

INTERCONTINENTAL HOTELS GROUP PLC /NEW/

Form 20-F

March 30, 2007

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 20-F**

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

or

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-10409
InterContinental Hotels Group PLC
(Exact name of registrant as specified in its charter)
England and Wales
(Jurisdiction of incorporation or organization)
67 Alma Road,
Windsor, Berkshire SL4 3HD
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares	New York Stock Exchange
Ordinary Shares of 11 ³ / ₇ pence each	New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares of 11³/₇ pence each **356,116,049**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

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If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow:
Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
Yes No

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INTRODUCTION

As used in this document, except as the context otherwise requires, the terms:

board refers to the board of directors of InterContinental Hotels Group PLC or, where appropriate, the board of InterContinental Hotels Limited or Six Continents Limited;

Britvic refers to Britannia Soft Drinks Limited for the period up to November 18, 2005, and thereafter, Britannia SD Holdings Limited (renamed Britvic plc on November 21, 2005) which became the holding company of the Britvic Group on November 18, 2005;

Britvic Group refers to Britvic and its subsidiaries from time to time;

Company refers to InterContinental Hotels Group PLC, InterContinental Hotels Limited or Six Continents Limited or their respective board of directors as the context requires;

Group refers to InterContinental Hotels Group PLC and its subsidiaries or, where appropriate, InterContinental Hotels Limited or Six Continents Limited and their subsidiaries as the context requires;

Hotels or **IHG Hotels** refers to the hotels business of the Group;

IHG refers to InterContinental Hotels Group PLC or, where appropriate, its board of directors;

IHL refers to InterContinental Hotels Limited, previously InterContinental Hotels Group PLC, former parent company of the Group and re-registered as a private limited company on June 27, 2005;

MAB or **Mitchells and Butlers** refers to Mitchells & Butlers plc;

ordinary share or **share** refers, before April 14, 2003, to the ordinary shares of 28 pence each in Six Continents Limited; following that date and until December 10, 2004 to the ordinary shares of £1 each in IHL; following that date and until June 27, 2005 to the ordinary shares of 112 pence each in IHL; following that date and until June 12, 2006 to the ordinary shares of 10 pence each in IHG; and following June 12, 2006 to the ordinary shares of 11³/₇ pence each in IHG;

Six Continents refers to Six Continents Limited; previously Six Continents PLC and re-registered as a private limited company on June 6, 2005;

Soft Drinks and **Britvic business** refer to the soft drinks business of InterContinental Hotels Group PLC, which the Company had through its controlling interest in Britvic and which the Company disposed of by way of an initial public offering effective December 14, 2005; and

VAT refers to UK value added tax levied by HM Revenue and Customs on certain goods and services.

References in this document to the **Companies Act** mean the Companies Act 1985, as amended, of Great Britain; references to the **EU** mean the European Union; references in this document to **UK** refer to the United Kingdom of Great Britain and Northern Ireland.

The Company publishes its Consolidated Financial Statements expressed in UK pounds sterling. In this document, references to **US dollars** , **US\$** , **\$** or **¢** are to United States (**US**) currency, references to **euro** or **€** are to the currency of the European Economic and Monetary Union, references to **pounds sterling** , **sterling** , **£** , **pence** or **p** are to UK currency and references to **A\$** are to Australian (**A**) currency. Solely for convenience, this Annual Report on Form 20-F contains translations of certain pound sterling amounts into US dollars at specified rates. These translations

should not be construed as representations that the pound sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rates indicated. Unless otherwise indicated, the translations of pounds sterling into US dollars have been made at the rate of £1.00 = \$1.96, the noon buying rate in The City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on December 31, 2006. On March 16, 2007 the Noon Buying Rate was

£1.00 = \$1.94. For information regarding rates of exchange between pounds sterling and US dollars from fiscal 2002 to the present, see Item 3. Key Information Exchange Rates .

The Company's fiscal year ends on December 31. The December 31 fiscal year end is in line with the calendar accounting year ends of the majority of comparable US and European hotel companies. IHG will continue to report on a December 31 fiscal year end basis, as the Group believes this facilitates more meaningful comparisons with other key participants in the industry. References in this document to a particular year are to the fiscal year unless otherwise indicated. For example, references to the year ended December 31, 2006 are shown as 2006 and references to the year ended December 31, 2005 are shown as 2005, unless otherwise specified, references to the fiscal period ended December 31, 2004, are shown as 2004 and references to other fiscal years are shown in a similar manner.

The Company's Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) which differ from the accounting principles generally accepted in the United States (US GAAP). The significant differences applicable to the Group are explained in Note 32 of Notes to the Financial Statements.

IHG believes that the reporting of profit and earnings measures before other operating income and expenses provides additional meaningful information on underlying returns and trends to shareholders. The Group's key performance indicators used in budgets, monthly reporting, forecasts, long-term planning and incentive plans for internal financial reporting focus primarily on profit and earnings measures before other operating income and expenses. Throughout this document earnings per share is also calculated excluding the effect of all other operating income and expenses, special interest, special tax and gain on disposal of assets and is referred to as adjusted earnings per share.

The Company furnishes JP Morgan Chase Bank, N.A., as Depositary, with annual reports containing Consolidated Financial Statements and an independent auditor's opinion thereon. These Financial Statements are prepared on the basis of IFRS. The Company also furnishes to the Depositary all notices of shareholders' meetings and other reports and communications that are made generally available to shareholders of the Company. The Depositary makes such notices, reports and communications available for inspection by registered holders of ADRs and mails to all registered holders of ADRs notices of shareholders' meetings received by the Depositary. During 2006, the Company reported interim financial information at June 30, 2006 in accordance with the Listing Rules of the UK Listing Authority. In addition, it provided quarterly financial information at March 31, 2006 and at September 30, 2006 and intends to continue to provide quarterly financial information during fiscal 2007. The Financial Statements may be found on the Company's website at www.ihg.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 20-F contains certain forward-looking statements as defined in 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 with respect thereto. 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.

Such statements in the Form 20-F include, but are not limited to, statements under the following headings; (i) Item 4. Information on the Company ; (ii) Item 5. Operating and Financial Review and Prospects ; (iii) Item 8. Financial Information ; and (iv) Item 11. Quantitative and Qualitative Disclosures About Market Risk . Specific risks faced by the Company are described under Item 3. Key Information Risk Factors commencing on page 13.

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 protection of its intellectual property rights; the risks relating to identifying, securing and retaining management and franchise agreements; the effect of political and economic developments; the ability to recruit and retain key personnel; events that adversely impact domestic or international travel, including terrorist incidents and epidemics such as Severe Acute Respiratory Syndrome (SARS); the risks involved in the Group's reliance upon its proprietary reservation system and increased competition from third-party intermediaries who provide reservation infrastructure; the risks involved with the Group's reliance on technologies and systems; the future balance between supply and demand for the Group's hotels; the lack of selected development opportunities; the risk of litigation; the risks associated with the Group's ability to maintain adequate insurance; the Group's ability to borrow and satisfy debt covenants; compliance with data privacy regulations; and the risks associated with funding the defined benefits under its pension plans.

PART I

ITEM IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

1.

Not applicable.

ITEM OFFER STATISTICS AND EXPECTED TIMETABLE

2.

Not applicable.

ITEM KEY INFORMATION

3.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Summary

The selected consolidated financial data set forth below for the years ended December 31, 2006, 2005 and 2004 has been prepared in line with International Financial Reporting Standards as adopted in the European Union (EU), which is consistent with IFRS, and is derived from the Consolidated Financial Statements of the Group, which have been audited by its independent registered public accounting firm, Ernst & Young LLP. There is no available comparative data for the years ended prior to December 31, 2004 as consolidated financial data was then prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP). The selected consolidated financial data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report.

Consolidated Profit and Loss Account Data

	Years ended December 31,			
	2006 ⁽²⁾	2006	2005 ⁽¹⁾	2004 ⁽¹⁾
	\$	£	£	£
(in millions, except per share and ADS amounts)				
Amounts in accordance with IFRS				
Revenue:				
Continuing operations	1,480	805	713	606
Discontinued operations	285	155	1,197	1,598
	1,765	960	1,910	2,204
Total operating profit before other operating income and expenses:				
Continuing operations	369	201	173	120
Discontinued operations	55	30	166	226
	424	231	339	346
Other operating income and expenses:				
Continuing operations	50	27	(22)	(49)
	50	27	(22)	(49)
Total operating profit:				
Continuing operations	419	228	151	71
Discontinued operations	55	30	166	226
	474	258	317	297
Financial income	48	26	30	70
Financial expenses	(68)	(37)	(63)	(103)
Profit before tax	454	247	284	264
Tax	75	41	(80)	127
Profit after tax	529	288	204	391
Gain on disposal of assets, net of tax	215	117	311	19
Profit available for shareholders	744	405	515	410
Attributable to:				
Equity holders of the parent	744	405	496	383
Minority equity interest			19	27
Profit for the year	744	405	515	410

Earnings per ordinary share:

Basic	191.9p	104.1p	95.2p	53.9p
Diluted	186.9p	101.5p	93.1p	53.3p

Footnotes on page 10.

	Year ended December 31,				Three months ended December 31,	12 months ended December 31,	15 months ended December 31,	Year ended September 30,
	2006 ⁽²⁾	2006	2005 ⁽¹⁾	2004 ⁽¹⁾	2002	2003	2003 ⁽¹⁾	2002 ⁽¹⁾
	\$	£	£	£	£	£	£	£
(in millions, except per share and ADS amounts)								
Amounts in accordance with US GAAP								
Income/(loss) before cumulative effect on prior years of change in accounting principle:								
Continuing operations	928	505	104	257	14	(63)	(49)	102
Discontinued operations:								
Income from discontinued operations			41	62	46	92	138	226
Surplus on disposal			210	21				171
Total discontinued operations			251	83	46	92	138	397
Cumulative effect on prior years of:								
adoption of FAS 142					(712)		(712)	
adoption of FAS 123(R)	(35)	(19)						
Net income/(loss)	893	486	355	340	(652)	29	(623)	499

**Per ordinary share and American Depositary Share⁽⁴⁾
Basic**

Income/(loss) before cumulative effect on prior years of change in accounting

principle:								
Continuing operations	238.6¢	129.8p	20.0p	36.2p	1.9p	(8.6)p	(6.7)p	14.0p
Discontinued operations			48.2p	11.7p	6.3p	12.6p	18.9p	54.3p
Cumulative effect on prior years of: adoption of FAS 142					(97.1)p		(97.1)p	
adoption of FAS 123(R)	(9.0)¢	(4.9)p						
Net income/(loss)	229.6¢	124.9p	68.2p	47.9p	(88.9)p	4.0p	(84.9)p	68.3p
Diluted								
Income/(loss) before cumulative effect on prior years of change in accounting principle:								
Continuing operations	233.8¢	127.2p	19.5p	35.7p	1.9p	(8.6)p	(6.7)p	13.9p
Discontinued operations			47.1p	11.5p	6.3p	12.6p	18.9p	54.1p
Cumulative effect on prior years of: adoption of FAS 142					(97.1)p		(97.1)p	
adoption of FAS 123(R)	(8.8)¢	(4.8)p						
Net income/(loss)	225.0¢	122.4p	66.6p	47.2p	(88.9)p	4.0p	(84.9)p	68.0p

Footnotes on page 10.

Consolidated Balance Sheet Data

	December 31,			
	2006⁽³⁾	2006	2005	2004
	\$	£	£	£
	(in millions)			
Amounts in accordance with IFRS				
Goodwill and intangible assets	516	263	238	206
Property, plant and equipment	1,956	997	1,356	1,926
Investments and other financial assets	251	128	155	122
Current assets	892	455	707	598
Non-current assets classified as held for sale	98	50	279	1,826
Total assets	3,713	1,893	2,735	4,678
Current liabilities ⁽⁵⁾	1,261	643	794	926
Long-term debt ⁽⁵⁾	594	303	410	1,156
Share capital	129	66	49	723
IHG shareholders equity	1,330	678	1,084	1,821
Number of Shares in issue at period end (millions)		356	433	622

	December 31,					
	2006⁽³⁾	2006	2005	2004	2003	2002
	\$	£	£	£	£	£
	(in millions)					
Amounts in accordance with US GAAP						
Goodwill and intangible assets	2,401	1,224	1,395	1,384	1,587	2,702
Property, plant and equipment	2,605	1,328	1,685	3,454	3,916	6,552
Investments and other financial assets	214	109	141	115	174	189
Current assets	979	499	738	699	978	983
Non-current assets classified as held for sale	84	43	258	300		
Total assets	6,283	3,203	4,217	5,952	6,655	10,426
Current liabilities ⁽⁵⁾	1,671	852	1,161	2,021	1,496	2,109
Long-term debt ⁽⁵⁾	190	97	36	52	523	622
Share capital	80	41	43	697	739	243
IHG shareholders equity	2,938	1,498	2,015	2,796	3,380	6,221
Number of Shares in issue at period end (millions)		356	433	622	739	734

- (1) The year ended 2002 includes Hotels 12 months and Soft Drinks 52 weeks. The period ended 2003 includes Hotels 15 months, Soft Drinks 64 weeks ended December 20, 2003 and Mitchells and Butlers 28 weeks ended April 12, 2003. The year ended 2004 includes Hotels 12 months and Soft Drinks 53 weeks ended December 25, 2004. The year ended 2005 includes Hotels 12 months and Soft Drinks 50 weeks and three days ended December 14, 2005.
- (2) US dollar amounts have been translated at the weighted average rate for the year of £1.00 = \$1.84.
- (3) US dollar amounts have been translated at the Noon Buying Rate on December 31, 2006 of £1.00 = \$1.96 solely for convenience.
- (4) Each American Depositary Share represents one ordinary share.
- (5) Long-term debt under IFRS includes amounts supported by long-term credit facilities, which are classified as current liabilities under US GAAP.

