year. In the case of sterling, the translation rate is \$1=£0.65 (2009 \$1=£0.64). In the case of the euro, the translation rate is \$1=€0.76 (2009 \$1=€0.72).

Assets and liabilities have been translated into US dollars at the rates of exchange on the last day of the year. In the case of sterling, the translation rate is \$1=£0.64 (2009 \$1=£0.62). In the case of the euro, the translation rate is \$1=€0.75 (2009 \$1=€0.69).

2. Segmental information

The management of the Group's operations, excluding Central functions, is organised within three geographical regions:

Americas;

Europe, Middle East and Africa (EMEA); and

Asia Pacific.

These, together with Central functions, comprise the Group's four reportable segments.

The Asia Pacific reportable segment comprises the aggregation of two operating segments, Greater China and Asia Australasia. Central functions include costs of global functions, including technology, sales and marketing, finance, human resources and corporate services; revenue arises principally from technology fee

income. Central liabilities include the loyalty programme liability and the cumulative short-term System Fund surplus.

Each of the geographical regions derives its revenues from either franchising, managing or owning hotels and additional segmental disclosures are provided accordingly.

Management monitors the operating results of the geographical regions and Central functions separately for the purpose of making decisions about resource allocation and performance assessment. Segmental performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements, excluding exceptional items. Group financing and income taxes are managed on a group basis and are not allocated to reportable segments.

Year ended 31 December 2010	Americas \$m	EMEA \$m	Asia Pacific \$m	Central \$m	Group \$m
Revenue					
Franchised	465	81	12	–	558
Managed	119	130	155	–	404
Owned and leased	223	203	136	–	562
Central	–	–	–	104	104
Total revenue*	807	414	303	104	1,628
	Americas \$m	EMEA \$m	Asia Pacific \$m	Central \$m	Group \$m
Segmental result					
Franchised	392	59	7	–	458
Managed	21	62	73	–	156
Owned and leased	13	40	35	–	88
Regional and central	(57)	(36)	(26)	(139)	(258)
Reportable segments' operating profit	369	125	89	(139)	444
Exceptional operating items (note 5)	14	3	(2)	–	15
Operating profit*	383	128	87	(139)	459
			Continuing \$m	Discontinued \$m	Group \$m
Reportable segments' operating profit			444	–	444
Exceptional operating items			15	–	15
Operating profit			459	–	459
Net finance costs			(62)	–	(62)
Profit before tax			397	–	397
Tax			(106)	–	(106)
Profit after tax			291	–	291
Gain on disposal of assets, net of tax			–	2	2
Profit for the year			291	2	293

* Relates to continuing operations.

2. Segmental information continued

31 December 2010	Americas \$m	EMEA \$m	Asia Pacific \$m	Central \$m	Group \$m
Assets and liabilities					
Segment assets	891	856	665	194	2,606
Unallocated assets:					
Deferred tax assets					79
Current tax receivable					13
Cash and cash equivalents					78
Total assets					2,776
Segment liabilities	(452)	(290)	(86)	(568)	(1,396)
Unallocated liabilities:					
Current tax payable					(167)
Deferred tax liabilities					(84)
Loans and other borrowings					(794)
Derivatives					(44)
Total liabilities					(2,485)
Year ended 31 December 2010	Americas \$m	EMEA \$m	Asia Pacific \$m	Central \$m	Group \$m
Other segmental information					
Capital expenditure (see below)	37	8	12	40	97
Non-cash items:					
Onerous management contracts	–	3	–	–	3
Depreciation and amortisation*	33	25	30	20	108
Impairment losses	7	–	–	–	7
Share-based payments cost	–	–	–	32	32

* Included in the \$108m of depreciation and amortisation is \$31m relating to administrative expenses and \$77m relating to cost of sales.

	Americas \$m	EMEA \$m	Asia Pacific \$m	Central \$m	Group \$m
Reconciliation of capital expenditure					
Capital expenditure per management reporting	37	8	12	40	97
Management contract acquired on disposal	5	–	–	–	5
Timing differences	–	(1)	(4)	–	(5)
Capital expenditure per the financial statements	42	7	8	40	97
Comprising additions to:					
Property, plant and equipment	27	6	3	23	59
Intangible assets	11	1	5	17	34
Other financial assets	4	–	–	–	4
	42	7	8	40	97

Notes to the Group financial statements continued

2. Segmental information continued

Year ended 31 December 2009	Americas \$m	EMEA \$m	Asia Pacific \$m	Central \$m	Group \$m
Revenue					
Franchised	437	83	11	–	531
Managed	110	119	105	–	334
Owned and leased	225	195	129	–	549
Central	–	–	–	124	124
Total revenue*	772	397	245	124	1,538
	Americas \$m	EMEA \$m	Asia Pacific \$m	Central \$m	Group \$m
Segmental result					
Franchised	364	60	5	–	429
Managed	(40)	65	44	–	69
Owned and leased	11	33	30	–	74
Regional and central	(47)	(31)	(27)	(104)	(209)
Reportable segments' operating profit	288	127	52	(104)	363
Exceptional operating items (note 5)	(301)	(22)	(7)	(43)	(373)
Operating loss*	(13)	105	45	(147)	(10)
			Continuing \$m	Discontinued \$m	Group \$m
Reportable segments' operating profit			363	–	363
Exceptional operating items			(373)	–	(373)
Operating loss			(10)	–	(10)
Net finance costs			(54)	–	(54)
Loss before tax			(64)	–	(64)
Tax			272	–	272
Profit after tax			208	–	208
Gain on disposal of assets, net of tax			–	6	6
Profit for the year			208	6	214

* Relates to continuing operations.

31 December 2009	Americas \$m	EMEA \$m	Asia Pacific \$m	Central \$m	Group \$m
Assets and liabilities					
Segment assets	970	926	631	196	2,723
Unallocated assets:					
Deferred tax assets					95
Current tax receivable					35
Cash and cash equivalents					40
Total assets					2,893
Segment liabilities	(417)	(236)	(63)	(567)	(1,283)
Unallocated liabilities:					
Current tax payable					(194)
Deferred tax liabilities					(118)
Loans and other borrowings					(1,122)
Derivatives					(20)
Total liabilities					(2,737)

2. Segmental information continued

Year ended 31 December 2009	Americas \$m	EMEA \$m	Asia Pacific \$m	Central \$m	Group \$m
Other segmental information					
Capital expenditure (see below)	80	5	14	37	136
Non-cash items:					
Onerous management contracts	91	–	–	–	91
Depreciation and amortisation*	33	29	28	19	109
Impairment losses	189	8	–	–	197
Share-based payments cost	–	–	–	22	22

* Included in the \$109m of depreciation and amortisation is \$29m relating to administrative expenses and \$80m relating to cost of sales.

	Americas \$m	EMEA \$m	Asia Pacific \$m	Central \$m	Group \$m
Reconciliation of capital expenditure					
Capital expenditure per management reporting	80	5	14	37	136
Timing differences	(45)	1	1	–	(43)
Capital expenditure per the financial statements	35	6	15	37	93
Comprising additions to:					
Property, plant and equipment	29	6	9	13	57
Intangible assets	6	–	3	24	33
Investment in associates	–	–	3	–	3
	35	6	15	37	93

Geographical information

	Year ended 31 December 2010 \$m	Year ended 31 December 2009 \$m
Revenue		
United Kingdom	130	125
United States	706	678
Rest of World	792	735
Total revenue per Group income statement	1,628	1,538

For the purposes of the above table, hotel revenue is determined according to the location of the hotel and other revenue is attributed to the country of origin. In addition to the United Kingdom, revenue relating to an individual country is separately disclosed when it represents 10% or more of total revenue.

	31 December 2010 \$m	31 December 2009 \$m
Non-current assets		
United Kingdom	366	389
United States	726	805
France	344	376
People's Republic of China (including Hong Kong)	335	354
Rest of World	320	313
Total	2,091	2,237

For the purposes of the above table, non-current assets comprise property, plant and equipment, goodwill, intangible assets and investments in associates. Non-current assets relating to an individual country are separately disclosed when they represent 10% or more of total non-current assets, as defined above.

Notes to the Group financial statements continued

3. Staff costs and Directors' emoluments

	2010 \$m	2009 \$m
Staff		
Costs:		
Wages and salaries	535	441
Social security costs	34	45
Pension and other post-retirement benefits:		
Defined benefit plans (note 25)	9	12
Defined contribution plans	19	26
	597	524
	2010	2009
Average number of employees, including part-time employees:		
Americas	3,309	3,229
EMEA	1,795	1,712
Asia Pacific	1,517	1,410
Central	1,237	1,205
	7,858	7,556

The costs of the above employees are borne by IHG. In addition, the Group employs 4,489 (2009 4,561) people who work in managed hotels or directly on behalf of the System Fund and whose costs of \$282m (2009 \$267m) are borne by those hotels or by the Fund.

	2010 \$m	2009 \$m
Directors' emoluments		
Base salaries, fees, performance payments and benefits	6.5	3.3

More detailed information on the emoluments, pensions, option holdings and shareholdings for each Director is shown in the Remuneration report on pages 48 to 60.

4. Auditor's remuneration paid to Ernst & Young LLP

	2010 \$m	2009 \$m
Group audit fees	1.9	1.8
Audit fees in respect of subsidiaries	1.6	2.1
Tax fees	2.1	1.7
Interim review fees	0.3	0.3
Other services pursuant to legislation	0.3	0.3
Other	1.7	1.5
	7.9	7.7

Audit fees in respect of the pension scheme were not material.

The Audit Committee has a process to ensure that any non-audit services do not compromise the independence and objectivity of the external auditor and that relevant UK and US professional and regulatory requirements are met. A number of criteria are applied when deciding whether pre-approval for such services should be given. These include the nature of the service, the level of fees and the practicality of appointing an alternative provider, having regard to the skills and experience required to supply the service effectively. Cumulative fees for audit and non-audit services are presented to the Audit Committee on a quarterly basis for review. The Audit Committee is responsible for monitoring adherence to the pre-approval policy.

5. Exceptional items

	Note	2010 \$m	2009 \$m
Continuing operations			
Exceptional operating items			
Cost of sales:			
Onerous management contracts	a	–	(91)
Administrative expenses:			
Holiday Inn brand relaunch	b	(9)	(19)
Reorganisation and related costs	c	(4)	(43)
Enhanced pension transfer	d	–	(21)
		(13)	(83)
Other operating income and expenses:			
Gain on sale of other financial assets	e	8	–
Gain/(loss) on disposal of hotels (note 11)*		27	(2)
		35	(2)
Impairment:			
Property, plant and equipment (note 10)		(6)	(28)
Assets held for sale (note 11)		–	(45)
Goodwill (note 12)		–	(78)
Intangible assets (note 13)		–	(32)
Other financial assets (note 15)		(1)	(14)
		(7)	(197)
		15	(373)
Tax			
Tax on exceptional operating items		(8)	112
Exceptional tax credit	f	–	175
		(8)	287
Discontinued operations			
Gain on disposal of assets (note 11)			
Gain on disposal of hotels**		–	2
Tax credit		2	4
	g	2	6

* Relates to hotels classified as continuing operations.

** Relates to hotels classified as discontinued operations.

The above items are treated as exceptional by reason of their size or nature.

- a An onerous contract provision of \$65m was recognised at 31 December 2009 for the future net unavoidable costs under a performance guarantee related to certain management contracts with one US hotel owner. In addition to the provision, a deposit of \$26m was written off as it is no longer considered recoverable under the terms of the same management contracts.
- b Relates to costs incurred in support of the worldwide relaunch of the Holiday Inn brand family that was announced on 24 October 2007.
- c Primarily relates to the closure of certain corporate offices together with severance costs arising from a review of the Group's cost base.
- d Related to the payment of enhanced pension transfers to those deferred members of the InterContinental Hotels UK Pension Plan who had accepted an offer to receive the enhancement either as a cash lump sum or as an additional transfer value to an alternative pension plan provider. The exceptional item in 2009 comprised the lump sum payments (\$9m), the IAS 19 settlement loss arising on the pension transfers (\$11m) and the costs of the arrangement (\$1m). The payments and transfers were made in January 2009.
- e Relates to the gain on sale of an investment in the EMEA region.
- f Represents the release of provisions of \$7m (2009 \$175m) which are exceptional by reason of their size or nature relating to tax matters which had been settled or in respect of which the relevant statutory limitation period has expired, together with, in 2010, a \$7m charge relating to an internal reorganisation. This charge comprises the recognition of deferred tax assets of \$24m for capital losses and other deductible amounts, offset by tax charges of \$31m.
- g In 2010, relates to tax refunded relating to the sale of a hotel in a prior year. In 2009, related to tax arising on disposals together with the release of provisions no longer required in respect of hotels disposed of in prior years.

Notes to the Group financial statements continued

6. Finance costs

	2010 \$m	2009 \$m
Financial income		
Interest income	2	2
Fair value gains	–	1
	2	3
Financial expenses		
Interest expense	46	39
Finance charge payable under finance leases	18	18
	64	57

Interest income and expense relate to financial assets and liabilities held at amortised cost, calculated using the effective interest rate method.