Dividends

InterContinental Hotels Group PLC paid an interim dividend of 5.1 pence per share on October 5, 2006. The IHG board has proposed a final dividend of 13.3 pence per share, payable on June 8, 2007, if approved by shareholders at the Annual General Meeting to be held on June 1, 2007, bringing the total IHG dividend for the year ended December 31, 2006 to 18.4 pence per share.

On February 20, 2007, IHG announced its intention to pay a £700 million special dividend to shareholders during the second quarter of 2007.

The table below sets forth the amounts of interim, final and total dividends on each ordinary share in respect of each fiscal year indicated. Comparative dividends per share have been restated using the aggregate of the weighted average number of shares of InterContinental Hotels Group PLC (as IHL then was) and Six Continents PLC (as Six Continents then was), adjusted to equivalent shares of InterContinental Hotels Group PLC. For the purposes of showing the dollar amounts per ADS, such amounts are before deduction of UK withholding tax (as described under Item 10. Additional Information – Taxation) and are translated into US dollars per ADS at the Noon Buying Rate on each of the respective UK payment dates.

Ordinary dividend

	Pence per ordinary share			\$ per ADS		
	Interim	Final	Total	Interim	Final	Total
Year ended September 30,						
2002 ⁽¹⁾	12.58	29.14	41.72	0.205	0.474	0.679
Period ended December 31, 2003						
Six Continents ⁽¹⁾	7.65		7.65	0.119		0.119
IHG	4.05	9.45	13.50	0.068	0.174	0.242
Year ended December 31,						
2004	4.30	10.00	14.30	0.077	0.191	0.268
2005	4.60	10.70	15.30	0.081	0.187	0.268
2006	5.10	13.30	18.40	0.096	0.259 ⁽²⁾	0.355

(1) Restated to reflect an equivalent number of shares in InterContinental Hotels Group PLC.

(2) The 2006 final dividend payable to ADS holders will be paid in USD and was set using the closing USD/ GBP spot rate of £1.00: \$1.94 on February 16, 2007.

Special Dividend

	Pence per ordinary share	\$ per ADS
December 2004	72.00	1.39
June 2006	118.00	2.17

Return of Capital

	Pence per ordinary share	\$ per ADS
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June 2005

165.00

2.86

Exchange Rates

The following tables show, for the periods and dates indicated, certain information regarding the exchange rate for pounds sterling, based on the Noon Buying Rate for pounds sterling expressed in US dollars per £1.00. The exchange rate on March 16, 2007 was £1.00 = \$1.94.

Month	Month s highest exchange rate	Month s lowest exchange rate
September 2006	1.91	1.86
October 2006	1.91	1.86
November 2006	1.97	1.89
December 2006	1.98	1.95
January 2007	1.99	1.93
February 2007	1.97	1.94
March 2007 (through March 16, 2007)	1.96	1.92

	Period end	Average rate⁽¹⁾	High	Low
Year ended September 30,				
2002	1.56	1.48	1.58	1.41
Period ended December 31,				
2003	1.78	1.63	1.78	1.54
Year ended December 31,				
2004	1.93	1.84	1.95	1.75
2005	1.73	1.82	1.93	1.71
2006	1.96	1.84	1.97	1.74
2007 (through March 16, 2007)	1.94	1.96	1.99	1.92

(1) The average of the Noon Buying Rate on the last day of each full month during the period.

A significant portion of the Group's assets, liabilities and revenues are denominated in currencies other than pounds sterling, principally the US dollar and the euro. For a discussion of the impact of exchange rate movements, see Item 11. Quantitative and Qualitative Disclosures About Market Risk.

RISK FACTORS

This section describes some of the 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 Form 20-F and the cautionary note regarding forward-looking statements contained on pages 5 and 6.

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. All of these risks could materially affect the Group's business, revenue, operating profit, earnings, net assets and liquidity and/or capital resources.

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 could 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/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 management and franchise 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 effort in protecting its intellectual property, including registration of trademarks and domain names. However, the laws of certain foreign countries in which the Group operates do not protect the Group's proprietary rights to the same extent as the laws in the United States and the European Union. This is particularly relevant in China where, despite recent improvements in IP ownership rights, the relative lack of protection increases the risk that the Group will be unable to prevent infringements of its intellectual property in this key growth market. Any widespread infringement or misappropriation 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 management and franchise agreements

The Group's growth strategy depends on its success in identifying, securing and retaining management and franchise agreements. Competition with other hotel companies may generally reduce the number of suitable management, franchise and investment opportunities offered to the Group, and increase the bargaining power of property owners seeking to engage a manager or become a franchisee. The terms of new management or franchise agreements may not be as favourable as current arrangements and the Group may not be able to renew existing arrangements on the same terms.

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 of finance may all restrict the supply of suitable hotel development opportunities under franchise or management agreements. 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. In connection with entering into management or franchise agreements, the Group may be required to make investments in or guarantee the obligations of third parties or guarantee minimum income to third parties.

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 risks of global and regional adverse political, economic and financial market developments, including recession, inflation and currency fluctuations that could lower revenues and reduce income. A recession would adversely affect room rates and/or occupancy levels and other income-generating activities resulting in deterioration of results of operations and potentially reducing the value of properties in affected economies.

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. In addition, fluctuations in currency exchange rates between sterling, the currency in which the Group reports its financial statements, and the US dollar and other currencies in which the Group's international operations or investments do business, could adversely affect the Group's reported earnings and the value of its business. Fluctuations of this type have been experienced over recent years with the significant strengthening of sterling against the US dollar. As the Group's profits have become increasingly weighted towards North America, such fluctuations may have greater impact on the Group's reported results.

The Group is dependent upon recruiting and retaining key personnel and developing their skills

In order to develop, support and market its products, the Group must hire and retain highly skilled employees with particular expertise. The implementation of the Group's strategic business plans could be undermined by failure to recruit or retain key personnel, the 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. 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 (such as SARS and avian flu), 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 reservation system and is exposed to the risk of failures in the system and increased competition in reservation infrastructure

The value of the brands of the Group is partly derived from the ability to drive reservations through its proprietary HolidexPlus reservation system, an electronic booking and delivery channel directly linked to travel agents, hotels and internet networks. Inadequate disaster recovery arrangements, or inadequate continued investment in this technology, leading to loss of key communications linkages, particularly in relation to HolidexPlus, internet reservation channels and other key parts of the Information Technology (IT) infrastructure for a prolonged period, or permanently, may result in significant business interruption and subsequent impact on revenues.

The Group is also exposed to the risk of competition from third party intermediaries who provide reservation infrastructure. In particular, any significant increase in the use of these reservation channels in

preference to proprietary channels may impact the Group's ability to control the supply, presentation and price of its room inventory.

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

To varying degrees, 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 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 to 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. Additionally, failure to develop an appropriate e-commerce strategy and select the right partners could erode the Group's market share.

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 over-capacity (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 strategy of the Group is to extend the hotel network through activities that do not involve significant capital, in some cases the Group may consider it appropriate to acquire new land or locations for the development of new hotels. If the availability of suitable sites becomes limited, this could adversely affect its results of operations.

The Group is exposed to the risk of litigation

The Group could be at risk of litigation from its guests, customers, joint venture partners, suppliers, employees, regulatory authorities, franchisees and/or the owners of hotels managed by it for breach of its contractual or other duties. Claims filed in the United States may include requests for punitive damages as well as compensatory damages. Exposure to litigation or fines imposed by regulatory authorities may affect the reputation of the Group even though the monetary consequences are not significant.

The Group may face difficulties insuring its business

Historically, the Group has maintained insurance at levels determined by it 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 as well as 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 against. 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 ability to borrow and satisfy debt covenants

The Group is reliant on having access to borrowing facilities to meet its expected capital requirements and to maintain an efficient balance sheet. The majority of the Group's borrowing facilities are only available if the financial covenants in the facilities are complied with. If the Group is not in compliance with the covenants, the lenders may demand the repayment of the funds advanced. If the Group's financial

performance does not meet market expectations it may not be able to refinance its existing facilities on terms it considers favourable. The availability of funds for future financing is in part dependent on conditions and liquidity in the capital markets.

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 customer information for marketing or promotional purposes. Compliance with these regulations in each jurisdiction in which the Group operates may require changes in marketing strategies and associated processes which could increase operating costs or reduce the success with which products and services can be marketed to existing or future customers. In addition, non-compliance with privacy regulations may result in fines, damage to reputation or restrictions on the use or transfer of information.

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 pension plans who are entitled to defined benefits. In addition, if any plan of the Group is wound-up, the Group could become statutorily liable to make an immediate payment to the trustees to bring the funding of these defined benefits to a level which is higher than this minimum. 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.

Some of the issues which could adversely affect the funding of these defined benefits (and materially affect the Group's funding obligations) include:

poor investment performance of pension fund investments which are substantially weighted towards global equity markets;

long life expectancy (which will make pensions payable for longer and therefore more expensive to provide);

adverse annuity rates (which tend in particular to depend on prevailing interest rates and life expectancy) as these will make it more expensive to secure pensions with an insurance company; and

other events occurring which make past service benefits more expensive than predicted in the actuarial assumptions by reference to which the Group's past contributions were assessed.

The trustees of the UK defined benefits plans can demand increases to the contribution rates relating to the funding of those pension plans, which would oblige the relevant members of the Group to contribute extra amounts to such pension funds. The trustees must consult the plans' 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 last such review was as at March 31, 2006. As at March 16, 2007, being the latest practicable date prior to publication of this document, the Group has agreed to make a special contribution to the UK Pension Plan of £40 million over the next three years. However, this action does not preclude the trustees from further demands in respect of increases to contribution rates and funding levels.

ITEM INFORMATION ON THE COMPANY

4.

SUMMARY

Group Overview

The Group is a worldwide owner, manager and franchisor of hotels and resorts. Through its various subsidiaries it owned, leased, managed, or franchised 3,741 hotels and 556,246 guest rooms in nearly 100 countries and territories around the world, as at December 31, 2006. The Group's brands include InterContinental Hotels & Resorts (InterContinental), Crowne Plaza Hotels & Resorts (Crowne Plaza), Holiday Inn Hotels & Resorts (Holiday Inn), Holiday Inn Express (or Express by Holiday Inn outside of

the Americas), Staybridge Suites, Candlewood Suites and Hotel Indigo. The Group also manages the hotel loyalty program, Priority Club Rewards.

With the disposal of the Group's interests in Britvic, a manufacturer and distributor of soft drinks in the United Kingdom, by way of an initial public offering (IPO) in December 2005, the Group is now focused solely on hotel franchising, management and ownership.

The Group's revenue and earnings are derived from (i) hotel operations, which include operation of the Group's owned hotels, management and other fees paid under management contracts, where the Group operates third-parties hotels, and franchise and other fees paid under franchise agreements and (ii) until December 14, 2005, the manufacture and distribution of soft drinks.

On March 16, 2007, InterContinental Hotels Group PLC had a market capitalization of approximately £4.3 billion, and was included in the list of FTSE 100 companies, a list of the 100 largest companies by market capitalization on the London Stock Exchange. Following a capital restructuring in June 2005, InterContinental Hotels Group PLC became the holding company for the Group. Six Continents Limited (formerly Six Continents PLC), which was formed in 1967, is the principal subsidiary company.

The Company's corporate headquarters are in the United Kingdom, and the registered address is:

InterContinental Hotels Group PLC
67 Alma Road
Windsor
Berkshire SL4 3HD
Tel: +44 (0) 1753 410 100
Internet address: www.ihg.com

InterContinental Hotels Group PLC was incorporated in Great Britain on May 21, 2004 and registered in, and operates under, the laws of England and Wales. Operations undertaken in countries other than England and Wales are subject to the laws of those countries in which they reside.

Group History and Recent Developments

The Group, formerly known as Bass and, more recently, Six Continents, was historically a conglomerate operating as, among other things, a brewer, soft drinks manufacturer, hotelier, leisure operator, and restaurant, pub and bar owner. In the last several years, the Group has undergone a major transformation in its operations and organization, as a result of the Separation (as discussed below) and a number of significant disposals during this period, which has narrowed the scope of its business.

On April 15, 2003, following shareholder and regulatory approval, Six Continents PLC (as it then was) separated into two new listed groups, InterContinental Hotels Group PLC (as it then was) comprising the Hotels and Soft Drinks businesses and Mitchells & Butlers plc comprising the Retail and Standard Commercial Property Developments businesses (the Separation).

Acquisitions and Dispositions

Since the Separation, 174 hotels with a net book value of £2.9 billion have been sold, generating aggregate proceeds of £3.0 billion. Of these 174 hotels, 156 have remained in the IHG global system (the number of hotels and rooms owned, leased, managed or franchised by the Group) through either franchise or management agreements. As of March 16, 2007 the Group had on the market a further five hotels. The following are the more significant transactions which have occurred since January 1, 2006:

On February 10, 2006 the Group announced the sale of 9.5 million shares in FelCor Lodging Trust, Incorporated (FelCor) for \$180.5 million, (\$19 per share). This sale followed renegotiation of the management agreement with FelCor.

On March 13, 2006, the Group announced the sale to Westbridge Hospitality Fund LP, (Westbridge), of 24 hotels in Continental Europe. Westbridge is a joint venture between CADIM, a Montreal-based pension

fund manager, and Westmont Hospitality, one of IHG's largest franchisees. The portfolio was sold for £240 million, before transaction costs. IHG retained a 15 year franchise contract on each of the hotels. The sale completed on May 2, 2006.

On July 13, 2006 the Group announced the sale of seven European InterContinental hotels to Morgan Stanley Real Estate Funds (MSREF) for £440 million, before transaction costs. IHG retained a 30 year management contract on each of the hotels, with two 10 year renewals at IHG's discretion. The long-term contracts ensure continued representation of the InterContinental brand in key European markets.

On October 28, 2006 the Group announced the signing of a hotel joint venture with All Nippon Airways (ANA), IHG ANA Hotels Group Japan LLC (IHG ANA). IHG invested £10 million for a 75% share in the joint venture, increasing IHG's portfolio in Japan from 12 hotels (3,686 rooms) to 25 hotels (8,623 rooms). As part of the transaction, ANA has signed a 15 year management contract with IHG ANA Hotels Group Japan for its 13 owned and leased hotels (4,937 rooms).

On January 16, 2007 the Group announced the sale of its 33.3% interest in the Crowne Plaza London - The City to Grupo Statuto, a leading Italian real estate investor. The hotel has been sold for gross proceeds of £81 million. IHG's net proceeds after debt repayments are £18 million, £11 million above net book value.

The asset disposal program which commenced in 2003 has significantly reduced the capital requirements of the Group whilst largely retaining the hotels in the IHG system through management and franchise agreements.

Capital expenditure in 2006 totaled £124 million compared with £183 million in 2005 and £257 million in 2004. Capital expenditure in 2006 included the refurbishment of the InterContinental London, Park Lane and a rolling rooms refurbishment program at the InterContinental Hong Kong.

At December 31, 2006 capital committed, being contracts placed for expenditure on property, plant and equipment not provided for in the financial statements, totaled £24 million.

Following the completion of the hotel disposals in 2006, the Group owns 25 hotels.

FIGURE 1

Asset disposal program detail	Number of hotels	Proceeds	Net book value
			(£ billion)
Disposed to date	174	3.0	2.9
Remaining hotels	25		1.0

Return of Funds

Since March 2004, the Group has announced the return of £3.6 billion of funds to shareholders by way of special dividends, share repurchase programs and capital returns (see Figure 2).

In 2006, 28.4 million shares were repurchased at an average price of 909 pence per share (total £258 million). These repurchases completed the second and initiated the third £250 million share repurchase program, announced on September 8, 2005. The precise timing of share purchases will be dependent upon, amongst other things, market conditions. By March 16, 2007, a total of 26.05 million shares had been repurchased under the third repurchase program at an average price per share of 938 pence per share (approximately £244 million). Purchases are made under the existing authority from shareholders which will be renewed at the Company's Annual General Meeting. Any shares repurchased under these programs will be canceled.

Information, relating to the purchases of equity securities can be found in Item 16E.

On February 20, 2007, IHG announced a further £850 million return of funds to shareholders. This comprises a proposed special dividend of approximately £700 million with share consolidation and a further £150 million share repurchase program to commence after completion of the third £250 million program.

In June 2006, £497 million was returned to shareholders by way of a special dividend of 118 pence per ordinary share held on June 9, 2006.

FIGURE 2

Return of funds program	Timing	Total return	Returned to date⁽ⁱ⁾	Still to be returned
			(£ million)	
£501 million special dividend	Paid December 17, 2004	501	501	Nil
First £250 million share buyback	Completed in 2004	250	250	Nil
£996 million capital return	Paid July 8, 2005	996	996	Nil
Second £250 million share buyback	Completed in 2006	250	250	Nil
£497 million special dividend	Paid June 22, 2006	497	497	Nil
Third £250 million share buyback	Ongoing	250	244	6
£700 million special dividend	Expected second quarter 2	007 700		700
£150 million share buyback	Yet to commence	150		150
Total		3,594	2,738	856

(i) As at March 16, 2007.

Hotels

IHG owns a number of hotel brands including InterContinental, Crowne Plaza, Holiday Inn, Holiday Inn Express, Staybridge Suites, Candlewood Suites and Hotel Indigo. As at December 31, 2006, IHG's brands comprised 3,741 franchised, managed, owned or leased hotels and 556,246 guest rooms in nearly 100 countries and territories.

Soft Drinks

In December 2005 IHG disposed of its interests in Britvic, one of the two leading manufacturers of soft drinks by value and volume in Great Britain, by way of an IPO. IHG received aggregate proceeds of approximately £371 million (including two additional dividends, one of £47 million received in November 2005 and another of £89 million received in May 2005, before any commissions or expenses). The Group results for fiscal 2005 include the results of Soft Drinks for the period up until the IPO of Britvic on December 14, 2005.

SEGMENTAL INFORMATION***Geographic Segmentation***

The following table shows revenue and operating profit before other operating income and expenses in pounds sterling and percentage by geographical area, for the following periods: years ended December 31, 2006, 2005 and 2004.

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(£ million)		
Revenue ⁽¹⁾⁽⁴⁾			
Americas	433	384	306
Europe, the Middle East and Africa	206	200	186
Asia Pacific	111	87	74
Central ⁽⁵⁾	55	42	40
Continuing operations	805	713	606
Americas	30	61	189
Europe, the Middle East and Africa	125	1,082	1,349
Asia Pacific		54	60
Discontinued operations ⁽³⁾	155	1,197	1,598
Total	960	1,910	2,204
Operating profit before other operating income and expenses ⁽¹⁾⁽²⁾			
Americas	217	186	149
Europe, the Middle East and Africa	36	31	11
Asia Pacific	29	21	17
Central ⁽⁵⁾	(81)	(65)	(57)
Continuing operations	201	173	120
Americas	4	12	24
Europe, the Middle East and Africa	26	143	195
Asia Pacific		11	7
Discontinued operations ⁽³⁾	30	166	226
Total	231	339	346

Footnotes on page 21.

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(%)		
Revenue			
Americas	45.1	20.1	13.9
Europe, the Middle East and Africa	21.5	10.4	8.4
Asia Pacific	11.6	4.6	3.4
Central ⁽⁵⁾	5.7	2.2	1.8
Continuing operations	83.9	37.3	27.5
Americas	3.1	3.2	8.6
Europe, the Middle East and Africa	13.0	56.7	61.2
Asia Pacific		2.8	2.7
Discontinued operations	16.1	62.7	72.5
Total	100.0	100.0	100.0
Operating profit before other operating income and expenses			
Americas	93.9	69.1	43.1
Europe, the Middle East and Africa	15.6	11.5	3.2
Asia Pacific	12.6	7.8	4.9
Central ⁽⁵⁾	(35.1)	(24.1)	(16.5)
Continuing operations	87.0	64.3	34.7
Americas	1.7	4.5	6.9
Europe, the Middle East and Africa	11.3	27.1	56.4
Asia Pacific		4.1	2.0
Discontinued operations	13.0	35.7	65.3
Total	100.0	100.0	100.0

(1) The results of overseas operations have been translated into sterling at weighted average rates of exchange for the period. In the case of the US dollar, the translation rate is 2006: £1 = \$1.84; (2005: £1 = \$1.83, 2004: £1 = \$1.82). In the case of the euro, the translation rate is 2006: £1 = 1.47; (2005: £1 = 1.46, 2004: £1 = 1.47).

(2) Operating profit before other operating income and expenses does not include other operating income and expenses for all periods presented. Other operating income and expenses (charge unless otherwise noted) by

region are the Americas (2006: £25 million credit; 2005: £5 million; 2004: £15 million credit); Europe, the Middle East and Africa (2006: £2 million credit; 2005: £12 million; 2004: £57 million); and Asia Pacific (2006: £nil; 2005: £5 million; 2004: £7 million).

- (3) Europe, the Middle East and Africa includes discontinued operations for Hotels (2006: £26 million; 2005: £73 million; 2004: £118 million) and Soft Drinks (2006: £nil; 2005: £70 million; 2004: £77 million). The Americas and Asia Pacific discontinued operations all relate to Hotels. Hotels discontinued operations were all owned and leased.
- (4) Amounts are reported by origin. See Note 2 of Notes to the Consolidated Financial Statements for details by destination, for which the amounts are not significantly different.
- (5) Central revenue primarily relates to Holidex (IHG's proprietary reservation system) fee income. Central operating profit includes central revenue less costs related to global functions.

Activity Segmentation

The following table shows revenue and operating profit before other operating income and expenses in pounds sterling by activity and the percentage contribution of each activity for the following periods: years ended December 31, 2006, 2005 and 2004.

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
(£ million)			
Revenue⁽¹⁾⁽⁴⁾			
Hotels			
Americas	433	384	306
Europe, the Middle East and Africa	206	200	186
Asia Pacific	111	87	74
Central ⁽⁵⁾	55	42	40
Continuing operations	805	713	606
Hotels⁽³⁾			
Americas	30	61	189
Europe, the Middle East and Africa	125	411	643
Asia Pacific		54	60
Soft Drinks		671	706
Discontinued operations	155	1,197	1,598
Total	960	1,910	2,204
Operating profit before other operating income and expenses⁽¹⁾⁽²⁾			
Hotels			
Americas	217	186	149
Europe, the Middle East and Africa	36	31	11
Asia Pacific	29	21	17
Central ⁽⁵⁾	(81)	(65)	(57)
Continuing operations	201	173	120
Hotels⁽³⁾			
Americas	4	12	24
Europe, the Middle East and Africa	26	73	118
Asia Pacific		11	7
Soft Drinks		70	77
Discontinued operations	30	166	226
Total	231	339	346

Footnotes on page 23.

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(%)		
Revenue			
Hotels			
Americas	45.1	20.1	13.9
Europe, the Middle East and Africa	21.5	10.4	8.4
Asia Pacific	11.6	4.6	3.4
Central	5.7	2.2	1.8
Continuing operations	83.9	37.3	27.5
Hotels			
Americas	3.1	3.2	8.6
Europe, the Middle East and Africa	13.0	21.5	29.2
Asia Pacific		2.9	2.7
Soft Drinks		35.1	32.0
Discontinued operations	16.1	62.7	72.5
Total	100.0	100.0	100.0
Operating profit before other operating income and expenses			
Hotels			
Americas	93.9	54.9	43.1
Europe, the Middle East and Africa	15.6	9.1	3.2
Asia Pacific	12.6	6.2	4.9
Central	(35.1)	(19.2)	(16.5)
Continuing operations	87.0	51.0	34.7
Hotels			
Americas	1.7	3.6	6.9
Europe, the Middle East and Africa	11.3	21.5	34.1
Asia Pacific		3.2	2.0
Soft Drinks		20.7	22.3
Discontinued operations	13.0	49.0	65.3
Total	100.0	100.0	100.0

- (1) The results of overseas operations have been translated into sterling at weighted average rates of exchange for the period. In the case of the US dollar, the translation rate is 2006: £1 = \$1.84 (2005: \$1.83, 2004: £1 = \$1.82). In the case of the euro, the translation rate is 2006: £1 = 1.47 (2005: £1 = 1.46, 2004: £1 = 1.47).
- (2) Operating profit before other operating income and expenses does not include other operating income and expenses for all periods presented. Other operating income and expenses items (charge unless otherwise noted) by business segment are the Americas (2006: £25 million credit; 2005: £7 million; 2004: £15 million credit); Europe, the Middle East and Africa (2006: £2 million credit; 2005: £10 million; 2004: £57 million); and Asia Pacific (2006: nil million; 2005: £5 million; 2004: £7 million).
- (3) Hotels discontinued operations were all owned and leased.
- (4) Amounts are reported by origin. See Note 2 of Notes to the Consolidated Financial Statements for details by destination, for which the amounts are not significantly different.
- (5) Central revenue primarily relates to Holidex (IHG's proprietary reservation system) fee income. Central operating profit includes central revenue less costs related to global functions.

HOTELS**Overview**

InterContinental Hotels Group is an international hotel business which owns a portfolio of well-recognized and respected hotel brands, including InterContinental, Crowne Plaza, Holiday Inn, Holiday Inn Express, Staybridge Suites, Candlewood Suites and Hotel Indigo, with 3,741 franchised, managed, owned and leased hotels and 556,246 guest rooms in nearly 100 countries and territories as at December 31, 2006. Approximately 98.5% of the Group's rooms are operated under managed and franchised models.

IHG operates in the global hotel market, which has an estimated total room capacity of 18.8 million rooms. Room capacity has been growing at approximately 3% per annum over the last five years. The hotel market is geographically concentrated with 12 countries accounting for two-thirds of worldwide hotel room supply. The Group has a leadership position (top three by room numbers) in six of these 12 countries – US, UK, Mexico, Canada, Greater China and Australia – more than any other major hotel company.

The hotel market is, however, a fragmented market with the four largest companies controlling only 11% of the global hotel room supply and the 10 largest controlling less than 21%. The Group is the largest of these companies by room numbers with a 3% market share. The major competitors in this market include other large global hotel companies, smaller hotel companies and independent hotels.