Included within interest expense is \$2m (2009 \$2m) payable to the Priority Club Rewards loyalty programme relating to interest on the accumulated balance of cash received in advance of the redemption of points awarded.

7. Tax

	Note	2010 \$m	2009 \$m
Income tax			
UK corporation tax at 28% (2009 28%):			
Current period		21	26
Adjustments in respect of prior periods		(29)	(33)
		(8)	(7)
Foreign tax:	a		
Current period		122	79
Benefit of tax reliefs on which no deferred tax previously recognised		(13)	(6)
Adjustments in respect of prior periods	b	(23)	(246)
		86	(173)
Total current tax		78	(180)
Deferred tax:			
Origination and reversal of temporary differences		56	(73)
Changes in tax rates		(2)	1
Adjustments to estimated recoverable deferred tax assets		(36)	1
Adjustments in respect of prior periods		8	(25)
Total deferred tax		26	(96)
Total income tax charge/(credit) for the year		104	(276)
Further analysed as tax relating to:			
Profit before exceptional items		98	15
Exceptional items (note 5):			
Exceptional operating items		8	(112)
Exceptional tax credit	c	–	(175)
Gain on disposal of assets		(2)	(4)
		104	(276)
The total tax charge/(credit) can be further analysed as relating to:			
Continuing operations		106	(272)
Discontinued operations – gain on disposal of assets		(2)	(4)
		104	(276)

a Represents corporate income taxes on profit taxable in foreign jurisdictions, a significant proportion of which relates to the Group's US subsidiaries.

b Includes \$7m (2009 \$165m) of exceptional releases included at note c below together with other releases relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired.

c Represents the release of provisions of \$7m (2009 \$175m) which are exceptional by reason of their size or nature relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired, together with, in 2010, a \$7m charge relating to an internal reorganisation. This charge comprises the recognition of deferred tax assets of \$24m for capital losses and other deductible amounts, offset by tax charges of \$31m.

7. Tax continued

		Total ^a		Before exceptional items ^b
	2010 %	2009 %	2010 %	2009 %
Reconciliation of tax charge/(credit), including gain on disposal of assets				
UK corporation tax at standard rate	28.0	28.0	28.0	28.0
Non-deductible expenditure and non-taxable income	4.1	(36.5)	4.2	7.4
Net effect of different rates of tax in overseas businesses	9.5	(43.0)	9.3	8.7
Effect of changes in tax rates	(0.4)	(0.3)	(0.7)	0.1
Benefit of tax reliefs on which no deferred tax previously recognised	(3.5)	7.2	(3.6)	(1.5)
Effect of adjustments to estimated recoverable deferred tax assets	(9.1)	5.9	(2.3)	(1.2)
Adjustment to tax charge in respect of prior periods	(11.2)	185.5	(9.1)	(37.6)
Other	–	(3.8)	–	0.8
Exceptional items and gain on disposal of assets	8.7	298.3	–	–
	26.1	441.3	25.8	4.7

a Calculated in relation to total profits/losses including exceptional items.

b Calculated in relation to profits excluding exceptional items.

Tax paid

Total net tax paid during the year of \$68m (2009 \$2m) comprises \$64m paid (2009 \$1m paid) in respect of operating activities and \$4m paid (2009 \$1m) in respect of investing activities.

Tax paid is lower than the current period income tax charge primarily due to the receipt of refunds in respect of prior years together with provisions for tax for which no payment of tax has currently been made.

Tax risks, policies and governance

It is the Group's objective to comply fully with its worldwide corporate income tax filing, payment and reporting obligations, whilst managing its tax affairs within acceptable risk parameters on a basis consistent with the Group's overall business conduct principles in order to minimise its worldwide liabilities in the best interests of its shareholders. The Group adopts a policy of open co-operation with tax authorities, with full disclosure of relevant issues.

The Group's tax objectives and policies, and any changes thereto, are reviewed and approved by the Audit Committee. Regular tax reports are made to the Chief Financial Officer in addition to an annual presentation to the Audit Committee covering the Group's tax position, strategy and major risks. Tax is also encompassed within the Group's formal risk management procedures and any material tax disputes, litigation or tax planning activities are subject to internal risk review and management approval procedures.

8. Dividends paid and proposed

	2010 cents per share	2009 cents per share	2010 \$m	2009 \$m
Paid during the year:				
Final (declared for previous year)	29.2	29.2	84	83
Interim	12.8	12.2	37	35
	42.0	41.4	121	118
Proposed (not recognised as a liability at 31 December):				
Final	35.2	29.2	101	84

The final dividend of 22.0p (35.2¢ converted at the closing exchange rate on 11 February 2011) is proposed for approval at the Annual General Meeting on 27 May 2011 and is payable on the shares in issue at 25 March 2011.

Notes to the Group financial statements continued

9. Earnings per ordinary share

Basic earnings per ordinary share is calculated by dividing the profit for the year available for IHG equity holders by the weighted average number of ordinary shares, excluding investment in own shares, in issue during the year.

Diluted earnings per ordinary share is calculated by adjusting basic earnings per ordinary share to reflect the notional exercise of the weighted average number of dilutive ordinary share options outstanding during the year.

Adjusted earnings per ordinary share is disclosed in order to show performance undistorted by exceptional items, to give a more meaningful comparison of the Group's performance.

	2010		2009	
	Continuing operations	Total	Continuing operations	Total
Basic earnings per ordinary share				
Profit available for equity holders (\$m)	291	293	207	213
Basic weighted average number of ordinary shares (millions)	288	288	285	285
Basic earnings per ordinary share (cents)	101.0	101.7	72.6	74.7
Diluted earnings per ordinary share				
Profit available for equity holders (\$m)	291	293	207	213
Diluted weighted average number of ordinary shares (millions)	296	296	295	295
Diluted earnings per ordinary share (cents)	98.3	99.0	70.2	72.2
	2010 millions		2009 millions	
Diluted weighted average number of ordinary shares is calculated as:				
Basic weighted average number of ordinary shares		288		285
Dilutive potential ordinary shares – employee share options		8		10
		296		295
	2010		2009	
	Continuing operations	Total	Continuing operations	Total
Adjusted earnings per ordinary share				
Profit available for equity holders (\$m)	291	293	207	213
Adjusting items (note 5):				
Exceptional operating items (\$m)	(15)	(15)	373	373
Tax on exceptional operating items (\$m)	8	8	(112)	(112)
Exceptional tax credit (\$m)	–	–	(175)	(175)
Gain on disposal of assets, net of tax (\$m)	–	(2)	–	(6)
Adjusted earnings (\$m)	284	284	293	293
Basic weighted average number of ordinary shares (millions)	288	288	285	285
Adjusted earnings per ordinary share (cents)	98.6	98.6	102.8	102.8
Adjusted earnings (\$m)	284	284	293	293
Diluted weighted average number of ordinary shares (millions)	296	296	295	295
Adjusted diluted earnings per ordinary share (cents)	95.9	95.9	99.3	99.3

10. Property, plant and equipment

	Land and buildings \$m	Fixtures, fittings and equipment \$m	Total \$m
Cost			
At 1 January 2009	1,366	900	2,266
Additions	22	35	57
Net transfers from non-current assets classified as held for sale	176	104	280
Reclassification	14	(14)	-
Disposals	-	(3)	(3)
Exchange and other adjustments	44	24	68
At 31 December 2009	1,622	1,046	2,668
Additions	24	35	59
Net transfers to non-current assets classified as held for sale	(57)	(55)	(112)
Disposals	(11)	(20)	(31)
Exchange and other adjustments	(30)	(9)	(39)
At 31 December 2010	1,548	997	2,545
Depreciation and impairment			
At 1 January 2009	(100)	(482)	(582)
Provided	(11)	(60)	(71)
Net transfers from non-current assets classified as held for sale	(44)	(45)	(89)
Impairment charge (see below)	(28)	-	(28)
Valuation adjustments arising on reclassification from held for sale (note 11)	(28)	(17)	(45)
Disposals	-	2	2
Exchange and other adjustments	(1)	(18)	(19)
At 31 December 2009	(212)	(620)	(832)
Provided	(11)	(64)	(75)
Net transfers to non-current assets classified as held for sale	1	29	30
Impairment charge (see below)	-	(6)	(6)
Disposals	8	18	26
Exchange and other adjustments	1	1	2
At 31 December 2010	(213)	(642)	(855)
Net book value			
At 31 December 2010	1,335	355	1,690
At 31 December 2009	1,410	426	1,836
At 1 January 2009	1,266	418	1,684

The impairment charge in 2010 arose in respect of one hotel in the Americas following a re-assessment of its recoverable amount, based on value in use. Estimated future cash flows were discounted at a pre-tax rate of 11.8%. The charge is included within impairment on the face of the Group income statement.

The impairment charge in 2009 arose as a result of the economic downturn and a re-assessment of the recoverable amount of certain properties, based on value in use. The charge, which is included within impairment on the face of the Group income statement, comprised \$20m in respect of a North American hotel and \$8m relating to a European hotel. Estimated future cash flows were discounted at pre-tax rates of 14.0% and 12.5% respectively.

The carrying value of property, plant and equipment held under finance leases at 31 December 2010 was \$183m (2009 \$187m).

The carrying value of assets in the course of construction was \$nil (2009 \$nil).

No borrowing costs were capitalised during the year (2009 \$nil).

Notes to the Group financial statements continued

11. Assets sold, held for sale and discontinued operations

There were no assets or liabilities classified as held for sale at either 31 December 2010 or 31 December 2009.

During the year ended 31 December 2010, two hotels in the Americas were sold including the InterContinental Buckhead, Atlanta on 1 July 2010 for a profit of \$27m.

During the year ended 31 December 2009, one hotel was sold and four others were reclassified as property, plant and equipment at 30 June 2009 when they no longer met the 'held for sale' criteria of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' as sales were no longer considered highly probable within the next 12 months. On reclassification, valuation adjustments of \$45m were recognised, comprising \$14m of depreciation not charged whilst held for sale and \$31m of further write-downs to recoverable amounts, as required by IFRS 5. Recoverable amounts were assessed by reference to value in use with the expected future cash flows for the North American hotel comprising substantially all of the write-down discounted at a pre-tax rate of 12.5%. The valuation adjustments were included within impairment on the face of the Group income statement.

	2010 \$m	2009 \$m
Consideration		
Current year disposals:		
Cash consideration, net of costs paid	109	20
Management contract value	5	–
	114	20
Net assets disposed of – property, plant and equipment	(87)	(22)
Prior year disposals:		
Provision release	–	2
Tax	2	4
Gain on disposal of assets	29	4
Analysed as:		
Gain/(loss) on disposal of hotels from continuing operations (note 5)	27	(2)
Gain on disposal of assets from discontinued operations (note 5)	2	6
	29	4
Net cash inflow		
Current year disposals:		
Cash consideration, net of costs paid	109	20
Tax	(6)	–
Prior year disposals:		
Costs paid	(2)	–
Tax	2	–
	103	20

Discontinued operations

The results of discontinued operations comprise gains arising from prior year hotel disposals of \$2m (2009 \$6m) and do not impact on segmental results.

	2010 cents	2009 cents
Earnings per ordinary share from discontinued operations		
Basic	0.7	2.1
Diluted	0.7	2.0

Cash flows attributable to discontinued operations were \$2m (2009 \$nil).

12. Goodwill

	2010 \$m	2009 \$m
Cost		
At 1 January	223	206
Exchange and other adjustments	10	17
At 31 December	233	223
Impairment		
At 1 January	(141)	(63)
Impairment charge	–	(78)
At 31 December	(141)	(141)
Net book value		
At 31 December	92	82
At 1 January	82	143

Goodwill arising on business combinations that occurred before 1 January 2005 was not restated on adoption of IFRS as permitted by IFRS 1.

Impairment charges are included within impairment on the face of the Group income statement and all cumulative impairment losses relate to the Americas managed CGU (see below).

Goodwill has been allocated to cash-generating units (CGUs) for impairment testing as follows:

	Cost		Net book value	
	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Asia Australasia franchised and managed operations	92	82	92	82
Americas managed operations	141	141	–	–
	233	223	92	82

The Group tests goodwill for impairment annually, or more frequently if there are any indications that an impairment may have arisen. The recoverable amounts of the CGUs are determined from value in use calculations. These calculations use pre-tax cash flow forecasts derived from the most recent financial budgets and strategic plans approved by management covering a five-year period or, in absence of up-to-date strategic plans, the financial budget for the next year with an extrapolation of the cash flows for the following four years, using growth rates based on management's past experience and industry growth forecasts. After the five-year planning period, the terminal value of future cash flows is calculated based on perpetual growth rates that do not exceed the average long-term growth rates for the relevant markets. Pre-tax discount rates are used to discount the cash flows based on the Group's weighted average cost of capital adjusted to reflect the risks specific to the business model and territory of the CGU being tested.

Asia Australasia goodwill

At 31 December 2010, the recoverable amount of the CGU has been assessed based on the approved budget for 2011 and strategic plans covering a five-year period, a perpetual growth rate of 3.5% (2009 3.5%) and a discount rate of 14.4% (2009 14.2%).

Impairment was not required at either 31 December 2010 or 31 December 2009 and management believe that the carrying value of the CGU would only exceed its recoverable amount in the event of highly unlikely changes in the key assumptions.

Americas goodwill

Americas managed operations incurred significant operating losses during 2009 as a result of the global economic downturn and, in particular, IHG's funding obligations under certain management contracts with one US hotel owner. As a consequence, goodwill was tested on a quarterly basis during 2009 using updated five-year projections prepared by management, a perpetual growth rate of 2.7% and a discount rate of 12.5%. Due to the expectation of continuing losses, the recoverable value of the CGU declined resulting in the impairment of the remaining goodwill balance during 2009. Total impairment charges of \$78m were recognised in 2009 (\$57m at 30 June 2009 and \$21m at 30 September 2009). As the goodwill is impaired in full, there is no sensitivity around any assumptions that could lead to a further impairment charge.

Notes to the Group financial statements continued

13. Intangible assets

	Software \$m	Management contracts \$m	Other intangibles \$m	Total \$m
Cost				
At 1 January 2009	158	220	93	471
Additions	24	–	9	33
Disposals	–	–	(7)	(7)
Exchange and other adjustments	3	11	3	17
At 31 December 2009	185	231	98	514
Additions	18	5	11	34
Disposals	(2)	–	(1)	(3)
Exchange and other adjustments	2	(5)	1	(2)
At 31 December 2010	203	231	109	543
Amortisation and impairment				
At 1 January 2009	(81)	(50)	(38)	(169)
Provided	(19)	(10)	(9)	(38)
Impairment charge (see below)	–	(32)	–	(32)
Disposals	–	–	5	5
Exchange and other adjustments	–	(4)	(2)	(6)
At 31 December 2009	(100)	(96)	(44)	(240)
Provided	(15)	(10)	(8)	(33)
Disposals	2	–	1	3
Exchange and other adjustments	(7)	–	–	(7)
At 31 December 2010	(120)	(106)	(51)	(277)
Net book value				
At 31 December 2010	83	125	58	266
At 31 December 2009	85	135	54	274
At 1 January 2009	77	170	55	302

The impairment charge in 2009 arose as a result of the economic downturn and a revision to the fee income expected to be earned under a US management contract. Estimated future cash flows were discounted at a pre-tax rate of 12.5% (previous valuation 12.5%). The charge is included within impairment on the face of the Group income statement.

The weighted average remaining amortisation period for management contracts is 21 years (2009 22 years).

14. Investment in associates

The Group holds five investments (2009 five) accounted for as associates. The following table summarises the financial information of the associates:

	2010 \$m	2009 \$m
Share of associates' statement of financial position		
Current assets	5	5
Non-current assets	62	65
Current liabilities	(9)	(9)
Non-current liabilities	(15)	(16)
Net assets	43	45
Share of associates' revenue and profit		
Revenue	26	31
Net loss	–	(1)
Related party transactions		
Revenue from related parties	4	4
Amounts owed by related parties	1	2

15. Other financial assets

	2010 \$m	2009 \$m
Non-current		
Equity securities available-for-sale	87	66
Other	48	64
	135	130
Current		
Equity securities available-for-sale	–	5

Available-for-sale financial assets, which are included in the Group statement of financial position at fair value, consist of equity investments in listed and unlisted shares. Of the total amount of equity investments at 31 December 2010, \$3m (2009 \$2m) were listed securities and \$84m (2009 \$69m) unlisted; \$41m (2009 \$39m) were denominated in US dollars, \$17m (2009 \$14m) in Hong Kong dollars and \$29m (2009 \$18m) in other currencies. Unlisted equity shares are mainly investments in entities that own hotels which the Group manages. The fair value of unlisted equity shares has been estimated using valuation guidelines issued by the British Venture Capital Association and is based on assumptions regarding expected future earnings. Listed equity share valuation is based on observable market prices. Dividend income from available-for-sale equity securities of \$8m (2009 \$7m) is reported as other operating income and expenses in the Group income statement.

Other financial assets consist of trade deposits and restricted cash. These amounts have been designated as 'loans and receivables' and are held at amortised cost. Restricted cash of \$42m (2009 \$47m) relates to cash held in bank accounts which is pledged as collateral to insurance companies for risks retained by the Group.

The movement in the provision for impairment of other financial assets during the year is as follows:

	2010 \$m	2009 \$m
At 1 January	(25)	(11)
Provided – exceptional items (note 5)	(1)	(14)
At 31 December	(26)	(25)

The amounts provided as exceptional items relate to available-for-sale equity investments and have arisen as a result of significant and prolonged declines in their fair value below cost. In 2009, a deposit of \$26m was also written off directly to the income statement as an exceptional item (see note 5) as it is no longer considered recoverable under the terms of the related management contracts which are deemed onerous.

The provision is used to record impairment losses unless the Group is satisfied that no recovery of the amount is possible; at that point the amount considered irrecoverable is either written off directly to the income statement or, if previously provided, against the financial asset with no impact on the income statement.

16. Inventories

	2010 \$m	2009 \$m
Finished goods	2	2
Consumable stores	2	2
	4	4

Notes to the Group financial statements continued

17. Trade and other receivables

	2010 \$m	2009 \$m
Trade receivables	292	268
Other receivables	32	27
Prepayments	47	40
	371	335

Trade and other receivables are designated as 'loans and receivables' and are held at amortised cost.

Trade receivables are non-interest-bearing and are generally on payment terms of up to 30 days. The fair value of trade and other receivables approximates their carrying value.

The maximum exposure to credit risk for trade and other receivables, excluding prepayments, at the end of the reporting period by geographic region is:

	2010 \$m	2009 \$m
Americas	163	158
Europe, Middle East and Africa	98	90
Asia Pacific	63	47
	324	295

The ageing of trade and other receivables, excluding prepayments, at the end of the reporting period is:

	2010			2009		
	Gross \$m	Provision \$m	Net \$m	Gross \$m	Provision \$m	Net \$m
Not past due	197	[3]	194	173	[2]	171
Past due 1 to 30 days	75	[4]	71	70	[9]	61
Past due 31 to 180 days	66	[9]	57	80	[19]	61
Past due more than 180 days	44	[42]	2	57	[55]	2
	382	[58]	324	380	[85]	295

The movement in the provision for impairment of trade and other receivables during the year is as follows:

	2010 \$m	2009 \$m
At 1 January	(85)	(110)
Provided	(27)	(34)
Amounts written back	7	3
Amounts written off	47	56
At 31 December	(58)	(85)

18. Cash and cash equivalents

	2010 \$m	2009 \$m
Cash at bank and in hand	38	23
Short-term deposits	40	17
	78	40

Short-term deposits are highly liquid investments with an original maturity of three months or less, in various currencies.

19. Trade and other payables

	2010 \$m	2009 \$m
Current		
Trade payables	113	99
Other tax and social security payable	35	29
Other payables	226	278
Accruals	348	262
	722	668
Non-current		
Other payables	464	408

Trade payables are non-interest-bearing and are normally settled within an average of 45 days.

Other payables include \$531m (2009 \$470m) relating to the future redemption liability of the Group's loyalty programme, of which \$92m (2009 \$86m) is classified as current and \$439m (2009 \$384m) as non-current.

20. Provisions

	2010 \$m	2009 \$m
Onerous management contracts		
At 1 January	65	–
Provided	3	65
Utilised	(58)	–
At 31 December	10	65
Analysed as:		
Current	8	65
Non-current	2	–
	10	65

The onerous management contracts provision relates to the unavoidable net cash outflows that are expected to be incurred under performance guarantees associated with certain management contracts. The non-current portion of the provision is expected to be utilised over the period to 2020.

The amount provided in 2009 was recognised as an exceptional item (note 5).

21. Financial risk management

Overview

The Group's treasury policy is to manage financial risks that arise in relation to underlying business needs. The activities of the treasury function are carried out in accordance with Board approved policies and are subject to regular audit. The treasury function does not operate as a profit centre.

The treasury function seeks to reduce the financial risk of the Group and manages liquidity to meet all foreseeable cash needs. Treasury activities include money market investments, spot and forward foreign exchange instruments, currency options, currency swaps, interest rate swaps and options and forward rate agreements. One of the primary objectives of the Group's treasury risk management policy is to mitigate the adverse impact of movements in interest rates and foreign exchange rates.

Market risk exposure

The US dollar is the predominant currency of the Group's revenue and cash flows. Movements in foreign exchange rates can affect the Group's reported profit, net assets and interest cover. To hedge translation exposure, wherever possible, the Group matches the currency of its debt (either directly or via derivatives) to the currency of its net assets, whilst maximising the amount of US dollars borrowed to reflect the predominant trading currency.

Foreign exchange transaction exposure is managed by the forward purchase or sale of foreign currencies or the use of currency options. Most significant exposures of the Group are in currencies that are freely convertible.

A general strengthening of the US dollar (specifically a five cent fall in the sterling:US dollar rate) would increase the Group's profit before tax by an estimated \$3.5m (2009 \$1.6m) and decrease net assets by an estimated \$5.6m (2009 \$4.1m). Similarly, a five cent fall in the euro:US dollar rate would reduce the Group's profit before tax by an estimated \$1.4m (2009 \$0.7m) and decrease net assets by an estimated \$8.2m (2009 \$4.5m).

Notes to the Group financial statements continued

21. Financial risk management continued

Interest rate exposure is managed within parameters that stipulate that fixed rate borrowings should normally account for no less than 25% and no more than 75% of net borrowings for each major currency. This is usually achieved through the use of interest rate swaps. Due to relatively low interest rates and the level of the Group's debt, 100% of borrowings were fixed rate debt or had been swapped into fixed rate borrowings at 31 December 2010.

Based on the year-end net debt position and given the underlying maturity profile of investments, borrowings and hedging instruments at that date, a one percentage point rise in US dollar interest rates would increase the annual net interest charge by approximately \$nil (2009 \$0.8m). A similar rise in euro and sterling interest rates would increase the annual net interest charge by approximately \$nil (2009 \$1.1m) and \$nil (2009 \$nil) respectively.

Liquidity risk exposure

The treasury function ensures that the Group has access to sufficient funds to allow the implementation of the strategy set by the Board. At the year end, the Group had access to \$1,452m of undrawn committed facilities. Medium and long-term borrowing requirements are met through the \$1.6bn Syndicated Facility which expires in May 2013 and through the £250m 6% bonds that are repayable on 9 December 2016. Short-term borrowing requirements are met from drawings under bilateral bank facilities.

The Syndicated Facility contains two financial covenants: interest cover and net debt divided by earnings before interest, tax, depreciation and amortisation (EBITDA). Net debt for this purpose is calculated as total borrowings less cash and cash equivalents. The Group is in compliance with all of the financial covenants in its loan documents, none of which is expected to present a material restriction on funding in the near future.

At the year end, the Group had cash of \$78m which is held in short-term deposits and cash funds which allow daily withdrawals of cash. Most of the Group's funds are held in the UK or US and there are no material funds where repatriation is restricted as a result of foreign exchange regulations.

Credit risk exposure

Credit risk on treasury transactions is minimised by operating a policy on the investment of surplus cash that generally restricts counterparties to those with an A credit rating or better or those providing adequate security.

Notwithstanding that counterparties must have an A credit rating or better, during periods of significant financial market turmoil, counterparty exposure limits are significantly reduced and counterparty credit exposure reviews are broadened to include the relative placing of credit default swap pricings.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In respect of credit risk arising from financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern. The capital structure consists of net debt, issued share capital and reserves totalling \$1,027m at 31 December 2010 (2009 \$1,241m). The structure is managed to maintain an investment grade credit rating, to provide ongoing returns to shareholders and to service debt obligations, whilst maintaining maximum operational flexibility. A key characteristic of IHG's managed and franchised business model is that it generates more cash than is required for investment in the business, with a high return on capital employed. Surplus cash is either reinvested in the business, used to repay debt or returned to shareholders. The Group maintains a conservative level of debt which is monitored on the basis of a cash flow leverage ratio, being net debt divided by EBITDA.

Hedging

Interest rate risk

The Group hedges its interest rate risk by taking out interest rate swaps to fix the interest flows on between 25% and 75% of its net borrowings in major currencies, although 100% of interest flows were fixed at 31 December 2010. At 31 December 2010, the Group held interest rate swaps (swapping floating for fixed) with notional principals of \$100m and EUR75m (2009 \$250m and EUR75m). The Group designates its interest rate swaps as cash flow hedges (see note 23 for further details).

Foreign currency risk

The Group is exposed to foreign currency risk on income streams denominated in foreign currencies. From time to time, the Group hedges a portion of forecast foreign currency income by taking out forward exchange contracts. The designated risk is the spot foreign exchange risk. There were no such contracts in place at either 31 December 2010 or 31 December 2009.

Hedge of net investment in foreign operations

The Group designates its foreign currency bank borrowings and currency derivatives as net investment hedges of foreign operations. The designated risk is the spot foreign exchange risk for loans and short dated derivatives and the forward risk for the seven-year currency swaps. The interest on these financial instruments is taken through financial income or expense except for the seven-year currency swaps where interest is taken to the currency translation reserve.