Within the global market, a relatively low proportion of hotel rooms are branded (see figure 3), but there has been an increasing trend towards branded rooms. For example, Mintel, a market research company, estimates that the proportion of branded rooms in Europe has grown from 15% in 2000 to 25% in 2004. Larger branded companies are therefore gaining market share at the expense of smaller companies and independent hotels. IHG is well positioned to benefit from this trend. Hotel owners are increasingly recognising the benefits of working with a group such as IHG which can offer a portfolio of brands to suit the different real-estate opportunities an owner may have. Furthermore, hotel ownership is increasingly being separated from hotel operations, encouraging hotel owners to use third parties such as IHG to manage or franchise their hotels.

FIGURE 3**Percentage of branded hotel rooms by region****2004**

North America	65%
South America	20%
Europe	25%
Middle East	25%
East Asia	25%

Source: Mintel (latest data available)

US market data indicates a steady increase in hotel industry revenues, broadly in line with Gross Domestic Product, with growth of approximately 1-1.5% per annum in real terms since 1967, driven by a number of underlying trends:

change in demographics – as the population ages and becomes wealthier, increased leisure time and income encourages more travel and hotel visits;

increase in travel volumes as low cost airlines grow rapidly;

globalisation of trade and tourism;

increase in affluence and freedom to travel within the Chinese middle class; and

increase in the preference for branded hotels amongst consumers.

Potential negative trends include increased terrorism, increased costs associated with compliance with environmental regulations and economic factors such as rising oil prices. Currently, however, there are no indications that demand is being significantly affected by these factors.

Supply growth in the industry is cyclical, averaging between zero and 5% per annum historically. The Group's profit is partly protected from supply pressure due to its model of third party ownership of hotels under IHG management and franchise contracts.

Operations

The Group currently operates an asset-light business model and owns only a small number of hotels deemed to be strategically important to the brands they represent. Through three distinct business models which offer different growth, return, risk and reward opportunities, IHG achieves growth through its partnerships with financial participants who may provide capital in exchange for, among other things, IHG's expertise and brand value. The models are summarized as follows:

franchised, where Group companies neither own nor manage the hotel, but license the use of a Group brand and provide access to reservation systems, loyalty schemes and know-how. The Group derives revenues from a brand royalty or licensing fee, based on a percentage of room revenue. At the end of 2006, 76% of the Group's rooms were franchised, with 89% of rooms in the Americas operating under this model.

managed, where in addition to licensing the use of a Group brand, a Group company manages the hotel for third party owners. The Group derives revenues from base and incentive management fees and provides the system infrastructure necessary for the hotel to operate. Management contract fees are linked to total hotel revenue and may have an additional incentive fee linked to profitability and/or cash flow. The terms of these agreements vary, but are often long term (for example, 10 years or more). The Group's responsibilities under the management agreement typically include hiring, training and supervising the managers and employees that operate the hotels under the relevant brand standards. The Group prepares annual budgets for the hotels that it manages, and the property owners are responsible for funding periodic maintenance and repair on a basis to be agreed with the Group. In order to gain access to central reservation systems, global and regional brand marketing and brand standards and procedures, the owners are typically required to make a further contribution. In certain cases, property owners may require performance targets, with consequences for management fees and sometimes the contract itself (including on occasion, the right of termination) if those targets are not met. At the end of 2006, 23% of the Group's rooms were operated under management contracts.

owned and leased (O & L), where a Group company both owns (or leases) and operates the hotel and, in the case of ownership, takes all the benefits and risks associated with ownership. The Group has sold a significant proportion of its owned and leased portfolio and in future expects to own only hotels where it is considered strategically important to do so. Rooms owned or leased by the Group at the end of 2006 represented 1% of the Group's rooms.

In addition, the Group also makes equity investments in hotel ownership entities, where its equity investment is less than 100% and it participates in a share of the benefits and risks of ownership. A management contract is generally entered into as well as the equity investment.

The following table shows the number of hotels and rooms owned, leased, managed or franchised by IHG as at December 31, 2006, December 31, 2005 and December 31, 2004.

	Owned or leased		Management contracts and joint ventures		Franchised		Total	
	No. of hotels	No. of rooms	No. of hotels	No. of rooms	No. of hotels	No. of rooms	No. of hotels	No. of rooms
2006	25	8,460	512	125,214	3,204	422,572	3,741	556,246
2005	55	15,485	504	121,249	3,047	400,799	3,606	537,533
2004	166	38,420	403	98,953	2,971	396,829	3,540	534,202

The Group sets quality and service standards for all of its hotel brands (including those operated under management contracts or franchise arrangements) and operates a customer satisfaction and hotel quality measurement system to ensure those standards are met or exceeded. The quality measurement system includes an assessment of both physical property and customer service standards.

Strategy

IHG owns, operates and franchises hotels, with its brands represented in nearly 100 countries and territories around the world. The Group's strategy is to become the preferred hotel company for guests and owners by building the strongest operating system in the industry, focused on the largest markets and segments where scale really counts. During 2006, IHG initiated a number of research projects, the results of which will strengthen the Group's strategy with respect to brand development, franchising operations and growth opportunities.

The Group has four stated strategic priorities:

brand performance – to operate a portfolio of brands attractive to both owners and guests that have clear market positions in relation to competitors;

excellent hotel returns – to generate higher owner returns through revenue delivery and improved operating efficiency;

market scale and knowledge – to accelerate profitable growth in the largest markets where the Group currently has scale; and

aligned organisation – to create a more efficient organization with strong core capabilities.

Executing the four strategic priorities is designed to achieve:

organic growth of at least 50,000 to 60,000 net rooms by the end of 2008 (up 19,246 from 537,000 in June 2005), with specific growth targets for the InterContinental brand and the key Chinese market; and

out-performance of total shareholder return against a competitor set.

Growth is planned to be attained predominantly from managing and franchising rather than owning and leasing hotels. The managed and franchised model is attractive because it enables the Group to achieve its goals with limited capital investment. With a relatively fixed cost base, such growth yields high incremental margins for IHG, and is primarily how the Group has grown recently. For this reason, the Group has executed a disposal program for most of its owned hotels, releasing capital and enabling returns of funds to shareholders.

A key characteristic of the managed and franchised business model on which the Group has focused is that it generates more cash than is required for investment in the business, with a high return on capital employed. During the year ended December 31, 2006, 92% of continuing earnings before interest, tax and regional and central overheads was derived from managed and franchised operations.

The Group aims to deliver its growth targets through the strongest operating system in the industry which includes:

a strong brand portfolio across the major markets, including two leading brands: InterContinental and Holiday Inn;

market coverage a presence in nearly 100 countries and territories;

scale 3,741 hotels, 556,246 rooms and 130 million guest stays per annum;

IHG global reservation channels delivering \$5.7 billion of global system room revenue in 2006, including \$2.0 billion from the internet;

a loyalty program, Priority Club Rewards, contributing \$4.4 billion of global system room revenue; and

a strong web presence holidayinn.com is the industry's most visited site, with around 75 million total site visits per annum.

With a clear target for rooms growth and a number of brands with market premiums offering excellent returns to owners, the Group is well placed to execute its strategy and achieve its goals.

Segmental Results

The following table shows revenue and operating profit before other operating income and expenses in sterling of the IHG continuing Hotels business by activity and the percentage contribution of each activity for the following periods: years ended December 31, 2006, 2005 and 2004.

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
(£ million)			
Continuing revenue⁽¹⁾⁽⁴⁾			
Americas			
Owned and leased	115	106	80
Managed	77	65	30
Franchised	241	213	196
	433	384	306
EMEA			
Owned and leased	100	110	116
Managed	71	55	43
Franchised	35	35	27
	206	200	186
Asia			
Owned and leased	71	59	50
Managed	36	25	21
Franchised	4	3	3
	111	87	74
Central⁽³⁾	55	42	40
Total	805	713	606
Continuing operating profit before other operating income and expenses⁽¹⁾⁽²⁾			
Americas			
Owned and leased	14	14	3
Managed	27	20	6
Franchised	208	186	167
Regional overheads	(32)	(34)	(27)
	217	186	149
EMEA			
Owned and leased	(5)	(5)	(11)
Managed	37	31	24
Franchised	24	26	21
Regional overheads	(20)	(21)	(23)

	36	31	11
Asia Pacific			
Owned and leased	17	11	9
Managed	21	16	14
Franchised	3	2	2
Regional overheads	(12)	(8)	(8)
	29	21	17
Central ⁽³⁾	(81)	(65)	(57)
Total	201	173	120

Footnotes on page 29.

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(%)		
Continuing revenue			
Americas			
Owned and leased	14.3	14.8	13.2
Managed	9.6	9.1	5.0
Franchised	29.9	29.9	32.3
	53.8	53.8	50.5
EMEA			
Owned and leased	12.4	15.4	19.1
Managed	8.8	7.8	7.1
Franchised	4.4	4.9	4.5
	25.6	28.1	30.7
Asia Pacific			
Owned and leased	8.8	8.3	8.2
Managed	4.5	3.5	3.5
Franchised	0.5	0.4	0.5
	13.8	12.2	12.2
Central	6.8	5.9	6.6
Total	100.0	100.0	100.0
Continuing operating profit before other operating income and expenses			
Americas			
Owned and leased	7.0	8.0	2.5
Managed	13.6	11.4	5.0
Franchised	103.5	107.9	139.2
Regional overheads	(16.0)	(19.7)	(22.5)
	108.1	107.6	124.2
EMEA			
Owned and leased	(2.5)	(2.9)	(9.2)
Managed	18.4	18.0	20.0
Franchised	12.0	15.1	17.5
Regional overheads	(10.0)	(12.2)	(19.2)
	17.9	18.0	9.1
Asia Pacific			
Owned and leased	8.4	6.4	7.5

Managed	10.6	9.2	11.7
Franchised	1.3	1.3	1.7
Regional overheads	(6.0)	(4.8)	(6.7)
	14.3	12.1	14.2
Central	(40.3)	(37.7)	(47.5)
Total	100.0	100.0	100.0

- (1) The results of overseas operations have been translated into sterling at weighted average rates of exchange for the period. In the case of the US dollar, the translation rate is 2006: £1 = \$1.84; (2005: £1 = \$1.83, 2004: £1 = \$1.82). In the case of the euro, the translation rate is 2006: £1 = 1.47; (2005: £1 = 1.46, 2004: £1 = 1.47).
- (2) Operating profit before other operating income and expenses does not include other operating income and expenses for all periods presented. Other operating income and expenses (charge unless otherwise noted) by region are the Americas (2006: £25 million credit; 2005: £5 million; 2004: £15 million credit); Europe, the Middle East and Africa (2006: £2 million credit; 2005: £12 million; 2004: £57 million); and Asia Pacific (2006: £nil; 2005: £5 million; 2004: £7 million).
- (3) Central revenue primarily relates to Holidex (IHG's proprietary reservation system) fee income. Central operating profit includes central revenue less costs related to global functions.
- (4) Amounts are reported by origin. See Note 2 of Notes to the Consolidated Financial Statements for details by destination, for which the amounts are not significantly different.

The following table shows revenue and operating profit in US dollars of the IHG continuing Hotels business by activity and the percentage contribution of each activity for the following periods: years ended December 31, 2006, 2005 and 2004.

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
(\$ million)			
Continuing revenue⁽¹⁾⁽⁴⁾			
Americas			
Owned and leased	211	195	146
Managed	143	118	55
Franchised	443	389	357
	797	702	558
EMEA			
Owned and leased	184	201	211
Managed	131	100	78
Franchised	63	64	50
	378	365	339
Asia Pacific			
Owned and leased	131	108	91
Managed	65	45	38
Franchised	8	6	5
	204	159	134
Central ⁽³⁾	101	77	74
Total	1,480	1,303	1,105
Continuing operating profit before other operating income and expenses⁽¹⁾⁽²⁾			
Americas			
Owned and leased	26	25	6
Managed	50	36	12
Franchised	382	340	304
Regional overheads	(59)	(62)	(50)
	399	339	272
EMEA			
Owned and leased	(9)	(9)	(20)
Managed	68	56	43
Franchised	44	48	38
Regional overheads	(36)	(39)	(42)
	67	56	19

Asia Pacific			
Owned and leased	31	20	17
Managed	39	29	25
Franchised	5	5	3
Regional overheads	(23)	(15)	(15)
	52	39	30
Central ⁽³⁾	(149)	(118)	(102)
Total	369	316	219

Footnotes on pages 31 and 32.