At 31 December 2010, the Group held currency swaps with a principal of \$415m (2009 \$415m) and short dated foreign exchange swaps with principals of EUR75m (2009 nil) and HKD70m (2009 nil). See note 23 for further details. The maximum amount of foreign exchange derivatives held during the year as net investment hedges and measured at calendar quarter ends were currency swaps with a principal of \$415m (2009 \$415m) and short dated foreign exchange swaps with principals of HKD280m and EUR75m.

Hedge effectiveness is measured at calendar quarter ends. No ineffectiveness arose in respect of either the Group's cash flow or net investment hedges during the current or prior year.

21. Financial risk management continued

Liquidity risk

The following are the undiscounted contractual cash flows of financial liabilities, including interest payments:

	Less than 1 year \$m	Between 1 and 2 years \$m	Between 2 and 5 years \$m	More than 5 years \$m	Total \$m
31 December 2010					
Non-derivative financial liabilities:					
Secured bank loans	1	5	–	–	6
£250m 6% bonds	23	23	70	411	527
Finance lease obligations	16	16	48	3,348	3,428
Unsecured bank loans	201	–	–	–	201
Trade and other payables	722	118	137	336	1,313
Provisions	8	–	2	–	10
Derivative financial liabilities:					
Interest rate swaps	4	1	–	–	5
Forward foreign exchange contracts	2	–	–	–	2
Currency swaps – outflows	26	26	77	441	570
– inflows	(23)	(23)	(70)	(411)	(527)

	Less than 1 year \$m	Between 1 and 2 years \$m	Between 2 and 5 years \$m	More than 5 years \$m	Total \$m
31 December 2009					
Non-derivative financial liabilities:					
Secured bank loans	3	1	5	–	9
£250m 6% bonds	24	24	73	453	574
Finance lease obligations	16	16	48	3,364	3,444
Unsecured bank loans	512	–	–	–	512
Trade and other payables	668	102	120	302	1,192
Provisions	65	–	–	–	65
Derivative financial liabilities:					
Interest rate swaps	7	4	1	–	12
Currency swaps – outflows	26	26	77	467	596
– inflows	(24)	(24)	(73)	(453)	(574)

Cash flows relating to unsecured bank loans are classified according to the maturity date of the loan drawdown rather than the facility maturity date.

Interest rate swaps are expected to affect profit or loss in the same periods that the cash flows are expected to occur.

Credit risk

The carrying amount of financial assets represents the maximum exposure to credit risk.

	2010 \$m	2009 \$m
Equity securities available-for-sale	87	71
Loans and receivables:		
Cash and cash equivalents	78	40
Other financial assets	48	64
Trade and other receivables, excluding prepayments	324	295
	537	470

Notes to the Group financial statements continued

21. Financial risk management continued

Fair values

The table below compares carrying amounts and fair values of the Group's financial assets and liabilities.

		2010		2009	
	Note	Carrying value \$m	Fair value \$m	Carrying value \$m	Fair value \$m
Financial assets					
Equity securities available-for-sale*	15	87	87	71	71
Loans and receivables:					
Cash and cash equivalents	18	78	78	40	40
Other financial assets	15	48	48	64	64
Trade and other receivables, excluding prepayments	17	324	324	295	295
Financial liabilities					
£250m 6% bonds	22	(385)	(404)	(402)	(402)
Finance lease obligations	22	(206)	(217)	(204)	(206)
Other borrowings	22	(203)	(203)	(516)	(516)
Trade and other payables	19	(1,186)	(1,186)	(1,076)	(1,076)
Derivatives*	23	(44)	(44)	(20)	(20)
Provisions	20	(10)	(10)	(65)	(65)

* Financial assets and liabilities which are measured at fair value.

The fair value of cash and cash equivalents approximates book value due to the short maturity of the investments and deposits. Equity securities available-for-sale and derivatives are held in the Group statement of financial position at fair value as set out in notes 15 and 23. The fair value of other financial assets approximates book value based on prevailing market rates. The fair value of borrowings, excluding finance lease obligations and the fixed rate £250m 6% bonds, approximates book value as interest rates reset to market rates on a frequent basis. The fair value of the £250m 6% bonds is based on the quoted market price. The fair value of finance lease obligations is calculated by discounting future cash flows at prevailing interest rates. The fair value of trade and other receivables, trade and other payables and current provisions approximates to their carrying value, including the future redemption liability of the Group's loyalty programme.

Fair value hierarchy

The Group uses the following valuation hierarchy to determine the carrying value of financial instruments that are measured at fair value:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	2010				2009			
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Assets								
Equity securities available-for-sale	3	–	84	87	2	–	69	71
Liabilities								
Derivatives	–	(44)	–	(44)	–	(20)	–	(20)

There were no transfers between Level 1 and Level 2 fair value measurements during the year and no transfers into and out of Level 3.

21. Financial risk management continued

The following table reconciles movements in instruments classified as Level 3 during the year:

	2010 \$m	2009 \$m
At 1 January	69	68
Additions	4	–
Repaid	(5)	–
Valuation gains recognised in other comprehensive income	16	11
Impairment*	–	(10)
At 31 December	84	69

* The impairment charge recognised in the income statement (see note 5) also includes \$1m (2009 \$4m) of losses reclassified from equity.

The Level 3 equity securities relate to investments in unlisted shares which are valued by applying an average price-earnings (P/E) ratio for a competitor group to the earnings generated by the investment. A 10% increase in the average P/E ratio would result in a \$4m increase in the fair value of the investments (2009 \$5m) and a 10% decrease in the average P/E ratio would result in a \$4m decrease in the fair value of the investments (2009 \$5m).

22. Loans and other borrowings

	2010			2009		
	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
Secured bank loans	1	4	5	3	5	8
Finance leases	16	190	206	16	188	204
£250m 6% bonds	–	385	385	–	402	402
Unsecured bank loans	1	197	198	87	421	508
Total borrowings	18	776	794	106	1,016	1,122
Denominated in the following currencies:						
Sterling	–	385	385	–	402	402
US dollars	16	287	303	103	348	451
Euro	–	100	100	–	216	216
Other	2	4	6	3	50	53
	18	776	794	106	1,016	1,122

Secured bank loans

These mortgages are secured on the hotel properties to which they relate. The rates of interest and currencies of these loans vary. Non-current amounts include \$4m (2009 \$5m) repayable by instalments.

Finance leases

Finance lease obligations, which relate to the 99-year lease on the InterContinental Boston, are payable as follows:

	2010		2009	
	Minimum lease payments \$m	Present value of payments \$m	Minimum lease payments \$m	Present value of payments \$m
Less than one year	16	16	16	16
Between one and five years	64	48	64	48
More than five years	3,348	142	3,364	140
	3,428	206	3,444	204
Less: amount representing finance charges	(3,222)	–	(3,240)	–
	206	206	204	204

The Group has the option to extend the term of the lease for two additional 20-year terms. Payments under the lease step up at regular intervals over the lease term.

Notes to the Group financial statements continued

22. Loans and other borrowings continued

£250m 6% bonds

The 6% fixed interest sterling bonds were issued on 9 December 2009 and are repayable in full on 9 December 2016. Interest is payable annually on 9 December in each year commencing 9 December 2010 to the maturity date. The bonds were initially priced at 99.465% of face value and are unsecured. Currency swaps were transacted at the same time the bonds were issued in order to swap the proceeds and interest flows into US dollars (see note 23 for further details).

Unsecured bank loans

Unsecured bank loans are borrowings under the Group's Syndicated Facility and its short-term bilateral loan and overdraft facilities. Amounts are classified as non-current when the facilities have more than 12 months to expiry. These facilities contain financial covenants and, as at the end of the reporting period, the Group was not in breach of these covenants, nor had any breaches or defaults occurred during the year. At 1 January 2009, the Group had access to a \$0.5bn term loan with a 30-month maturity and a \$1.6bn five-year revolving credit facility. In December 2009, \$415m of the term loan was repaid with proceeds from the bond issue and the remaining \$85m was repaid in September 2010. The \$1.6bn revolving credit facility matures in May 2013.

	2010			2009		
	Utilised \$m	Unutilised \$m	Total \$m	Utilised \$m	Unutilised \$m	Total \$m
Facilities provided by banks						
Committed	205	1,400	1,605	519	1,174	1,693
Uncommitted	1	52	53	3	22	25
	206	1,452	1,658	522	1,196	1,718
					2010 \$m	2009 \$m
Unutilised facilities expire:						
Within one year					52	22
After two but before five years					1,400	1,174
					1,452	1,196

Utilised facilities are calculated based on actual drawings and may not agree to the carrying value of loans held at amortised cost.

23. Derivative financial instruments

	2010 \$m	2009 restated* \$m
Currency swaps	38	13
Interest rate swaps	4	7
Forward foreign exchange contracts	2	–
	44	20
Analysed as:		
Current liabilities	6	7
Non-current liabilities	38	13
	44	20

* Restated for a \$13m reclassification from current liabilities to non-current liabilities.

Derivatives are recorded at their fair values, estimated using discounted future cash flows taking into consideration interest and exchange rates prevailing on the last day of the reporting period.

Currency swaps

At 31 December 2010, the Group held currency swaps with a principal of \$415m (2009 \$415m). These swaps were transacted at the same time as the £250m 6% bonds were issued in December 2009 in order to swap the bonds' proceeds and interest flows into US dollars. Under the terms of the swaps, \$415m was borrowed and £250m deposited for seven years at a fixed exchange rate of 1.66. The fair value of the currency swap comprises two components: \$27m (2009 \$10m) relating to the repayment of the underlying principal and \$11m (2009 \$3m) relating to interest payments. The element relating to the underlying principal is disclosed as a component of net debt (see note 24). The currency swaps are designated as net investment hedges.

23. Derivative financial instruments continued

Interest rate swaps

At 31 December 2010, the Group held interest rate swaps with notional principals of \$100m and EUR75m (2009 \$250m and EUR75m). These swaps are held to fix the interest payable on borrowings under the Syndicated Facility; at 31 December 2010, \$100m of US dollar borrowings were fixed at 1.99% until May 2012 and EUR75m of euro borrowings were fixed at 5.25% until June 2011. The interest rate swaps have been designated as cash flow hedges.

Forward foreign exchange contracts

At 31 December 2010, the Group held short dated foreign exchange swaps with principals of EUR75m and HKD70m. The swaps are used to manage US dollar surplus cash and reduce euro and Hong Kong dollar borrowings whilst maintaining operational flexibility. The foreign exchange swaps have been designated as net investment hedges.

24. Net debt

	2010 \$m	2009 restated* \$m
Cash and cash equivalents	78	40
Loans and other borrowings – current	(18)	(106)
– non-current	(776)	(1,016)
Derivatives hedging debt values (note 23)	(27)	(10)
Net debt	(743)	(1,092)
Movement in net debt		
Net increase/(decrease) in cash and cash equivalents	51	(44)
Add back cash flows in respect of other components of net debt:		
Issue of £250m 6% bonds	–	(411)
Decrease in other borrowings	292	660
Decrease in net debt arising from cash flows	343	205
Non-cash movements:		
Finance lease obligations	(2)	(2)
Exchange and other adjustments	8	(22)
Decrease in net debt	349	181
Net debt at beginning of the year	(1,092)	(1,273)
Net debt at end of year	(743)	(1,092)

* With effect from 1 January 2010, net debt includes the exchange element of the fair value of currency swaps that fix the value of the Group's £250m 6% bonds at \$415m. An equal and opposite exchange adjustment on the retranslation of the £250m 6% bonds is included in non-current loans and other borrowings. Comparatives have been restated on a consistent basis.

Notes to the Group financial statements continued

25. Retirement benefits

Retirement and death in service benefits are provided for eligible Group employees in the UK principally by the InterContinental Hotels UK Pension Plan. The plan, which is funded and HM Revenue & Customs registered, covers approximately 500 (2009 460) employees, of which 140 (2009 150) are in the defined benefit section which provides pensions based on final salaries and 360 (2009 310) are in the defined contribution section. The defined benefit section of the plan closed to new entrants during 2002 with new members provided with defined contribution arrangements. The assets of the plan are held in self-administered trust funds separate from the Group's assets. In addition, there are unfunded UK pension arrangements for certain members affected by the lifetime allowance. The Group also maintains the following US-based defined benefit plans; the funded InterContinental Hotels Pension Plan, unfunded InterContinental Hotels non-qualified pension plans and post-employment benefits schemes. These plans are now closed to new members. The Group also operates a number of minor pension schemes outside the UK, the most significant of which is a defined contribution scheme in the US; there is no material difference between the pension costs of, and contributions to, these schemes.