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(%)		
Continuing revenue			
Americas			
Owned and leased	14.3	15.0	13.2
Managed	9.7	9.0	5.0
Franchised	29.9	29.9	32.3
	53.9	53.9	50.5
EMEA			
Owned and leased	12.4	15.4	19.1
Managed	8.8	7.7	7.1
Franchised	4.3	4.9	4.5
	25.5	28.0	30.7
Asia Pacific			
Owned and leased	8.9	8.3	8.2
Managed	4.4	3.4	3.4
Franchised	0.5	0.5	0.5
	13.8	12.2	12.1
Central	6.8	5.9	6.7
Total	100.0	100.0	100.0
Continuing operating profit before other operating income and expenses			
Americas			
Owned and leased	7.0	8.1	2.7
Managed	13.5	10.4	5.5
Franchised	103.5	98.0	138.8
Regional overheads	(16.0)	(17.9)	(22.8)
	108.0	98.6	124.2
EMEA			
Owned and leased	(2.4)	5.8	(9.1)
Managed	18.4	16.4	19.6
Franchised	11.9	13.5	17.4
Regional overheads	(9.7)	(11.0)	(19.2)
	18.2	24.7	8.7
Asia			
Owned and leased	8.4	5.5	7.8
Managed	10.6	8.4	11.4

Franchised	1.3	1.4	1.4
Regional overheads	(6.2)	(4.3)	(6.9)
	14.1	11.0	13.7
Central	(40.3)	(34.3)	(46.6)
Total	100.0	100.0	100.0

- (1) The results of overseas operations have been translated into sterling at weighted average rates of exchange for the period. In the case of the US dollar, the translation rate is 2006: £1 = \$1.84; (2005: £1 = \$1.83, 2004: £1 = \$1.82). In the case of the euro, the translation rate is 2006: £1 = 1.47; (2005: £1 = 1.46, 2004: £1 = 1.47).

- (2) Operating profit before other operating income and expenses does not include other operating income and expenses for all periods presented. Other operating income and expenses (charge unless otherwise noted) by region are the Americas (2006: £25 million credit; 2005: £5 million; 2004: £15 million credit); Europe, the Middle East and Africa (2006: £2 million credit; 2005: £12 million; 2004: £57 million); and Asia Pacific (2006: £nil; 2005: £5 million; 2004: £7 million).
- (3) Central revenue primarily relates to Holidex (IHG's proprietary reservation system) fee income. Central operating profit includes central revenue less costs related to global functions.
- (4) Amounts are reported by origin. See Note 2 of Notes to the Consolidated Financial Statements for details by destination, for which the amounts are not significantly different.

Global System

The Group supports revenue delivery into its hotels through its global reservation channels and global loyalty program (Priority Club Rewards) which is paid for by assessments from each hotel in the Group. The elements of the global system include:

Priority Club Rewards: The Group operates the Priority Club Rewards loyalty program. Members enjoy a variety of privileges and rewards as they stay at the Group's hotels around the world. IHG has alliances with over 40 airlines, which enable members to collect frequent flyer miles, and with external partners such as car hire companies and credit card companies, which provide exposure and access to IHG's system. Global system rooms sales generated from Priority Club Rewards members during 2006 was \$4.4 billion and represented approximately 34% of IHG global system rooms sales.

Central Reservation System Technology: The Group operates the HolidexPlus reservation system. The HolidexPlus system receives reservation requests entered on terminals located at most of its reservation centers, as well as from global distribution systems operated by a number of major corporations and travel agents. Where local hotel systems allow, the HolidexPlus system immediately confirms reservations or indicates alternative accommodation available within IHG's network. Confirmations are transmitted electronically to the hotel for which the reservation is made.

Reservation Call Centers: The Group operates 12 reservation centers around the world which enable it to sell in local languages in many countries and offer a high quality service to customers.

Internet: The Group introduced electronic hotel reservations in 1995. The Internet continues to be an important communications, branding and distribution channel for the Group's sales. During 2006, the internet channel continued to show strong growth, with global system rooms sales booked through the internet increasing by 18% to \$2.0 billion. Approximately 16% of IHG global system rooms sales is via the internet through various branded websites, such as www.intercontinental.com and www.holiday-inn.com, as well as certified third parties (up from 14% in 2005). IHG has established standards for working with third party intermediaries—on-line travel distributors—who sell or re-sell IHG hotel rooms via their internet sites. Under the standards, certified distributors are required to respect IHG's trademarks, ensure reservations are guaranteed through an automated and common confirmation process, and clearly present fees to customers. About 86% of IHG global system rooms sales booked on the web is now booked directly through the Group's own brand sites.

The Group estimates that, during 2006, global system rooms sales booked through these reservation systems (which include company reservation centers, global distribution systems and internet reservations) rose by approximately 21% to \$5.7 billion, and the proportion of IHG global system rooms sales booked through IHG's reservation channels increased from 41% to 44%.

Sales and Marketing

IHG targets its sales and marketing expenditure in each region on driving revenue and brand awareness or, in the case of sales investments, targeting segments such as corporate accounts, travel agencies and meeting organizers. The majority of IHG's sales and marketing expenditure is funded by contractual fees paid by most hotels in the system.

The strategic goals for the global system as a whole include:

adding further locations and improving guest satisfaction for its brands;

continuing the focus on enrolments in Priority Club Rewards and increasing share of the total hotel spend to establish Priority Club Rewards as the number one program in the industry;

making the direct channels the best available; and

improving pricing structure.

Global Brands

Brands Overview

The Group's portfolio includes seven established and diverse brands. These brands cover several market segments and in the case of InterContinental, Crowne Plaza, Holiday Inn and Express, operate internationally. Staybridge Suites operates in the Americas and was launched in the United Kingdom in 2005. Candlewood Suites and Hotel Indigo operate exclusively in the United States.

Brands	December 31, 2006	
	Room numbers	Hotels
InterContinental	49,599	148
Crowne Plaza	75,632	275
Holiday Inn	260,470	1,395
Holiday Inn Express	143,582	1,686
Staybridge Suites	10,953	97
Candlewood Suites	14,149	130
Hotel Indigo	893	6
Other	968	4
Total	556,246	3,741

InterContinental

	Americas total	Americas O & L	EMEA total	EMEA O & L	Asia Pacific
Average room rate \$(¹)	152.75	227.59	164.11	269.15	160.73
Room numbers(²)	16,525	2,271	21,423	1,288	11,651

(1) For the year ended December 31, 2006; quoted at constant US\$ exchange rate. Owned and leased average room rate is for comparable InterContinental hotels.

(2) As at December 31, 2006.

InterContinental is IHG's most prestigious hotel brand. The brand aims to meet the tastes of discerning business and leisure travellers. InterContinental hotels are generally located in prime locations in major cities and key resorts around the world. There were 148 InterContinental hotels across 60 countries and territories which represented 9% of all of IHG's hotel rooms as at December 31, 2006.

InterContinental hotels are principally owned, leased or managed by the Group. The brand is one of the largest international premium hotel brands based on room numbers and has more than 50 years of heritage. IHG's competition includes international luxury chains (for example Four Seasons and Ritz Carlton) and upper upscale chains (for example, Marriott, Hilton, Hyatt and Westin).

During 2006, 14 new InterContinental hotels were added to the portfolio. After removals there was a net gain of 11 in the total number of InterContinental hotels.

Crowne Plaza

	Americas total	Americas O & L	EMEA total	EMEA O & L	Asia Pacific
Average room rate \$(¹)	111.05	85.24	130.75	111.64	95.21
Room numbers(²)	42,604	293	16,440	732	16,588

(1) For the year ended December 31, 2006; quoted at constant US\$ exchange rate. Owned and leased average room rate is for comparable Crowne Plaza hotels.

(2) As at December 31, 2006.

Crowne Plaza is IHG's global upscale hotel brand which had grown to 275 hotels worldwide by December 31, 2006. Defined as "the Place to Meet", the brand is targeted at the business guest, with a particular focus on executive meetings and business events. Mostly located in principal cities, the upscale Crowne Plaza hotels provide the high level of comfort, amenities, services, facilities and meeting space expected by business and leisure travellers of a full service hotel. Crowne Plaza represented 14% of IHG hotel rooms as at December 31, 2006.

Approximately 68% of the upscale Crowne Plaza hotels and resorts are franchised hotels. As at December 31, 2006, 56% of Crowne Plaza brand properties were in the Americas. The key competitors in this segment include Sheraton, Marriott, Hilton, Double-Tree, Wyndham and Radisson.

During 2006, 45 Crowne Plaza hotels were added to the portfolio while five were removed, resulting in a net increase of 40 hotels.

Holiday Inn

	Americas total	Americas O & L	EMEA total	EMEA O & L	Asia Pacific
Average room rate \$(¹)	91.35	93.67	105.70	92.86	73.82
Room numbers(²)	186,067	1,882	50,628	915	23,775

(1) For the year ended December 31, 2006; quoted at constant US\$ exchange rate. Owned and leased average room rate is for comparable Holiday Inn hotels.

(2) As at December 31, 2006.

Holiday Inn is one of the world's most recognized hotel brands, with a global reputation for full service, comfort and value. Holiday Inn International was acquired in 1988, with the remaining North American business of Holiday Inn being acquired in 1990. The Holiday Inn brand is targeted at the mid-market guest and is the Group's largest global hotel brand based on room numbers. The Holiday Inn brand continues to expand and evolve globally to provide convenient and productive facilities for business travellers as well as memorable holiday experiences for families.

There were 1,395 Holiday Inn hotels located in more than 70 countries and territories which represented 47% of all IHG's hotel rooms as at December 31, 2006. The brand is predominantly franchised. As at December 31, 2006, 71% of the Holiday Inn branded hotels were located in the Americas.

Holiday Inn Express

Americas total	EMEA total	Asia Pacific
---------------------------	-----------------------	---------------------

Average room rate \$(¹)	87.46	91.82	42.86
Room numbers(²)	123,718	18,109	1,755

(1) For the year ended December 31, 2006; quoted at constant US\$ exchange rate. Owned and leased average room rate is for comparable Express hotels.

(2) As at December 31, 2006.

Holiday Inn Express is a rapidly growing, fresh and uncomplicated brand, offering limited-service comfort, convenience and good value. IHG recognized the need for a brand in this category in the early 1990s and subsequently developed Holiday Inn Express to extend the reach of the Holiday Inn brand and enter the midscale limited service market. The brand aims to provide the room quality of midscale hotels where guests enjoy smart bedrooms, contemporary bathrooms and complimentary breakfast.

There were 1,686 Holiday Inn Express hotels worldwide, which represented 26% of IHG's hotel rooms as at December 31, 2006. Holiday Inn Express is one of the largest brands in the US midscale limited service sector based on room numbers, and approximately 86% of the Holiday Inn Express branded rooms are located in the Americas. Holiday Inn Express hotels are almost entirely franchised. Holiday Inn Express also has a solid and growing brand presence in the UK market where it faces competition from a variety of local market brands and independent hotels.

During 2006, 145 new Holiday Inn Express hotels were added to the portfolio, while 49 hotels were removed from the portfolio, resulting in a net gain of 96 hotels. A further 299 franchise agreements were signed, adding to the system pipeline.

Staybridge Suites

	Americas total
Average room rate \$(¹)	100.53
Room numbers(²)	10,953

(1) For the year ended December 31, 2006; quoted at constant US\$ exchange rate.

(2) As at December 31, 2006.

Staybridge Suites is IHG's organically developed long-stay upscale brand that offers guests a home away from home. The rooms offer more space than the typical hotel room, offering studios and one and two bedroom suites, complete with kitchens and living rooms, work stations and high-speed internet access, along with breakfast. As at December 31, 2006, there were 97 Staybridge Suites hotels, all of which are located in the Americas, representing 2% of all IHG's hotel rooms. The Staybridge Suites brand is primarily operated under franchised and managed models. The primary competitors include Residence Inn, Homewood, Summerfield and Hawthorne. On April 6, 2005 the Group announced the launch of Staybridge Suites in the United Kingdom.

During 2006, 12 hotels were added to the portfolio with two removals.

Candlewood Suites

	Americas total
Average room rate \$(¹)	67.27
Room numbers(²)	14,149

(1) For the year ended December 31, 2006; quoted at constant US\$ exchange rate.

(2) As at December 31, 2006.

The Candlewood Suites brand was acquired on December 31, 2003. Candlewood Suites is a mid-scale extended-stay brand which complements Staybridge Suites' upside positioning. Candlewood Suites is an established brand of carefully designed and purpose-built hotels created for stays of a week or longer with studio and

one-bedroom suites featuring well-equipped kitchens, spacious work areas and an array of convenient amenities. As at December 31, 2006 there were 130 Candlewood Suites hotels. The major owner of Candlewood Suites properties is HPT and the Group manages all 76 of HPT's Candlewood Suites properties under a 20 year agreement. At the end of 2006, Candlewood Suites represented 2% of all of the Group's rooms.

Hotel Indigo

In April 2004, the Group launched its seventh brand, Hotel Indigo, which is a new, innovative brand, designed for the style-conscious traveller who seeks the ambience of a boutique hotel with the benefits and consistencies of a global hotel operation. Inspired by lifestyle retailing, Hotel Indigo features inviting service, inspiring artwork, casual gourmet restaurants, airy guest rooms and 24-hour business amenities. The first Hotel Indigo opened in Atlanta, Georgia in the United States in October 2004. As at December 31, 2006 there were six Hotel Indigo hotels, with 893 rooms.

	Americas total
Average room rate \$(¹)	100.77
Room numbers(²)	893

(1) For the year ended December 31, 2006; quoted at constant US\$ exchange rate.

(2) As at December 31, 2006.

Geographical Analysis

Although it has worldwide hotel operations, the Group is most dependent on the Americas for operating profit, reflecting the structure of the branded global hotel market. In terms of its continuing operating profit before central overheads and other operating income and expenses, the Americas represented 77%, EMEA represented 13% and the Asia Pacific region represented 10% in the year ended December 2006.

The geographical analysis, split by number of rooms and operating profit, is set out in the table below.