In respect of the defined benefit plans, the amounts recognised in the Group income statement, in administrative expenses, are:

	Pension plans				Post-employment benefits		Total	
	UK		US and other					
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Current service cost	6	7	1	1	–	–	7	8
Interest cost on benefit obligation	25	22	11	10	1	1	37	33
Expected return on plan assets	(25)	(21)	(10)	(8)	–	–	(35)	(29)
Operating profit before exceptional items	6	8	2	3	1	1	9	12
Exceptional items	–	11	–	–	–	–	–	11
	6	19	2	3	1	1	9	23

On 23 January 2009, approval was given for the payment of enhanced pension transfers to those deferred members of the InterContinental Hotels UK Pension Plan who had accepted an offer to receive the enhancement either as a cash lump sum or as an additional transfer value to an alternative pension provider. The payments, comprising lump sum amounts of £5.9m and additional contributions of £4.3m, were made by the Group in the first quarter of 2009. The transfer values subsequently paid by the plan were £45m and the corresponding IAS 19 liability extinguished was £38m. The settlement loss arising of £7m (being the \$11m exceptional item above), together with the lump sum payment and costs of arrangement, was charged to the Group income statement as an exceptional item in 2009 (see note 5).

The amounts recognised in the Group statement of comprehensive income are:

	Pension plans				Post-employment benefits		Total	
	UK		US and other					
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Actual return on plan assets	46	7	13	22	–	–	59	29
Less: expected return on plan assets	(25)	(21)	(10)	(8)	–	–	(35)	(29)
	21	(14)	3	14	–	–	24	–
Other actuarial (losses)/gains	(49)	(44)	(13)	(13)	(7)	(1)	(69)	(58)
Total actuarial (losses)/gains	(28)	(58)	(10)	1	(7)	(1)	(45)	(58)
Change in asset restriction and liability in respect of funding commitments*	(48)	21	–	–	–	–	(48)	21
	(76)	(37)	(10)	1	(7)	(1)	(93)	(37)

* Relates to tax that would be deducted at source in respect of a refund of the surplus taking into account amounts payable under funding commitments.

25. Retirement benefits continued

The assets and liabilities of the schemes and the amounts recognised in the Group statement of financial position are:

	Pension plans				Post-employment benefits		Total	
	UK		US and other					
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Retirement benefit assets								
Fair value of plan assets	–	426	16	16	–	–	16	442
Present value of benefit obligations	–	(414)	(11)	(12)	–	–	(11)	(426)
Surplus in schemes	–	12	5	4	–	–	5	16
Asset restriction*	–	(4)	–	–	–	–	–	(4)
Total retirement benefit assets	–	8	5	4	–	–	5	12
Retirement benefit obligations								
Fair value of plan assets	475	–	114	110	–	–	589	110
Present value of benefit obligations	(512)	(47)	(198)	(185)	(27)	(20)	(737)	(252)
Deficit in schemes	(37)	(47)	(84)	(75)	(27)	(20)	(148)	(142)
Asset restriction and liability in respect of funding commitments*	(52)	–	–	–	–	–	(52)	–
Total retirement benefit obligations	(89)	(47)	(84)	(75)	(27)	(20)	(200)	(142)
Total fair value of plan assets	475	426	130	126	–	–	605	552
Total present value of benefit obligations	(512)	(461)	(209)	(197)	(27)	(20)	(748)	(678)

* Relates to tax that would be deducted at source in respect of a refund of the surplus taking into account amounts payable under funding commitments.

The 'US and other' surplus of \$5m (2009 \$4m) relates to a defined benefit pension scheme in Hong Kong. Included within the 'US and other' deficit is \$2m (2009 \$1m) relating to a defined benefit pension plan in the Netherlands.

Assumptions

The principal financial assumptions used by the actuaries to determine the benefit obligation are:

	Pension plans				Post-employment benefits	
	UK		US			
	2010 %	2009 %	2010 %	2009 %	2010 %	2009 %
Wages and salaries increases	5.0	5.1	–	–	4.0	4.0
Pensions increases	3.5	3.6	–	–	–	–
Discount rate	5.3	5.7	5.2	5.7	5.2	5.7
Inflation rate	3.5	3.6	–	–	–	–
Healthcare cost trend rate assumed for next year					–	9.0
– Pre 65 (ultimate rate reached in 2021)					10.0	–
– Post 65 (ultimate rate reached in 2023)					14.0	–
Ultimate rate that the cost trend rate trends to					5.0	5.0

Mortality is the most significant demographic assumption. The current assumptions for the UK plans are based on the S1NA tables with long cohort projections and a 1% per annum underpin to future mortality improvements with age rated down by 1.75 years for pensioners and 1.5 years for non-pensioners. In the US, the current assumptions are based on the RP-2000 IRS PPA @ 2011 Non-Annuitant/Annuitant healthy tables for males and females.

In both territories, the assumptions have been revised during the year to reflect increased life expectancy at retirement age as follows:

	Pension plans			
	UK		US	
	2010 Years	2009 Years	2010 Years	2009 Years
Current pensioners at 65 ^a – male	24	23	19	18
– female	27	26	21	21
Future pensioners at 65 ^b – male	26	24	21	18
– female	29	27	22	21

a Relates to assumptions based on longevity (in years) following retirement at the end of the reporting period.

b Relates to assumptions based on longevity (in years) relating to an employee retiring in 2030.

The assumptions allow for expected increases in longevity.

Notes to the Group financial statements continued

25. Retirement benefits continued

Sensitivities

The value of plan assets is sensitive to market conditions, particularly equity values. Changes in assumptions used for determining retirement benefit costs and obligations may have a material impact on the income statement and the statement of financial position. The main assumptions are the discount rate, the rate of inflation and the assumed mortality rate. The following table provides an estimate of the potential impact of each of these variables on the principal pension plans.

	UK		US	
	Higher/(lower) pension cost \$m	Increase/ (decrease) in liabilities \$m	Higher/(lower) pension cost \$m	Increase/ (decrease) in liabilities \$m
Discount rate – 0.25% decrease	0.6	25.8	–	5.9
– 0.25% increase	(0.6)	(25.8)	–	(5.6)
Inflation rate – 0.25% increase	1.6	24.8	–	–
– 0.25% decrease	(1.6)	(24.8)	–	–
Mortality rate – one year increase	0.8	9.9	–	7.6

A one percentage point increase/(decrease) in assumed healthcare costs trend rate would increase/(decrease) the accumulated post-employment benefit obligations as of 31 December 2010 by approximately \$2.5m (2009 \$1.6m).

	Pension plans				Post-employment benefits		Total	
	UK		US and other					
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Movement in benefit obligation								
Benefit obligation at 1 January	461	411	197	185	20	19	678	615
Current service cost	6	7	1	1	–	–	7	8
Members' contributions	1	1	–	–	–	–	1	1
Interest expense	25	22	11	10	1	1	37	33
Benefits paid	(12)	(12)	(13)	(13)	(1)	(1)	(26)	(26)
Enhanced pension transfer	–	(59)	–	–	–	–	–	(59)
Actuarial loss/(gain) arising in the year	49	44	13	13	7	1	69	58
Exchange adjustments	(18)	47	–	1	–	–	(18)	48
Benefit obligation at 31 December	512	461	209	197	27	20	748	678
Comprising:								
Funded plans	457	414	161	151	–	–	618	565
Unfunded plans	55	47	48	46	27	20	130	113
	512	461	209	197	27	20	748	678

	Pension plans				Post-employment benefits		Total	
	UK		US and other					
	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m	2010 \$m	2009 \$m
Movement in plan assets								
Fair value of plan assets at 1 January	426	437	126	112	–	–	552	549
Company contributions	31	16	4	4	1	1	36	21
Members' contributions	1	1	–	–	–	–	1	1
Benefits paid	(12)	(12)	(13)	(13)	(1)	(1)	(26)	(26)
Enhanced pension transfer	–	(70)	–	–	–	–	–	(70)
Expected return on plan assets	25	21	10	8	–	–	35	29
Actuarial (loss)/gain arising in the year	21	(14)	3	14	–	–	24	–
Exchange adjustments	(17)	47	–	1	–	–	(17)	48
Fair value of plan assets at 31 December	475	426	130	126	–	–	605	552

25. Retirement benefits continued

The combined assets of the principal plans and expected rate of return are:

	2010		2009	
	Long-term rate of return expected %	Value \$m	Long-term rate of return expected %	Value \$m
UK pension plans				
Liability matching investment funds	4.5	185	4.8	196
Equities	8.9	105	9.2	77
Bonds	4.5	95	4.8	64
Hedge funds	8.9	61	9.2	17
Cash	4.5	10	4.8	55
Other	8.9	19	9.2	17
Total market value of assets		475		426
US pension plans				
Equities	8.9	65	9.5	63
Fixed income	5.5	44	5.5	42
Total market value of assets		109		105

The expected overall rates of return on assets, being 5.9% (2009 6.2%) for the UK plans and 7.5% (2009 8.0%) for the US plans, have been determined following advice from the plans' independent actuaries and are based on the expected return on each asset class together with consideration of the long-term asset strategy.

Funding commitments

The most recent actuarial valuation of the InterContinental Hotels UK Pension Plan was carried out as at 31 March 2009 and showed a deficit of £129m on a funding basis. Under the recovery plan agreed with the trustees, the Group aims to eliminate this deficit by March 2017 through additional Company contributions of up to £100m and projected investment returns. The agreed additional contributions comprise three annual payments of £10m; £10m was paid in August 2010 and two further payments of £10m are due on or before 31 July 2011 and 2012, together with further payments related to the disposal of hotels (7.5% of net sales proceeds) and growth in the Group's EBITDA above specified targets. If required in 2017, a top-up payment will be made to bring the total additional contributions up to £100m. The Plan is formally valued every three years and future valuations could lead to changes in the amounts payable beyond March 2012.

Company contributions are expected to be \$35m in 2011, including known UK additional contributions of £14m (2009 £10m) with further amounts payable if there are any hotel disposals.

	2010 \$m	2009 \$m	2008 \$m	2007 \$m	2006 \$m
History of experience gains and losses					
UK pension plans					
Fair value of plan assets	475	426	437	611	527
Present value of benefit obligations	(512)	(461)	(411)	(597)	(585)
(Deficit)/surplus in the plans	(37)	(35)	26	14	(58)
Experience adjustments arising on plan liabilities	(49)	(44)	55	31	(22)
Experience adjustments arising on plan assets	21	(14)	(57)	(6)	13
US and other pension plans					
Fair value of plan assets	130	126	112	144	111
Present value of benefit obligations	(209)	(197)	(185)	(184)	(175)
Deficit in the plans	(79)	(71)	(73)	(40)	(64)
Experience adjustments arising on plan liabilities	(13)	(13)	3	–	–
Experience adjustments arising on plan assets	3	14	(38)	–	4
US post-employment benefits					
Present value of benefit obligations	(27)	(20)	(19)	(20)	(19)
Experience adjustments arising on plan liabilities	(7)	(1)	1	–	1

The cumulative amount of net actuarial losses recognised since 1 January 2004 in the Group statement of comprehensive income is \$253m (2009 \$208m). The Group is unable to determine how much of the pension scheme deficit recognised on transition to IFRS of \$298m and taken directly to total equity is attributable to actuarial gains and losses since inception of the schemes. Therefore, the Group is unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of comprehensive income before 1 January 2004.

Notes to the Group financial statements continued

26. Deferred tax

	Property, plant and equipment \$m	Deferred gains on loan notes \$m	Losses \$m	Employee benefits \$m	Intangible assets \$m	Other short-term temporary differences \$m	Total \$m
At 1 January 2009	226	142	(141)	(33)	28	(101)	121
Income statement	(43)	–	6	(1)	1	(59)	(96)
Statement of comprehensive income	–	–	–	(1)	–	–	(1)
Statement of changes in equity	–	–	–	–	–	(6)	(6)
Exchange and other adjustments	6	9	(11)	–	2	(1)	5
At 31 December 2009	189	151	(146)	(35)	31	(167)	23
Income statement	24	(3)	(12)	11	6	–	26
Statement of comprehensive income	–	–	–	(22)	–	(2)	(24)
Statement of changes in equity	–	–	–	–	–	(12)	(12)
Exchange and other adjustments	(8)	(4)	8	(1)	(2)	(1)	(8)
At 31 December 2010	205	144	(150)	(47)	35	(182)	5

	2010 \$m	2009 \$m
Analysed as:		
Deferred tax assets	(79)	(95)
Deferred tax liabilities	84	118
At 31 December	5	23

Deferred gains on loan notes includes \$55m (2009 \$55m) which is expected to fall due for payment in 2016.

The deferred tax asset of \$150m (2009 \$146m) recognised in respect of losses includes \$113m (2009 \$97m) in respect of capital losses available to be utilised against the realisation of capital gains which are recognised as a deferred tax liability and \$37m (2009 \$49m) in respect of revenue tax losses. Deferred tax assets of \$79m are recognised in relation to legal entities which suffered a tax loss in the current or preceding period. These assets are recognised based upon future taxable profit forecasts for the entities concerned.

Tax losses with a net tax value of \$411m (2009 \$517m), including capital losses with a value of \$148m (2009 \$196m), have not been recognised. These losses may be carried forward indefinitely with the exception of \$16m which expires after six years (2009 \$1m which expires after 15 years, \$1m which expires after nine years and \$14m which expires after three years). Deferred tax assets with a net tax value of \$nil (2009 \$9m) in respect of share-based payments, \$15m (2009 \$13m) in respect of employee benefits and \$5m (2009 \$7m) in respect of other items have not been recognised. These losses and other deferred tax assets have not been recognised as the Group does not anticipate being able to offset these against future profits or gains in order to realise any economic benefit in the foreseeable future. However, future benefits may arise depending on future profits arising or on the outcome of EU case law and legislative developments.