	Americas	EMEA	Asia Pacific
	(% of total)		
Room numbers(¹)	71	19	10
Hotel level operating profit (before central overheads and other operating income and expenses)(²)	77	13	10

(1) As at December 31, 2006.

(2) For the year ended December 31, 2006.

The following table shows information concerning the geographical locations and ownership of IHG's hotels as at December 31, 2006.

		Management contract					
Owned or leased		and joint ventures		Franchised		Total	
Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms

United States

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InterContinental	4	1,914	10	4,103	3	852	17	6,869
Crowne Plaza			14	5,439	108	30,224	122	35,663
Holiday Inn	3	758	26	8,639	817	152,758	846	162,155
Holiday Inn Express			1	252	1,430	115,138	1,431	115,390
Staybridge Suites	2	233	39	4,765	51	5,356	92	10,354
Candlewood Suites			77	9,340	53	4,809	130	14,149
Hotel Indigo			2	305	4	588	6	893
Total	9	2,905	169	32,843	2,466	309,725	2,644	345,473

	Owned or leased		Management contract and joint ventures		Franchised		Total	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Rest of Americas								
InterContinental	1	357	11	3,498	20	5,801	32	9,656
Crowne Plaza	1	293	3	737	29	5,911	33	6,941
Holiday Inn	2	1,124	4	1,844	135	20,944	141	23,912
Holiday Inn Express					75	8,328	75	8,328
Staybridge Suites			2	335	3	264	5	599
Candlewood Suites								
Hotel Indigo								
Total	4	1,774	20	6,414	262	41,248	286	49,436
Total Americas								
InterContinental	5	2,271	21	7,601	23	6,653	49	16,525
Crowne Plaza	1	293	17	6,176	137	36,135	155	42,604
Holiday Inn	5	1,882	30	10,483	952	173,702	987	186,067
Holiday Inn Express			1	252	1,505	123,466	1,506	123,718
Staybridge Suites	2	233	41	5,100	54	5,620	97	10,953
Candlewood Suites			77	9,340	53	4,809	130	14,149
Hotel Indigo			2	305	4	588	6	893
Total	13	4,679	189	39,257	2,728	350,973	2,930	394,909
United Kingdom								
InterContinental	1	447					1	447
Crowne Plaza			6	1,530	9	1,938	15	3,468
Holiday Inn			58	9,973	46	6,483	104	16,456
Holiday Inn Express			1	120	106	10,949	107	11,069
Staybridge Suites								
Candlewood Suites								
Total	1	447	65	11,623	161	19,370	227	31,440
Europe								
InterContinental	1	470	23	7,972	3	951	27	9,393
Crowne Plaza	3	732	6	1,351	32	7,644	41	9,727
Holiday Inn	3	915	9	2,059	174	26,393	186	29,367
Holiday Inn Express	1	153	9	1,005	54	5,778	64	6,936
Staybridge Suites								
Candlewood Suites								
Total	8	2,270	47	12,387	263	40,766	318	55,423

	Owned or leased		Management contract and joint ventures		Franchised		Total	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
The Middle East and Africa								
InterContinental	1	371	33	10,264	4	948	38	11,583
Crowne Plaza			11	3,041	1	204	12	3,245
Holiday Inn			18	3,360	9	1,445	27	4,805
Holiday Inn Express					1	104	1	104
Staybridge Suites								
Candlewood Suites								
Other								
Total	1	371	62	16,665	15	2,701	78	19,737
Total EMEA								
InterContinental	3	1,288	56	18,236	7	1,899	66	21,423
Crowne Plaza	3	732	23	5,922	42	9,786	68	16,440
Holiday Inn	3	915	85	15,392	229	34,321	317	50,628
Holiday Inn Express	1	153	10	1,125	161	16,831	172	18,109
Staybridge Suites								
Candlewood Suites								
Other								
Total	10	3,088	174	40,675	439	62,837	623	106,600
Far East and Australasia (Asia Pacific)								
InterContinental	1	495	24	8,789	8	2,367	33	11,651
Crowne Plaza			44	13,806	8	2,782	52	16,588
Holiday Inn	1	198	70	20,101	20	3,476	91	23,775
Holiday Inn Express			7	1,618	1	137	8	1,755
Staybridge Suites								
Candlewood Suites								
Other			4	968			4	968
Total	2	693	149	45,282	37	8,762	188	54,737

	Owned or leased		Management contract and joint ventures		Franchised		Total	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Total								
InterContinental	9	4,054	101	34,626	38	10,919	148	49,599
Crowne Plaza	4	1,025	84	25,904	187	48,703	275	75,632
Holiday Inn	9	2,995	185	45,976	1,201	211,499	1,395	260,470
Holiday Inn Express	1	153	18	2,995	1,667	140,434	1,686	143,582
Staybridge Suites	2	233	41	5,100	54	5,620	97	10,953
Candlewood Suites			77	9,340	53	4,809	130	14,149
Hotel Indigo			2	305	4	588	6	893
Other			4	968			4	968
Total	25	8,460	512	125,214	3,204	422,572	3,741	556,246

Americas

In the Americas, the largest proportion of rooms is operated under the franchise business model primarily in the midscale segment (Holiday Inn and Holiday Inn Express). Similarly, in the upscale segment, Crowne Plaza is predominantly franchised, whereas the majority of the InterContinental brand is operated under franchise and management agreements. With 2,930 hotels, the Americas represented the bulk of hotels and approximately 77% of the Group's continuing operating profit before central costs and other operating income and expenses during the year ended December 31, 2006. The key profit producing region is the United States, although IHG is also represented in each of Latin America, Canada, Mexico and the Caribbean.

EMEA

Comprising 623 hotels at the end of 2006, EMEA represented approximately 13% of the Group's continuing operating profit before central costs and other operating income and expenses during the year ended December 31, 2006. Profits are primarily generated from hotels in the United Kingdom, continental European gateway cities and the Middle East portfolio.

Asia Pacific

Asia Pacific represented 10% of the Group's rooms and 10% of the Group's operating profit before central costs and other operating income and expenses during the year ended December 31, 2006. IHG has a strong and growing presence in Asia Pacific, comprising 188 hotels in total. Greater China is expected to generate significant growth in the hotel and tourism industry over the next decade. As at December 31, 2006 the Group had 65 hotels in Greater China and a further 55 in development.

Room Count and System Pipeline

The IHG global system grew significantly during 2006 ending the fiscal year at 3,741 hotels and 556,246 rooms, 135 hotels and 18,713 rooms higher than at December 31, 2005 (see Figure 4). During 2006, 286 hotels with 42,841 rooms were added to the system, while 151 hotels with 24,128 rooms were removed from the system. Of the hotels removed from the system, 126 (18,310 rooms) were in the Americas.

One of the key elements of the asset disposal program is the retention of management contracts for the hotels sold. Of those sold between Separation and December 31, 2006, management contracts or franchise agreements were retained for 156 hotels. Overall, the number of owned and leased rooms fell by 7,025 while the number of managed and franchised rooms in the system grew by 3,965 rooms and 21,773 rooms respectively.

At the end of 2006, the number of rooms in the pipeline (contracts signed but hotels and rooms yet to enter the system) was 1,241, an increase of 40% from 2005 (see figure 5). This positions the Group well to achieve its stated goal of organic growth of at least 50,000 to 60,000 net rooms in the period June 2005 to December 2008. Whilst there is no guarantee that all of the pipeline will enter the system in that period, a number of initiatives are in place to both secure new deals and to reduce the time between a hotel signing with IHG and opening.

The growth in pipeline was fuelled by record level signings during 2006; 102,774 rooms were signed which represents an increase of over 100% of the average between 2001 and 2005. This partly reflects the increased investment in development resource particularly in the Americas and Asia Pacific.

There are no assurances that all of the hotels in the pipeline will open or enter the system. The construction, conversion and development of hotels is dependent upon a number of factors, including meeting brand standards, obtaining the necessary permits relating to construction and operation, the cost of constructing, converting and equipping such hotels and the ability to obtain suitable financing at acceptable interest rates. The supply of capital for hotel development in the United States and major economies may not continue at previous levels and consequently the system pipeline could decrease.

FIGURE 4

Global hotel and room count at December 31, 2006	Hotels			Rooms		
	2006	2005	Change over 2005	2006	2005	Change over 2005
Analyzed by brand:						
InterContinental	148	137	11	49,599	46,262	3,337
Crowne Plaza	275	235	40	75,632	65,404	10,228
Holiday Inn	1,395	1,435	(40)	260,470	267,816	(7,346)
Holiday Inn Express	1,686	1,590	96	143,582	133,554	10,028
Staybridge Suites	97	87	10	10,953	9,915	1,038
Candlewood Suites	130	112	18	14,149	12,683	1,466
Hotel Indigo	6	3	3	893	497	396
Other	4	7	(3)	968	1,402	(434)
Total	3,741	3,606	135	556,246	537,533	18,713
Analyzed by ownership type:						
Owned and leased	25	55	(30)	8,460	15,485	(7,025)
Managed	512	504	8	125,214	121,249	3,965
Franchised	3,204	3,047	157	422,572	400,799	21,773
Total	3,741	3,606	135	556,246	537,533	18,713

FIGURE 5

Global pipeline at December 31, 2006	Hotels			Rooms		
	2006	2005	Change over 2005	2006	2005	Change over 2005
Analyzed by brand:						
InterContinental	36	27	9	13,211	9,353	3,858
Crowne Plaza	60	54	6	17,113	13,514	3,599
Holiday Inn	299	204	95	44,774	31,035	13,739
Holiday Inn Express	574	429	145	55,520	38,066	17,454
Staybridge Suites	120	79	41	12,605	8,195	4,410
Candlewood Suites	128	83	45	11,723	7,467	4,256
Hotel Indigo	24	8	16	3,045	882	2,163
Total	1,241	884	357	157,991	108,512	49,479
Analyzed by ownership type:						
Owned and leased		2	(2)		574	(574)
Managed	139	98	41	41,648	27,805	13,843
Franchised	1,102	784	318	116,343	80,133	36,210
Total	1,241	884	357	157,991	108,512	49,479

Seasonality

Although the performance of individual hotels and geographic markets might be highly seasonal due to a variety of factors such as the tourist trade and local economic conditions, the geographical spread of IHG's hotels in nearly 100 countries and territories and the relative stability of the income stream from management and franchising activities diminish the effect of seasonality on the results of the Group.

Competition

The Group's hotels compete with a wide range of facilities offering various types of lodging options and related services to the public. The competition includes several large and moderate sized hotel chains offering upper, mid and lower priced accommodation and also includes independent hotels in each of these market segments, particularly outside of North America where the lodging industry is much more fragmented. Major hotel chains which compete with the Group include Marriott International, Inc., Starwood Hotels & Resorts Worldwide, Inc., Choice Hotels International, Inc., Best Western International, Inc., Hilton Hotels Corporation, Cendant Corporation, Four Seasons Hotels Inc. and Accor S.A.

Key Relationships

IHG maintains effective business relationships across all aspects of its operations. However, 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, the largest hotel owner controls less than 4% of the Group's total room count.

To promote effective owner relationships, the Group's management meets with owners of IHG branded hotels on a regular basis. In addition, IHG has an important relationship with the International Association of Holiday Inns (IAHI). The IAHI is an independent worldwide association for owners of the Crowne Plaza, Holiday Inn, Holiday Inn Express, Hotel Indigo, Staybridge Suites and Candlewood Suites brands. IHG and the IAHI work together to support and facilitate the continued development of IHG's brands and systems.

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 revenues is derived from franchise fees, the Group's continued compliance with franchise legislation is important to the successful deployment of the Group's strategy.

On January 25, 2006 IHG announced a restructured management agreement with FelCor, covering all of the hotels (15,790 rooms) owned by FelCor and managed by IHG. Seventeen hotels (6,301 rooms) were retained by FelCor and managed by IHG, under revised contract terms (the contract duration was extended to 2025 and the incentive fees on all the hotels have been rebased). HPT purchased seven of the hotels (2,072 rooms) from FelCor for \$160 million, which IHG continues to manage under a separate management agreement. There was no increase in the guarantees to HPT (described in Item 10. Additional Information Material Contracts) as a result of this transaction.

On February 10, 2006, the Group announced the sale of its entire shareholding in FelCor for \$180.5 million in cash, (\$19 per share). This sale followed the renegotiation of the management agreement with FelCor.

On October 28, 2006 IHG announced the signing of a hotel operating joint venture agreement with ANA. IHG invested £10 million for a majority stake in the joint venture increasing IHG's portfolio in Japan from 12 hotels (3,686 rooms) to 25 hotels (8,623 rooms). As part of the transaction, ANA signed a 15 year management contract for its 13 owned and leased hotels (4,937 rooms).

Key Performance Indicators (KPIs)

In addition to the traditional profit measures, the management team at IHG monitor the Group and regional performance of the business through a range of financial and non-financial KPIs, the most significant of which include:

total gross revenue – measure of the scale and reach of IHG's brands;

revenue per available room (RevPAR) – measure of underlying hotel revenue with year-on-year performance being measured by the RevPAR movement against the prior year;

hotel and room count – measure of the size of IHG's portfolio; and

pipeline of hotels and rooms – measure of demand and growth potential for IHG's brands.

Data for the calculation of KPIs is provided from IHG and underlying hotel records.

RevPAR

The following tables present RevPAR statistics for the years ended December 31, 2006 and 2005.