At 31 December 2010, the Group has not provided deferred tax in relation to temporary differences associated with post-acquisition undistributed earnings of subsidiaries as the Group is in a position to control the timing of reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. Following introduction of a UK dividend exemption regime, the tax which would arise upon reversal of the temporary differences is not expected to exceed \$20m.

Other short-term temporary differences relate primarily to provisions and accruals and share-based payments.

27. Share-based payments

Annual Bonus Plan

The IHG Annual Bonus Plan enables eligible employees, including Executive Directors, to receive all or part of their bonus in the form of shares together with, in certain cases, a matching award of free shares of up to half the deferred amount. The bonus and any matching shares awarded are released on the third anniversary of the award date. The bonuses in 2007 were eligible for matching shares, all of which will be released on the third anniversary of the award date. In 2007, participants could defer up to 100% of the total annual bonus, with the deferred amount being accounted for as a share-based payment. Under the terms of the 2008, 2009 and 2010 plans, a fixed percentage of the bonus is awarded in the form of shares with no voluntary deferral and no matching shares. The awards in all of the plans are conditional on the participants remaining in the employment of a participating company or leaving for a qualifying reason as per the plan rules. Participation in the Annual Bonus Plan is at the discretion of the Remuneration Committee. The number of shares is calculated by dividing a specific percentage of the participant's annual performance-related bonus by the middle market quoted prices on the three consecutive dealing days immediately preceding the date of grant. A number of executives participated in the plan during the year, however, no conditional rights over shares (2009 1,058,734) were awarded to participants. In 2009 this number included 228,000 shares awarded as part of recruitment terms or for one-off individual performance-related awards.

Long Term Incentive Plan

The Long Term Incentive Plan allows Executive Directors and eligible employees to receive share awards, subject to the satisfaction of performance conditions, set by the Remuneration Committee, which are normally measured over a three-year period. Awards are normally made annually and, except in exceptional circumstances, will not exceed three times salary for Executive Directors and four times salary in the case of other eligible employees. During the year, conditional rights over 2,602,773 (2009 5,754,548) shares were awarded to employees under the plan. The plan provides for the grant of 'nil cost options' to participants as an alternative to conditional share awards.

Executive Share Option Plan

For options granted, the option price is not less than the market value of an ordinary share, or the nominal value if higher. The market value is the quoted price on the business day preceding the date of grant, or the average of the middle market quoted prices on the three consecutive dealing days immediately preceding the date of grant. A performance condition has to be met before options can be exercised. The performance condition is set by the Remuneration Committee. The plan was not operated during 2010 and no options were granted in the year under the plan. The latest date that any options may be exercised is 4 April 2015.

Sharesave Plan

The Sharesave Plan is a savings plan whereby employees contract to save a fixed amount each month with a savings institution for three or five years. At the end of the savings term, employees are given the option to purchase shares at a price set before savings began. The Sharesave Plan is available to all UK employees (including Executive Directors) employed by participating Group companies provided that they have been employed for at least one year. The plan provides for the grant of options to subscribe for ordinary shares at the higher of nominal value and not less than 80% of the middle market quotations of the ordinary shares on the three dealing days immediately preceding the invitation date. The plan was not operated during 2010 and no options were granted in the year under the plan. There were no options outstanding at 1 January 2010.

US Employee Stock Purchase Plan

The US Employee Stock Purchase Plan will allow eligible employees resident in the US an opportunity to acquire Company American Depositary Shares (ADSs) on advantageous terms. The option to purchase ADSs may be offered only to employees of designated subsidiary companies. The option price may not be less than the lesser of either 85% of the fair market value of an ADS on the date of grant or 85% of the fair market value of an ADS on the date of exercise. Options granted under the plan must generally be exercised within 27 months from the date of grant. The plan was not operated during 2010 and at 31 December 2010 no options had been granted under the plan.

Former Six Continents Share Schemes

Under the terms of the separation of Six Continents PLC in 2003, holders of options under the Six Continents Executive Share Option Schemes were given the opportunity to exchange their Six Continents PLC options for equivalent value new options over IHG shares. As a result of this exchange, 23,195,482 shares were put under option at prices ranging from 308.5p to 593.3p. The exchanged options were immediately exercisable and are not subject to performance conditions. During 2010, 1,016,572 (2009 380,457) such options were exercised and 82,076 (2009 43,088) lapsed, leaving a total of 902,412 (2009 2,001,060) such options outstanding at prices ranging from 308.5p to 434.2p. The latest date that any options may be exercised is 3 October 2012.

Notes to the Group financial statements continued

27. Share-based payments continued

The Group recognised a cost of \$32m (2009 \$22m) in operating profit and \$1m (2009 \$2m) within exceptional administrative expenses related to equity-settled share-based payment transactions during the year.

The aggregate consideration in respect of ordinary shares issued under option schemes during the year was \$19m (2009 \$11m).

The following table sets forth awards and options granted during 2010. No awards were granted under the Annual Bonus Plan, Executive Share Option Plan, Sharesave Plan or US Employee Stock Purchase Plan during the year.

	Long Term Incentive Plan
Number of shares awarded in 2010	2,602,773

The Group uses separate option pricing models and assumptions depending on the plan. The following tables set forth information about options granted in 2010 and 2009:

	Long Term Incentive Plan
2010	
Valuation model	Monte Carlo Simulation and Binomial
Weighted average share price	1,033.0p
Expected dividend yield	3.10%
Risk-free interest rate	1.83%
Volatility*	41%
Term (years)	3.0

	Annual Bonus Plan	Long Term Incentive Plan
2009		
Valuation model	Binomial	Monte Carlo Simulation and Binomial
Weighted average share price	454.0p	612.0p
Expected dividend yield	4.89%	5.26%
Risk-free interest rate		2.11%
Volatility*		43%
Term (years)	3.0	3.0

* The expected volatility was determined by calculating the historical volatility of the Company's share price corresponding to the expected life of the share award.

27. Share-based payments continued

Movements in the awards and options outstanding under the schemes are as follows:

	Annual Bonus Plan Number of shares thousands	Long Term Incentive Plan Number of shares thousands
Outstanding at 1 January 2009	1,289	11,153
Granted	1,059	5,755
Vested	(434)	(3,124)
Lapsed or cancelled	(60)	(1,518)
Outstanding at 31 December 2009	1,854	12,266
Granted	–	2,603
Vested	(580)	(1,500)
Lapsed or cancelled	–	(2,027)
Outstanding at 31 December 2010	1,274	11,342
Fair value of awards granted during the year		
2010	n/a*	1,181.9¢
2009	735.6¢	414.1¢
Weighted average remaining contract life (years)		
At 31 December 2010	0.7	1.0
At 31 December 2009	1.3	1.3

* No awards were granted during the year.

The above awards do not vest until the performance and service conditions have been met.

	Sharesave Plan			Executive Share Option Plan		
	Number of shares thousands	Range of option prices pence	Weighted average option price pence	Number of shares thousands	Range of option prices pence	Weighted average option price pence
Outstanding at 1 January 2009	49	420.5	420.5	7,635	308.5-619.8	486.3
Exercised	(48)	420.5	420.5	(1,518)	308.5-619.8	496.2
Lapsed or cancelled	(1)	420.5	420.5	(247)	438.0-619.8	509.9
Outstanding at 31 December 2009	–	–	–	5,870	308.5-619.8	482.8
Exercised	–	–	–	(2,497)	349.1-619.8	478.6
Lapsed or cancelled	–	–	–	(82)	349.1	349.1
Outstanding at 31 December 2010	–	–	–	3,291	308.5-619.8	489.3
Options exercisable						
At 31 December 2010	–	–	–	3,291	308.5-619.8	489.3
At 31 December 2009	–	–	–	5,870	308.5-619.8	482.8

Included within the options outstanding under the Executive Share Option Plan are options over 902,412 (2009 2,001,060, 2008 2,424,605) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options, relating to former Six Continents share schemes, have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The weighted average share price at the date of exercise for share options vested during the year was 1063.8p. The closing share price on 31 December 2010 was 1243.0p and the range during the year was 887.0p to 1266.0p per share.

Summarised information about options outstanding at 31 December 2010 under the share option schemes is as follows:

Range of exercise prices (pence)	Options outstanding and exercisable		
	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence
Executive Share Option Plan			
308.5	12	1.8	308.5
422.8 to 494.2	2,676	2.4	460.7
619.8	603	4.3	619.8
	3,291	2.7	489.3

Notes to the Group financial statements continued

28. Issued share capital and reserves

Equity share capital

At 30 September 2009, the authorised share capital was £160,050,000, comprising 1,175,000,000 ordinary shares of 13²⁹/₄₇p each and one redeemable preference share of £50,000. As a result of the resolution passed at the Annual General Meeting on 29 May 2009 amending the Articles of Association in line with the Companies Act 2006, from 1 October 2009 the Company no longer has an authorised share capital.

	Number of shares millions	Nominal value \$m	Share premium \$m	Equity share capital \$m
Allotted, called up and fully paid (ordinary shares of 13²⁹/₄₇p)				
At 1 January 2009	286	57	61	118
Issued on exercise of share options	1	–	11	11
Exchange adjustments	–	6	7	13
At 31 December 2009	287	63	79	142
Issued on exercise of share options	2	1	18	19
Exchange adjustments	–	(3)	(3)	(6)
At 31 December 2010	289	61	94	155

The authority given to the Company at the Annual General Meeting on 28 May 2010 to purchase its own shares was still valid at 31 December 2010. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 27 May 2011.

The balance classified as equity share capital includes the total net proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising 13²⁹/₄₇p shares. The share premium reserve represents the amount of proceeds received for shares in excess of their nominal value.

The nature and purpose of the other reserves shown in the Group statement of changes in equity on pages 66 and 67 of the financial statements is as follows:

Capital redemption reserve

This reserve maintains the nominal value of the equity share capital of the Company when shares are repurchased or cancelled.

Shares held by employee share trusts

Comprises \$34.6m (2009 \$3.8m) in respect of 1.9m (2009 0.3m) InterContinental Hotels Group PLC ordinary shares held by employee share trusts, with a market value at 31 December 2010 of \$37m (2009 \$4m).

Other reserves

Comprises the merger and revaluation reserves previously recognised under UK GAAP, together with the reserve arising as a consequence of the Group's capital reorganisation in June 2005. Following the change in presentational currency to the US dollar in 2008 (see page 70), this reserve also includes exchange differences arising on the retranslation to period-end exchange rates of equity share capital, the capital redemption reserve and shares held by employee share trusts.

Unrealised gains and losses reserve

This reserve records movements to fair value of available-for-sale financial assets and the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments related to hedged transactions that have not yet occurred.

The fair value of cash flow hedging instruments outstanding at 31 December 2010 was a \$4m liability (2009 \$7m).

Currency translation reserve

This reserve records the movement in exchange differences arising from the translation of the financial statements of foreign operations and exchange differences on foreign currency borrowings and derivative instruments that provide a hedge against net investments in foreign operations. On adoption of IFRS, cumulative exchange differences were deemed to be \$nil as permitted by IFRS 1.

The fair value of derivative instruments designated as hedges of net investments in foreign operations outstanding at 31 December 2010 was a \$40m liability (2009 \$13m).

29. Operating leases

During the year ended 31 December 2010, \$53m (2009 \$51m) was recognised as an expense in the Group income statement in respect of operating leases, net of amounts borne by the System Fund.

Total commitments under non-cancellable operating leases are as follows:

	2010 \$m	2009 \$m
Due within one year	50	51
One to two years	40	44
Two to three years	36	38
Three to four years	31	37
Four to five years	25	30
More than five years	323	309
	505	509

The average remaining term of these leases, which generally contain renewal options, is approximately 21 years (2009 19 years). No material restrictions or guarantees exist in the Group's lease obligations.

Included above are commitments of \$12m (2009 \$8m) which will be borne by the System Fund.

Total future minimum rentals expected to be received under non-cancellable sub-leases are \$17m (2009 \$20m).

30. Capital and other commitments

	2010 \$m	2009 \$m
Contracts placed for expenditure on property, plant and equipment and intangible assets not provided for in the Group financial statements	14	9

31. Contingencies

	2010 \$m	2009 \$m
Contingent liabilities not provided for in the Group financial statements	8	16

In limited cases, the Group may provide performance guarantees to third-party hotel owners to secure management contracts. The maximum unprovided exposure under such guarantees is \$90m (2009 \$106m).

From time to time, the Group is subject to legal proceedings the ultimate outcome of each being always subject to many uncertainties inherent in litigation. The Group has also given warranties in respect of the disposal of certain of its former subsidiaries. It is the view of the Directors that, other than to the extent that liabilities have been provided for in these financial statements, such legal proceedings and warranties are not expected to result in material financial loss to the Group.

32. Related party disclosures

Key management personnel comprises the Board and Executive Committee.