Owned and leased, and managed statistics are for comparable hotels, and include only those hotels in the IHG system as of December 31, 2006 and owned and leased, or managed by the Group since January 1, 2005.

The comparison with 2005 is at constant US\$ exchange rates.

	Owned & leased comparable			Managed comparable			Franchised		
	2006	2005	Change vs 2005	2006	2005	Change vs 2005	2006	2005	Change vs 2005
Americas									
InterContinental									
Occupancy	78.5%	73.5%	5.0% pts.	68.7%	67.2%	1.5% pts.	61.7%	59.8%	1.9% pts.
Average daily rate	\$ 227.59	\$ 216.58	5.1%	\$ 157.11	\$ 145.82	7.7%	\$ 117.50	\$ 106.53	10.3%
RevPAR	\$ 178.63	\$ 159.19	12.2%	\$ 107.89	\$ 97.96	10.1%	\$ 72.50	\$ 63.73	13.8%
Crowne Plaza									
Occupancy	72.4%	66.1%	6.3% pts.	75.4%	74.5%	1.0% pts.	62.7%	61.5%	1.2% pts.
Average daily rate	\$ 85.24	\$ 73.41	16.1%	\$ 135.26	\$ 120.07	12.7%	\$ 106.38	\$ 98.39	8.1%
RevPAR	\$ 61.75	\$ 48.52	27.3%	\$ 102.05	\$ 89.42	14.1%	\$ 66.74	\$ 60.53	10.3%
Holiday Inn									
Occupancy	69.2%	70.6%	1.4% pts.	67.7%	69.0%	1.3% pts.	62.5%	61.9%	0.6% pts.
Average daily rate	\$ 93.67	\$ 89.72	4.4%	\$ 98.56	\$ 92.33	6.7%	\$ 90.86	\$ 85.20	6.6%
RevPAR	\$ 64.79	\$ 63.33	2.3%	\$ 66.76	\$ 63.76	4.7%	\$ 56.77	\$ 52.75	7.6%
Holiday Inn Express									
Occupancy				74.8%	75.1%	0.3% pts.	68.0%	66.7%	1.4% pts.
Average daily rate				\$ 133.55	\$ 119.12	12.1%	\$ 87.36	\$ 80.52	8.5%
RevPAR				\$ 99.91	\$ 89.51	11.6%	\$ 59.44	\$ 53.68	10.7%
Staybridge Suites									
Occupancy	66.7%	73.7%	7.0% pts.	76.4%	76.8%	0.5% pts.	72.9%	73.2%	0.4% pts.
Average daily rate	\$ 91.53	\$ 73.18	25.1%	\$ 104.22	\$ 95.25	9.4%	\$ 97.34	\$ 91.23	6.7%
RevPAR	\$ 61.06	\$ 53.93	13.2%	\$ 79.59	\$ 73.17	8.8%	\$ 70.92	\$ 66.80	6.2%
Candlewood Suites									
Occupancy				75.7%	75.0%	0.7% pts.	66.1%	69.5%	3.4% pts.
Average daily rate				\$ 66.50	\$ 61.03	8.9%	\$ 69.22	\$ 64.45	7.4%
RevPAR				\$ 50.31	\$ 45.76	9.9%	\$ 45.72	\$ 44.77	2.1%
Hotel Indigo									

Occupancy	69.0%	55.9%	13.2% pts.	39.2%	42.4%	3.3% pts.
Average daily rate	\$ 127.05	\$ 115.19	10.3%	\$ 86.02	\$ 84.44	1.9%
RevPAR	\$ 87.70	\$ 64.35	36.3%	\$ 33.70	\$ 35.85	6.0%

	Owned & leased comparable			Managed comparable			Franchised		
	2006	2005	Change	2006	2005	Change	2006	2005	Change
			vs 2005			vs 2005			vs 2005
EMEA									
InterContinental									
Occupancy	70.6%	69.9%	0.7% pts.	65.4%	60.9%	4.5% pts.	71.3%	68.5%	2.8% pts.
Average daily rate	\$ 269.15	\$ 223.15	20.6%	\$ 155.76	\$ 145.66	6.9%	\$ 173.14	\$ 141.33	22.5%
RevPAR	\$ 190.08	\$ 156.08	21.8%	\$ 101.92	\$ 88.71	14.9%	\$ 123.46	\$ 96.87	27.4%
Crown Plaza									
Occupancy	70.4%	68.8%	1.6% pts.	75.2%	73.7%	1.5% pts.	67.3%	64.5%	2.8% pts.
Average daily rate	\$ 111.64	\$ 104.66	6.7%	\$ 140.25	\$ 129.91	8.0%	\$ 126.50	\$ 119.16	6.2%
RevPAR	\$ 78.59	\$ 71.99	9.2%	\$ 105.53	\$ 95.74	10.2%	\$ 85.13	\$ 76.84	10.8%
Holiday Inn									
Occupancy	70.7%	66.2%	4.5% pts.	73.6%	71.2%	2.4% pts.	65.6%	64.5%	1.1% pts.
Average daily rate	\$ 92.86	\$ 94.18	1.4%	\$ 111.58	\$ 106.62	4.7%	\$ 103.50	\$ 92.46	11.9%
RevPAR	\$ 65.66	\$ 62.37	5.3%	\$ 82.12	\$ 75.90	8.2%	\$ 67.87	\$ 59.64	13.8%
Holiday Inn Express									
Occupancy	70.1%	63.9%	6.3% pts.	63.8%	56.6%	7.2% pts.	70.8%	68.8%	2.0% pts.
Average daily rate	\$ 78.12	\$ 79.01	1.1%	\$ 76.04	\$ 71.68	6.1%	\$ 92.62	\$ 88.39	4.8%
RevPAR	\$ 54.79	\$ 50.45	8.6%	\$ 48.49	\$ 40.56	19.5%	\$ 65.59	\$ 60.85	7.8%

	Owned & leased comparable			Managed comparable			Franchised		
	2006	2005	Change	2006	2005	Change	2006	2005	Change
			vs 2005			vs 2005			vs 2005
Asia Pacific									
InterContinental									
Occupancy	72.5%	65.9%	6.6% pts.	71.1%	71.0%	0.1% pts.	70.8%	68.0%	2.8% pts.
Average daily rate	\$ 340.73	\$ 284.50	19.8%	\$ 146.55	\$ 140.56	4.3%	\$ 159.64	\$ 135.26	18.0%
RevPAR	\$ 247.07	\$ 187.39	31.8%	\$ 104.23	\$ 99.80	4.4%	\$ 113.03	\$ 92.01	22.8%
Crowne Plaza									
Occupancy				78.6%	76.8%	1.8% pts.	77.7%	74.6%	31.1% pts.
				\$ 94.52	\$ 87.95	7.5%	\$ 98.31	\$ 91.29	7.7%

Average daily rate									
RevPAR				\$ 74.27	\$ 67.56	9.9%	\$ 76.41	\$ 68.13	12.2%
Holiday Inn									
Occupancy	78.6%	76.9%	1.7% pts.	76.6%	75.8%	0.8% pts.	69.5%	71.3%	1.8% pts.
Average daily rate	\$ 104.63	\$ 92.06	13.7%	\$ 75.35	\$ 69.25	8.8%	\$ 66.17	\$ 63.98	3.4%
RevPAR	\$ 82.24	\$ 70.76	16.2%	\$ 57.72	\$ 52.47	10.0%	\$ 45.97	\$ 45.62	0.8%
Holiday Inn Express									
Occupancy				77.2%	77.8%	0.6% pts.	65.4%	67.3%	1.9% pts.
Average daily rate				\$ 39.38	\$ 37.44	5.2%	\$ 53.81	\$ 52.20	3.1%
RevPAR				\$ 30.39	\$ 29.11	4.4%	\$ 35.19	\$ 35.13	0.2%
Other									
Occupancy				67.1%	70.1%	3.0% pts.			
Average daily rate				\$ 74.73	\$ 72.21	3.5%			
RevPAR				\$ 50.17	\$ 50.64	0.9%			

Regulation

Both in the United Kingdom and internationally, the Group's hotel operations are subject to regulation, including health and safety, zoning and similar land use laws as well as regulations that influence or determine wages, prices, interest rates, construction procedures and costs.

SOFT DRINKS

The Group disposed of its interest in Britvic by way of an IPO in December 2005. The Group received aggregate proceeds of approximately £371 million (including two additional dividends, one of £47 million received in November 2005, and another of £89 million, received in May 2005, before any commissions or expenses).

The Group results for fiscal 2005 include the results of Soft Drinks for the period up until the IPO of Britvic on December 14, 2005.

Britvic generated operating profits before other operating income and expenses of £70 million on revenues of £671 million in the period up to December 14, 2005.

TRADEMARKS

Group companies own a substantial number of service brands and product brands and the Group believes that its significant trademarks are protected in all material respects in the markets in which it currently operates.

ORGANIZATIONAL STRUCTURE*Principal operating subsidiary undertakings*

InterContinental Hotels Group PLC (or, where appropriate IHL) was the beneficial owner of all (unless specified) of the equity share capital, either itself or through subsidiary undertakings, of the following companies during the year. Unless stated otherwise, the following companies were incorporated in Great Britain, registered in England and Wales and operate principally within the United Kingdom. The companies listed below include those which principally affect the amount of profit and assets of the Group.

Six Continents Limited (formerly Six Continents PLC)

InterContinental Hotels Group Services Company

InterContinental Hotels Group (Management Services) Limited

InterContinental Hotels Group Operating Corporation (incorporated and operates principally in the United States)

PROPERTY, PLANT AND EQUIPMENT

Group companies own and lease properties throughout the world. The table below analyzes the net book value of land and buildings (excluding assets classified as held for sale) at December 31, 2006. Approximately 40% of the properties by value were directly owned, with 55% held under leases having a term of 50 years or longer.

Net book value of land and buildings as at December 31, 2006	Europe, the Middle East and Africa	Americas	Asia Pacific	Total
		(£ million)		
Hotels	278	289	172	739

Group properties comprise hotels. Approximately 85% of the Group's property values relate to the top five owned and leased hotels (in terms of value) of a total of 21 hotels.

In the year ended December 31, 2006 property, plant and equipment have been written down by £nil million (2005, £7 million) following an impairment review of certain hotel assets based on current market trading conditions. Fair value was measured by reference to recent transactions for hotel assets in these markets.

ENVIRONMENT

IHG is committed to all its operating companies having a responsibility to act in a way that respects the environment in which they operate. The Group's strong presence in the United States and European Union markets mean that it is affected by and is familiar with highly developed environmental laws and controls. IHG regularly considers environmental matters and seeks to embed good practice into its business strategies and operations. IHG is a member of the FTSE4Good Index Series.

We have a wide range of environmental responsibilities and a unique opportunity to lead the world's hospitality industry in environmental innovation.

As we pursue our strategic growth and continue to develop our environmental practice, we aim to minimise our negative effects on the environment. We are committed to providing updated information to stakeholders on:

- developments in global environmental policy;
- how we establish management responsibility and accountability for environmental performance;
- how we evaluate and manage our hotels' environmental footprint;
- new projects and developments; and
- performance benchmarking against best practice.

In 2006 we improved data collection and reporting to increase our energy efficiency. The Group's hotels already take steps to conserve resources, including energy and water, and to manage waste and recycling effectively. In 2007, we intend to benchmark these achievements across our business so that we can set clear targets for improvement.

In September 2006 we created the new role of Senior Vice President with responsibility for developing and implementing the Group's Corporate Social Responsibility (CSR) policies and practices. This position reports directly to Richard Winter in his capacity as the IHG Executive Committee member responsible for the development of our global CSR strategy. A comprehensive review of IHG's current position on CSR was undertaken and a revised strategy was considered and approved by the Board in December 2006.

Following research throughout 2006, we now have a much better understanding of our main risks and opportunities. The Group's immediate priorities for action are environmental management and support for the communities in which we operate. The travel and tourism industry is coming under increasing pressure to address its impact on the environment and society and become more sustainable. We must address this challenge as a priority.

IHG believes that travel and tourism should be operated responsibly and that the benefits of taking this approach far outweigh the costs. Tourism provides opportunities for local economic development, new business and much needed jobs, especially in developing countries. It also opens the door to improved learning, better communication, greater diversity and richer, more fulfilling social experiences.

The Group accepts that there are actions that hotel operators can take to minimise travel and tourism's negative effects still further. We will be launching several new initiatives in 2007 and will encourage our owners and guests to support these activities.

IHG will continue to concentrate its efforts on supporting local communities and seek to develop protocols to assess the responsible management of our supply chain.

Addressing our risks and opportunities in a cohesive way has required us to develop a more integrated CSR strategy – one that is consistent with our Winning Ways. We have created a global team, representing all parts of our business, to manage our CSR agenda and to develop detailed future plans.

The Group's reporting systems will also be strengthened in 2007 so that we can collect better data and set ourselves appropriate performance targets.

Group companies incur expenditure on technical advice, services and equipment in addressing the environmental laws and regulations enacted in the countries in which they operate. In 2006, such expenditure was not material in the context of their Financial results.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

INTRODUCTION

Business and Overview

The Group is a worldwide owner, manager and franchisor of hotels and resorts. Through its various subsidiaries, the Group owned, managed, leased or franchised 3,741 hotels and 556,246 guest rooms in nearly 100 countries and territories around the world, as at December 31, 2006. The Group's brands include InterContinental Hotels & Resorts, Crowne Plaza Hotels & Resorts, Holiday Inn Hotels & Resorts, Holiday Inn Express, Staybridge Suites, Candlewood Suites and Hotel Indigo. The Group also manages the hotel loyalty program, Priority Club Rewards.