	2010 \$m	2009 \$m
Total compensation of key management personnel		
Short-term employment benefits	13.6	9.8
Post-employment benefits	0.6	0.6
Termination benefits	–	0.8
Equity compensation benefits	9.4	9.5
	23.6	20.7

There were no other transactions with key management personnel during the year ended 31 December 2010 or the previous year.

Notes to the Group financial statements continued

33. System Fund

The Group operates a System Fund (the Fund) to collect and administer assessments and contributions from hotel owners for specific use in marketing, the Priority Club Rewards loyalty programme and the global reservation system. The Fund and loyalty programme are accounted for in accordance with the accounting policies set out on page 75 of the financial statements.

The following information is relevant to the operation of the Fund:

	2010 \$m	2009 \$m
Income:*		
Assessment fees and contributions received from hotels	944	875
Proceeds from sale of Priority Club Rewards points	106	133
Key elements of expenditure:*		
Marketing	170	165
Priority Club	250	210
Payroll costs	167	152
Net (deficit)/surplus for the year*	(51)	43
Interest payable to the Fund	2	2

* Not included in the Group income statement in accordance with the Group's accounting policies.

The payroll costs above relate to 3,927 (2009 4,019) employees whose costs are borne by the Fund.

The following liabilities relating to the Fund are included in the Group statement of financial position:

	2010 \$m	2009 \$m
Cumulative short-term net surplus	20	71
Loyalty programme liability	531	470
	551	541

The net change in the loyalty programme liability and System Fund surplus contributed an inflow of \$10m (2009 \$42m) to the Group's cash flow from operations.

34. Principal operating subsidiary undertakings

InterContinental Hotels Group PLC was the beneficial owner of all of the equity share capital, either itself or through subsidiary undertakings, of the following companies during the year:

Six Continents Limited^a

Hotel Inter-Continental London Limited^a

IHG Hotels Limited^a

Six Continents Hotels, Inc.^b

Inter-Continental Hotels Corporation^b

111 East 48th Street Holdings, LLC^b

InterContinental Hotels Group Resources, Inc.^b

InterContinental Hong Kong Limited^c

Société Nouvelle du Grand Hotel SA^d

The companies listed above include those which principally affect the amount of profit and assets of the Group.

a Incorporated in Great Britain and registered in England and Wales.

b Incorporated in the United States.

c Incorporated in Hong Kong.

d Incorporated in France.

Parent company financial statements

Parent company financial statements

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In this section we present the balance sheet of our parent company, InterContinental Hotels Group PLC, and the related notes supporting the parent company balance sheet for 2010.

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Parent company financial statements

Parent company balance sheet

31 December 2010	Note	2010 £m	2009 £m
Fixed assets			
Investments	3	2,915	2,894
Current assets			
Debtors	4	27	22
Creditors: amounts falling due within one year	5	(2,147)	(2,048)
Net current liabilities		(2,120)	(2,026)
Total assets less current liabilities		795	868
Creditors: amounts falling due after one year	5	(248)	(248)
Net assets		547	620
Capital and reserves			
Called up share capital	6	39	39
Share premium account	7	61	49
Capital redemption reserve	7	6	6
Share-based payment reserve	7	148	127
Profit and loss account	7	293	399
Equity shareholders' funds		547	620

Signed on behalf of the Board

Richard Solomons

14 February 2011

No profit and loss account is presented for InterContinental Hotels Group PLC as permitted by Section 408 of the Companies Act 2006. Loss on ordinary activities after taxation amounts to £29m (2009 profit of £167m).

Notes on pages 111 to 113 form an integral part of these financial statements.

Notes to the parent company financial statements

1. Accounting policies

Basis of accounting

The financial statements are prepared under the historical cost convention and on a going concern basis. They have been drawn up to comply with applicable accounting standards in the United Kingdom (UK GAAP). These accounts are for the Company and are not consolidated financial statements.

Fixed asset investments

Fixed asset investments are stated at cost plus share-based payments capital contributions less any provision for impairment. The Company records an increase in its investments in subsidiaries equal to the share-based payments charge recognised by its subsidiaries with a corresponding credit to equity.

Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. They are subsequently measured at amortised cost. Finance charges, including the transaction costs and any discount or premium on issue, are charged to the profit and loss account using the effective interest rate method.

Borrowings are classified as due after more than one year when the repayment date is more than 12 months from the balance sheet date.

Financial risk management policies

Financial risk management policies are set out in note 21 of the Group financial statements on pages 91 and 92.

Capital risk management

The Group's capital risk management policy is set out in note 21 of the Group financial statements on page 92.

Related party transactions

The Company takes advantage of the exemption under FRS 8 and does not disclose transactions with wholly owned subsidiaries.

2. Directors

	2010	2009
Average number of Non-Executive Directors	7	6
	2010 £m	2009 £m
Remuneration costs	1	1

Detailed information on the emoluments, pensions, option holdings and shareholdings for each Non-Executive Director is shown in the Remuneration Report on pages 48 to 60.

3. Investments

	£m
At 1 January 2010	2,894
Share-based payments capital contribution	21
At 31 December 2010	2,915

The Company is the beneficial owner of all of the equity share capital of InterContinental Hotels Limited. The principal operating subsidiary undertakings of that company are listed in note 34 of the Group financial statements.

4. Debtors

	2010 £m	2009 £m
Amounts due from subsidiary undertakings	14	5
Corporate taxation	13	17
	27	22

Notes to the parent company financial statements continued

5. Creditors

	2010 £m	2009 £m
Amounts falling due within one year		
Amounts due to subsidiary undertakings	2,147	2,048
Amounts falling due after more than one year		
£250m 6% bonds	248	248

The 6% fixed interest sterling bonds were issued on 9 December 2009 and are repayable in full on 9 December 2016. Interest is payable annually on 9 December in each year commencing 9 December 2010 to the maturity date. The bonds were initially priced at 99.465% of face value and are unsecured.

6. Share capital

At 30 September 2009, the authorised share capital was £160,050,000 comprising 1,175,000,000 ordinary shares of 13²⁹/₄₇p each and one redeemable preference share of £50,000. As a result of the resolution passed at the Annual General Meeting on 29 May 2009 amending the Articles of Association in line with the Companies Act 2006, from 1 October 2009 the Company no longer has authorised share capital.

	Number of shares millions	£m
Allotted, called up and fully paid (ordinary shares of 13²⁹/₄₇p each)		
At 1 January 2010	287	39
Issued on exercise of share options	2	–
At 31 December 2010	289	39

The aggregate consideration in respect of ordinary shares issued under option schemes during the year was £12m (2009 £7m).

	Thousands
Options to subscribe for ordinary shares	
At 1 January 2010	5,870
Exercised*	(2,497)
Lapsed or cancelled	(82)
At 31 December 2010	3,291
Option exercise price per ordinary share (pence)	308.5–619.8
Final exercise date	4 April 2015

* The weighted average option price was 478.6p for shares exercised under the Executive Share Option Plan.

The authority given to the Company at the Annual General Meeting on 28 May 2010 to purchase its own shares was still valid at 31 December 2010. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on 27 May 2011.

7. Movements in reserves

	Share premium account £m	Capital redemption reserve £m	Share-based payments reserve £m	Profit and loss account £m
At 1 January 2010	49	6	127	399
Premium on allotment of ordinary shares	12	–	–	–
Loss after tax	–	–	–	(29)
Share-based payments capital contribution	–	–	21	–
Dividends	–	–	–	(77)
At 31 December 2010	61	6	148	293

8. Reconciliation of movements in shareholders' funds

	2010 £m	2009 £m
Earnings available for shareholders	(29)	167
Dividends	(77)	(78)
	(106)	89
Issue of ordinary shares	12	7
Share-based payments capital contribution	21	16
Net movement in shareholders' funds	(73)	112
Shareholders' funds at 1 January	620	508
Shareholders' funds at 31 December	547	620

9. Profit and dividends

Loss on ordinary activities after tax amounts to £29m (2009 profit of £167m).

A final dividend, declared in the previous year, of 18.7p (2009 20.2p) per share was paid during the year, amounting to £54m (2009 £57m). An interim dividend of 8.0p (2009 7.3p) per share was paid during the year, amounting to £23m (2009 £21m). A final dividend of 22.0p (2009 18.7p) per share, amounting to £63m (2009 £54m), is proposed for approval at the Annual General Meeting. The proposed final dividend is payable on shares in issue at 25 March 2011.

The audit fee of £0.02m (2009 £0.02m) was borne by a subsidiary undertaking in both years.

10. Contingencies

Contingent liabilities of £134m (2009 £356m) in respect of guarantees of the liabilities of subsidiaries have not been provided for in the financial statements.

Statement of Directors' responsibilities

In relation to the parent company financial statements

The following statement, which should be read in conjunction with the independent auditor's report set out on the following page, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditor in relation to the Company financial statements.

The Directors are responsible for preparing the parent company financial statements and Remuneration Report in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice (UK GAAP).

The Directors are required to prepare Company financial statements for each financial year which present fairly the financial position of the Company and the financial performance of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the Company financial statements comply with the Companies Act 2006.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of InterContinental Hotels Group PLC

We have audited the parent company financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2010 which comprise the parent company balance sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 113, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of InterContinental Hotels Group PLC for the year ended 31 December 2010.

Alison Baker (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

14 February 2011

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In this section we present a glossary of terms used in the Annual Report and Financial Statements 2010 and some analyses of our share ownership at the end of 2010.

We also provide a range of information designed to be helpful to shareholders and contact details for the Company and for a number of service providers.

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Glossary

Adjusted	excluding the effect of exceptional items and any relevant tax.	IFRS	International Financial Reporting Standards.
Average daily rate	rooms revenue divided by the number of room nights sold. Also known as average room rate.	Interest rate swap	an agreement to exchange fixed for floating interest rate streams (or vice versa) on a notional principal.
Basic earnings per ordinary share	profit available for IHG equity holders divided by the weighted average number of ordinary shares in issue during the year.	Management contract	a contract to operate a hotel on behalf of the hotel owner.
Capital expenditure	purchases of property, plant and equipment, intangible assets, associate investments and other financial assets.	Market capitalisation	the value attributed to a listed company by multiplying its share price by the number of shares in issue.
Cash-generating units	the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets, or groups of assets.	Midscale	hotels in the three/four star category (eg Holiday Inn, Holiday Inn Express).
Comparable RevPAR	a comparison for a grouping of hotels that have traded in all months in both financial years being compared. Principally excludes new hotels, hotels closed for major refurbishment and hotels sold in either of the two years.	Net debt	borrowings less cash and cash equivalents, including the exchange element of the fair value of currency swaps hedging the borrowings.
Contingencies	liabilities that are contingent upon the occurrence of one or more uncertain future events.	Occupancy rate	rooms occupied by hotel guests, expressed as a percentage of rooms that are available.
Continuing operations	operations not classified as discontinued.	Pipeline	hotels/rooms that will enter the Group's system at a future date. A new hotel only enters the pipeline once a contract has been signed and the appropriate fees paid. In rare circumstances, a hotel will not open for reasons such as the financing being withdrawn.
Currency swap	an exchange of a deposit and a borrowing, each denominated in a different currency, for an agreed period of time.	Revenue per available room (RevPAR)	rooms revenue divided by the number of room nights that are available (can be mathematically derived from occupancy rate multiplied by average daily rate).
Derivatives	a financial instrument used to reduce risk, the price of which is derived from an underlying asset, index or rate.	Room count	number of rooms franchised, managed, owned or leased by IHG.
Discontinued operations	hotels or operations sold or those classified as held for sale when the results relate to a separate line of business, geographical area of operations, or where there is a co-ordinated plan to dispose of a separate line of business or geographical area of operations.	Rooms revenue	revenue generated from the sale of room nights.
Exceptional items	items which are disclosed separately because of their size or nature.	Royalty revenues	rooms revenue that a franchisee pays to the brand owner for use of the brand name.
Extended stay	hotels designed for guests staying for periods of time longer than a few nights and tending to have a higher proportion of suites than normal hotels (eg Staybridge Suites, Candlewood Suites).	Subsidiary undertaking	a company over which the Group exercises control.
Franchisee	operator who uses a brand under licence from the brand owner (eg IHG).	System size	the number of hotels/rooms franchised, managed, owned or leased by IHG.
Franchisor	brand owner (eg IHG) who licenses brands for use by operators.	Technology income	income received from hotels under franchise and management agreements for the use of IHG's proprietary reservations system.
Goodwill	the difference between the consideration given for a business and the total of the fair values of the separable assets and liabilities comprising that business.	Total gross revenue	total rooms revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels.
Hedging	the reduction of risk, normally in relation to foreign currency or interest rate movements, by making offsetting commitments.	Total Shareholder Return (TSR)	the theoretical growth in value of a shareholding over a period, by reference to the beginning and ending share price, and assuming that gross dividends, including special dividends, are reinvested to purchase additional units of the equity.
		UK GAAP	United Kingdom Generally Accepted Accounting Practice.
		Working capital	the sum of inventories, receivables and payables of a trading nature, excluding financing items such as corporate taxation.

Shareholder profiles

Shareholder profile as at 31 December 2010 by type

Category of holdings	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
Private individuals	52,110	94.98	19,211,581	6.63
Nominee companies	2,366	4.31	263,863,806	91.15
Limited and public limited companies	243	0.45	2,853,841	0.99
Other corporate bodies	134	0.24	3,401,509	1.18
Pension funds, insurance companies and banks	11	0.02	141,914	0.05
Total	54,864	100	289,472,651	100

Shareholder profile as at 31 December 2010 by size

Range of holdings	Number of shareholders	Percentage of total shareholders	Ordinary shares	Percentage of issued share capital
1 – 199	33,916	61.82	2,198,283	0.76
200 – 499	10,930	19.92	3,498,593	1.21
500 – 999	5,278	9.62	3,686,874	1.27
1,000 – 4,999	3,780	6.89	6,995,046	2.42
5,000 – 9,999	304	0.55	2,103,147	0.73
10,000 – 49,999	336	0.61	7,357,159	2.54
50,000 – 99,999	87	0.16	5,970,440	2.06
100,000 – 499,999	145	0.27	33,496,115	11.57
500,000 – 999,999	33	0.06	23,881,055	8.25
1,000,000 – highest	55	0.10	200,285,939	69.19
Total	54,864	100	289,472,651	100

Shareholder profile as at 31 December 2010 by geographical location

Country/Jurisdiction	Percentage of issued share capital ¹
England and Wales	55.70
Rest of Europe	11.10
US (including ADRs)	29.00
Rest of World	4.20
Total	100

¹ The geographical profile presented is based on an analysis of shareholders (by manager) of 40,000 shares or above where geographical ownership is known. This analysis only captures 89.1% of total issued share capital. Therefore, the known percentage distributions have been multiplied by 100/89.1 (1.122) to achieve the figures shown in the table above.

Investor information



Website and electronic communication

As part of the Company's commitment to reducing the cost and environmental impact of producing and distributing printed documents in very large quantities, IHG's Annual Report and Annual Review have been made available to the majority of shareholders through the Company's website www.ihgplc.com/investors under financial library.

Shareholders may appoint electronically a proxy to vote on their behalf on any poll that may be held at the forthcoming Annual General Meeting. Shareholders who hold their shares through CREST may appoint proxies through the CREST electronic proxy appointment service, by using the procedures described in the CREST Manual.



Shareholder Hotel Discount Promotion

IHG is currently operating a promotion for discounted hotel stays (subject to availability) for registered shareholders, through a dedicated, controlled access website. For further details please contact the Company Secretariat at the registered office on 01895 512 000 or email companysecretariat@ihg.com



Changes to the base cost of IHG shares

Details of all the changes to the base cost of IHG shares held since April 2003 up to December 2010, for UK Capital Gains Tax purposes, may be found on the Company's website www.ihgplc.com/investors under shareholder centre/tax information.



Corporate Responsibility Report

IHG has published an online Corporate Responsibility Report for 2010 covering progress on a range of environmental, social and community issues. This is available on our corporate website and can be downloaded directly at www.ihgplc.com/responsibility



Registrar

For enquiries concerning individual shareholdings, notification of a shareholder's change of address and for information on a range of shareholder services please contact the Company's Registrar, Equiniti, on 0871 384 2132[†] (UK callers) or +44 (0) 121 415 7034 (non-UK callers).



Dividend services

The Company offers a Dividend Reinvestment Plan (DRIP) for shareholders to purchase additional IHG shares with their cash dividends. For further information about the DRIP, please contact our Registrar helpline on 0871 384 2268[†]. A DRIP application and information booklet are available on the Company's website www.ihgplc.com/investors under shareholder centre/dividends.

Shareholders who would like their dividends to be paid directly into a bank or building society account, or who wish to amalgamate their shareholder accounts in order to avoid duplicate mailing of shareholder communications should contact our Registrar.

It may be possible for shareholders to have their dividends paid direct to their bank account in a local currency. Charges are payable for this service. Further information is available at www.shareview.co.uk under shareholder centre/overseas payment service.

If you think that you have out of date dividend warrants or outstanding dividend payments please contact our Registrar for further information.



Individual Savings Accounts (ISAs)

Equiniti offer ISAs in IHG shares. For further information please contact our Registrar helpline on 0871 384 2244[†].



Share dealing services

Equiniti offer a postal dealing facility for IHG shares. For more information on this service, call 0871 384 2132[†]. They also offer a telephone and internet dealing service, Shareview Dealing, which provides a simple and convenient way of buying and selling shares. For telephone dealings, call 08456 037 037 between 8.00am and 4.30pm Monday to Friday, and for internet dealings log on to www.shareview.co.uk



ShareGift

The Orr Mackintosh Foundation operates this charity share donation scheme for shareholders with small holdings of shares, the value of which makes them uneconomic to sell. Details can be obtained from Equiniti, the ShareGift website www.sharegift.org or by calling ShareGift on 020 7930 3737.



Missing shareholders

Working with ProSearch, (an asset reunification company), we continue to look for shareholders who have not kept their contact details up to date. We have funds waiting to be claimed and are committed to doing what we can to pay these to their rightful owners. For further details please contact ProSearch on 01732 741 411 or email info@prosearchassets.com



Shareholder security

Many companies have become aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. More detailed information on this or similar activity can be found on the Financial Services Authority website www.moneymadeclear.fsa.gov.uk

Details of any share dealing facilities that the Company endorses will be included in Company mailings.



American Depositary Receipts (ADRs)

The Company's shares are listed on the New York Stock Exchange in the form of American Depositary Shares, evidenced by ADRs and traded under the symbol 'IHG'.

Each ADR represents one ordinary share. All enquiries regarding ADR holder accounts and payment of dividends should be directed to JPMorgan Chase & Co, our authorised depositary bank (details shown on page 120).



Form 20-F

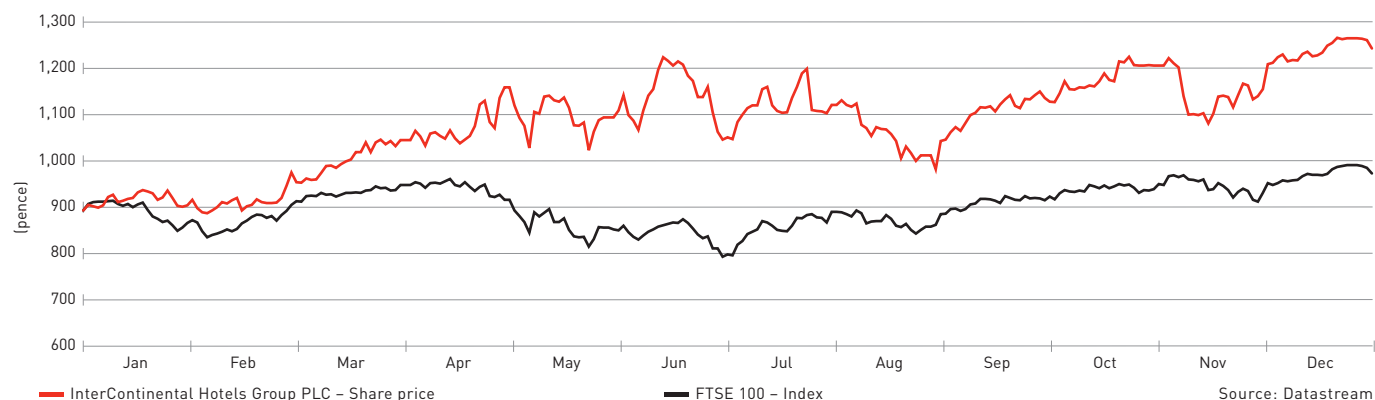
The Company is subject to the reporting requirements of the Securities and Exchange Commission (SEC) in the US and files with the SEC an Annual Report on Form 20-F. The Form 20-F can be found on the Company's website www.ihgplc.com/investors under shareholder centre/ADR holders or by visiting the SEC's website www.sec.gov/edgar.shtml

[†]Telephone calls to these numbers are currently charged at 8p per minute if using a BT landline. Other telephony provider costs may vary.

Share price information

The latest share price is available in the financial press, on Ceefax and also on the Financial Times Cityline Service, telephone 09058 171 690 (calls charged at 75p per minute from a BT landline). Further details of the share price may be found on the Company's website www.ihgplc.com/investors under share price.

Share price 2010: InterContinental Hotels Group PLC v FTSE 100



Dividend history

The table below details the interim and final dividends per share (pence) and per ADR (cents) paid by IHG since 2003.

	Interim dividend		Final dividend		Total dividend	
	pence	cents	pence	cents	pence	cents
2010	8.00	12.80	22.00	35.20	30.00	48.00
2009	7.30	12.20	18.70	29.20	26.00	41.40
2008*	6.40	12.20	20.20	29.20	26.60	41.40
2007	5.70	11.50	14.90	29.20	20.60	40.70
2006	5.10	9.60	13.30	25.90	18.40	35.50
2005	4.60	8.10	10.70	18.70	15.30	26.80
2004	4.30	7.70	10.00	19.10	14.30	26.80
2003	4.05	6.80	9.45	17.40	13.50	24.20

[Excludes special dividends and capital returns]

* IHG changed the reporting currency of its Group accounts from sterling to US dollars effective from the half-year results as at 30 June 2008. Starting with the interim dividend for 2008, all dividends have first been determined in US dollars and converted into sterling immediately before announcement.

Financial calendar

	2010
Payment of interim dividend of 8.0p per share (12.8 cents per ADR)	1 October
Financial year end	31 December
	2011
Preliminary announcement of annual results	15 February
Final dividend of 22.0p per share (35.2 cents per ADR):	Ex-dividend date
	Record date
Announcement of first quarter results	10 May
Annual General Meeting	27 May
Final dividend of 22.0p per share (35.2 cents per ADR):	Payment date
Announcement of interim results	9 August
Interim dividend:	Payment date
Announcement of third quarter results	8 November
Financial year end	31 December
	2012
Preliminary announcement of annual results	February

Contacts

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www.ihg.com
For general information about the Group's business please contact the Corporate Affairs department at the above address. For all other enquiries please contact the Company Secretariat at the above address.

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(non-UK callers)
www.shareview.co.uk

For those with hearing difficulties a text phone is available on 0871 384 2255 for UK callers with compatible equipment.

*Telephone calls to these numbers are currently charged at 8p per minute if using a BT landline. Other telephony provider costs may vary.

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www.adr.com

Stockbrokers

Bank of America Merrill Lynch
Goldman Sachs

Auditors

Ernst & Young LLP

Investment bankers

Citi
Bank of America Merrill Lynch
Goldman Sachs

Solicitors

Freshfields Bruckhaus
Deringer LLP

Priority Club Rewards

If you wish to enquire about, or to join Priority Club Rewards, IHG's loyalty programme for frequent travellers, please visit www.priorityclub.com or telephone:

0871 226 1111[∞] (in Europe, Middle East and Africa) (toll charges apply)
+1 888 211 9874 (in US and Canada) (toll free)
+1 800 272 9273 (in Mexico) (toll free)
+1 801 975 3013 (Spanish) (in Central and South America) (toll charges apply)
+1 801 975 3063 (English) (in Central and South America) (toll charges apply)
+63 2 857 8788 (from most countries in Asia Pacific) (toll charges apply)

[∞]Telephone calls to this number are charged at 10p per minute. Standard network rates apply. Calls from mobiles will be higher.

Forward-looking statements

Both the Annual Report and Financial Statements 2010 and the Annual Review and Summary Financial Statement 2010 contain certain forward-looking statements as defined under US legislation (Section 21E of the Securities Exchange Act of 1934) with respect to the financial condition, results of operations and business of InterContinental Hotels Group and certain plans and objectives of the Board of Directors of InterContinental Hotels Group PLC with respect thereto. Such statements include, but are not limited to, statements made in the Chairman's statement and in the Chief Executive's review. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. These statements are based on assumptions and assessments made by InterContinental Hotels Group's management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed in, or implied by, such forward-looking statements,

including, but not limited to: the risks involved with the Group's reliance on the reputation of its brands and the protection of its intellectual property rights; the risks related to identifying, securing and retaining franchise and management agreements; the effect of political and economic developments; the ability to acquire and retain the right people and skills and capability to manage growth and change; the risk of events that adversely impact domestic or international travel; the risks involved in the Group's reliance upon its proprietary reservations system and increased competition in reservations infrastructure; the risks in relation to technology and systems; the risks of the hotel industry supply and demand cycle; the possible lack of selected development opportunities; the risks related to corporate responsibility; the risk of litigation; the risks associated with the Group's ability to maintain adequate insurance; the risks associated with the Group's financial stability, its ability to borrow and satisfy debt covenants; compliance with data privacy regulations; the risks related to information security; and the risks associated with funding the defined benefits under its pension plans.

The main factors that could affect the business and financial results are described in the Business review of the Annual Report and Financial Statements 2010 and also in the Company's Annual Report on Form 20-F.



Images on the outside cover

1. Holiday Inn, Singapore
2. Crowne Plaza Gurgaon, India
3. Staybridge Suites Newcastle, UK
4. Hotel Indigo London-Tower Hill, UK
5. Candlewood Suites Orlando, US
6. InterContinental Shanghai Expo, China

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