The Group's revenue and earnings are derived from (i) hotel operations, which include operation of the Group's owned hotels, management and other fees paid under management contracts, where the Group operates third-parties hotels, and franchise and other fees paid under franchise agreements and (ii) until December 14, 2005, the manufacture and distribution of soft drinks.

Operational Performance

For the year ended December 31, 2006, the Hotels business reported growth in all regions at the revenue and operating profit lines for continuing operations. The 2006 regional increases were driven by RevPAR growth of approximately 10% across the 3,741 hotels and were primarily the result of higher room rates.

The performance of the Hotels business is evaluated primarily on a regional basis. The regional operations are split by similar product or services: franchise agreement, management contract, and owned and leased operations. All three income types are affected by occupancy and room rates achieved by hotels, our ability to manage costs and the change in the number of available rooms through acquisition, development and disposition. Results are also impacted by economic conditions and capacity. The Group's segmental results are shown before other operating income and expenses, interest expense, interest income and income taxes.

The Group believes the period-over-period movement in RevPAR to be a meaningful indicator for the performance of the Hotels business.

CRITICAL ACCOUNTING POLICIES UNDER IFRS AND US GAAP

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and costs and expense during the reporting periods. On an ongoing basis, management evaluates its estimates and judgments, including those relating to revenue recognition, bad debts, inventories, investments, property, plant and equipment, goodwill and intangible assets, income taxes, financing operations, frequent guest program liability, self insurance claims payable, restructuring costs, retirement benefits and contingencies and litigation.

Management bases its estimates and judgments on historical experience and on other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions and conditions.

The Group's critical accounting policies are set out below.

Goodwill, intangible assets, and property, plant and equipment

Under IFRS, goodwill arising on acquisitions prior to October 1, 1998 was eliminated against equity. From October 1, 1998 to December 31, 2003, acquired goodwill was capitalized and amortized over a period not exceeding 20 years. Since January 1, 2004, goodwill continued to be capitalized but amortization ceased as at that date, replaced by an annual review for impairment.

Under US GAAP, goodwill arising on acquisitions prior to July 1, 2001 was capitalized and amortized over its estimated useful life, not exceeding 40 years. From October 1, 2002, goodwill and indefinite life intangible assets are not amortized but are reviewed annually for impairment.

Under both IFRS and US GAAP, the Company uses discounted cash flow models to test goodwill and indefinite life intangibles for impairment on an annual basis, or more frequently if there are indicators of impairment. The discounted cash flow models require assumptions about the timing and amount of net cash inflows, economic projections, cost of capital and terminal values. Each of these can significantly affect the value of the assets.

Under both IFRS and US GAAP, finite lived intangible assets are capitalized and amortized over their anticipated life.

Under both IFRS and US GAAP, the carrying value of property, plant and equipment and finite lived intangible assets are assessed for indicators of impairment. The Company evaluates the carrying value of its long-lived assets based on its plans, at the time, for such assets and such qualitative factors as future development in the surrounding area, status of expected local competition and projected capital expenditure plans. Changes to the Company's plans, including decisions to dispose of or change the intended use of an asset, can have a material impact on the carrying value of the asset.

Under IFRS, property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate 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 the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Recoverable amount is the greater of fair value less cost 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. The outcome of such an assessment is subjective, and the result sensitive to the assumed future cashflows to be generated by the assets and discount rates applied in calculating the value in use, both of which will be dependent on the type of asset and its location. Any impairment arising is charged to the income statement. Under US GAAP, the assessment of an asset's carrying value is by reference in the first instance to undiscounted cashflows. To the extent that undiscounted cashflows do not support carrying value, the fair value of assets must be calculated and the difference to the current carrying value charged to the income statement.

During 2006, under IFRS the Company recorded an impairment of its property, plant and equipment of £3 million, relating to an asset held for sale. For the purposes of US GAAP, no impairment was required.

Sale of real estate

Under IFRS, the Company recognises the sales proceeds and related profit or loss on disposal on completion of the sales process. The Group considers the following questions in determining whether revenue and profit should be recorded:

- does the Company have a continuing managerial involvement of the degree associated with asset ownership;
- has the Company transferred the significant risks and rewards associated with asset ownership;
- can the Company reliably measure the proceeds; and

will the Company actually receive the proceeds.

For US GAAP, the Company accounts for sales of real estate in accordance with FAS 66 Accounting for Sales of Real Estate . If there is significant continuing involvement with the property, any gain on sale is deferred and is recognized over the life of the continuing involvement, normally a long-term management contract retained on the property. The deferral of gains on such sales totaled £nil in 2006, £5 million in 2005 and £nil in 2004.

Income taxes

Under IFRS, the Company provides for deferred tax in accordance with IAS 12 Income Taxes 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 Company does not control remittance, gains rolled over into replacement assets, gains on previously revalued properties and other short-term temporary differences. Under US GAAP, deferred tax is computed, in accordance with FAS No. 109 Accounting for Income Taxes , on temporary differences between the tax bases and book values of assets and liabilities which will result in taxable or tax deductible amounts arising in future years. Deferred tax assets under IFRS are recognized to the extent that it is regarded as probable that the deductible temporary differences can be realized. Under US GAAP, deferred tax assets are recognized in full and a valuation allowance is made to the extent that it is not more likely than not that they will be realized. Under both IFRS and US GAAP, the Company estimates deferred tax assets and liabilities based on current tax laws and rates, and in certain cases, business plans. Changes in these estimates may affect the amount of deferred tax liabilities or the valuation of deferred tax assets.

Under both IFRS and US GAAP, accruals for tax contingencies require judgments on the expected outcome of tax exposures which may be subject to significant uncertainty, and therefore the actual results may vary from expectations resulting in adjustments to contingencies and cash tax settlements.

Loyalty program

Priority Club Rewards enables members to earn points, funded through hotel assessments, during each stay at an InterContinental Hotels Group hotel and redeem the points at a later date for free accommodation or other benefits. The future redemption liability is included in trade and other payables in the consolidated balance sheets in the Consolidated Financial Statements and is estimated using actuarial methods based on statistical formulas that project timing of future point redemption based on historical levels to give eventual redemption rates and points values. The future redemption liability amounted to £180 million at December 31, 2006.

Pensions and other post-employment benefit plans

Under IFRS, the Company applies IAS 19 Employee Benefits . Under US GAAP, the Company has adopted FAS 158 Employer s Accounting for Defined Benefit Pension Plans and Other Post-Retirement Plans as at December 31, 2006, amending the accounting methodology under FAS 87 Employer s Accounting for Pensions and FAS 106 Employer s Accounting for Post-Retirement Benefits other than Pensions on a prospective basis.

These accounting standards require the Company to make assumptions including, but not limited to, future asset returns, rates of inflation, discount rates, life expectancies and health care costs. The use of different assumptions, in any of the above calculations, could have a material effect on the accounting values of the relevant assets and liabilities which could result in a material change to the cost of such liabilities as recognized in the income statement over time. These assumptions are subject to periodic review.

OPERATING RESULTS

Accounting Principles

The following discussion and analysis is based on the Consolidated Financial Statements of the Group, which are prepared in accordance with IFRS. The principal differences between IFRS and US GAAP as they relate to the Group are discussed in Note 32 of Notes to the Consolidated Financial Statements.

The Group was required to produce its first set of audited financial statements in accordance with IFRS for the year ending December 31, 2005.

For the year ended December 31, 2006 the results include special items totaling a net credit of £238 million (2005 £297 million see year ended December 31, 2006 compared to year ended December 31, 2005 Special Items). For comparability of the periods presented, some performance indicators in this Operating and Financial Review and Prospects discussion have been calculated after eliminating these special items. Such indicators are prefixed with adjusted . A reconciliation to the amounts under IFRS including such special items is included in Note 9 of Notes to the Consolidated Financial Statements.

Year ended December 2006 compared with year ended December 2005

	Year ended December 31, 2006	Year ended December 31, 2005
	(£ million)	
GROUP RESULTS		
Revenue:		
Continuing operations		
Hotels	805	713
Discontinued operations		
Hotels	155	526
Soft Drinks		671
Total revenue	960	1,910
Operating profit before other operating income and expenses:		
Continuing operations		
Hotels	201	173
Discontinued operations		
Hotels	30	96
Soft Drinks		70
Total operating profit before other operating income and expenses	231	339
Other operating income and expenses	27	(22)
Operating profit	258	317
Interest	(11)	(33)
Profit before tax	247	284
Tax	41	(80)
Profit after tax	288	204
Gain on disposal of assets, net of tax	117	311
Profit available for the year	405	515
Earnings per ordinary share:		
Basic	104.1p	95.2p
Adjusted	42.9p	38.2p
Adjusted - continuing operations	37.5p	22.5p

IHG revenue from continuing operations for the year ended December 31, 2006 was £805 million (2005 £713 million). Operating profit before other operating income and expenses from continuing operations for the year ended December 31, 2006 was £201 million (2005 £173 million).

Other operating income and expenses

Other operating income and expenses for the year ended December 31, 2006 totaled £27 million and included the gain on the sale of the Group's investment in FelCor.

In 2005 other operating income and expenses totaled £(22) million and included a £13 million restructuring charge, a £9 million charge relating to property damage from fire and natural disasters, a £7 million impairment charge on property, plant and equipment and a £7 million credit related to the curtailment of employee benefits following the UK hotels disposal.

Other operating income and expenses are treated as special items by reason of their size or incidence and are excluded from the calculation of adjusted earnings per share in order to provide a more meaningful comparison of performance.

Net Financing Costs

Net financing costs decreased from £33 million in 2005 to £11 million in 2006, primarily as a result of significantly lower average debt levels in the year (£92 million in 2006 compared to £700 million in 2005). Financing costs included £10 million (2005 £5 million) 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. The increase over 2005 arises from growth in the scheme membership and higher interest rates. Net financing costs in 2006 also included £4 million in respect of the InterContinental Boston finance lease. Prior year financing costs included £9 million in respect of the discontinued Soft Drinks operations.

Taxation

The effective rate of tax on profit before tax, excluding the impact of special items, was 24%. By also excluding the impact of prior year items, which are included wholly within continuing operations, the equivalent effective tax rate would be 36%. This rate is higher than the UK statutory rate of 30% due mainly to overseas profits (predominantly in the United States) being subject to statutory rates higher than the UK statutory rate, unrelieved losses and other disallowable expenses. The equivalent effective rates for 2005, were 29% and 38% respectively.

Taxation within special items totaled a £94 million credit (2005 £8 million credit). In 2006 and 2005, this represented, primarily, the release of provisions which were special by reason of their size or incidence, relating to tax matters which were settled during the year, or in respect of which the statutory limitation period had expired. In 2006, taxation special items, in addition to such provision releases, included £12 million for the recognition of a deferred tax asset in respect of tax losses.

Net tax paid in 2006 was £49 million (2005 £91 million) including £6 million in respect of disposals.

Gain on Disposal of Assets

The gain on disposal of assets, net of related tax, totaled £117 million in 2006 (2005 £311 million) and primarily comprised the gain on the sale of seven InterContinental hotels to Morgan Stanley Real Estate Funds (MSREF). The gain on disposal of assets in 2005 mainly comprised a net gain on disposal of Soft Drinks of £284 million and a net gain on hotel asset disposals of £27 million.

Earnings

Basic earnings per share for 2006 were 104.1 pence, compared with 95.2 pence in 2005. Adjusted earnings per share were 42.9 pence against 38.2 pence in 2005. Adjusted earnings per share for continuing operations were 37.5 pence, 67% up on last year.

Highlights for the year ended December 31, 2006

The following is a discussion of the year ended December 31, 2006 compared with the year ended December 31, 2005.

Continuing Hotels Results

	Year ended December 31, 2006	Year ended December 31, 2005	Change %
	(£ million)		
Revenue:			
Americas	433	384	12.8
EMEA	206	200	3.0
Asia Pacific	111	87	27.6
Central	55	42	31.0
	805	713	12.9
Operating profit before other operating income and expenses:			
Americas	217	186	16.7
EMEA	36	31	16.1
Asia Pacific	29	21	38.1
Central	(81)	(65)	24.6
	201	173	16.2

Revenue. Continuing Hotels revenue increased £92 million (12.9%) from £713 million for the year ended December 31, 2005, to £805 million for the year ended December 31, 2006.

Operating profit. Continuing Hotels operating profit before other operating income and expenses for the year ended December 31, 2006 was £201 million, up 16.2% from £173 million for year ended December 31, 2005.

Americas*Continuing Americas Results*

	Year ended December 31, 2006	Year ended December 31, 2005	Change %
	(\$ million)		
Revenue:			
Owned and leased	211	195	8.2
Managed	143	118	21.2
Franchised	443	389	13.9
	797	702	13.5
Operating profit before other operating income and expenses:			
Owned and leased	26	25	4.0
Managed	50	36	38.9
Franchised	382	340	12.4
	458	401	14.2
Regional overheads	(59)	(62)	(4.8)
Total \$ million	399	339	17.7
Sterling equivalent £ million ⁽ⁱ⁾	217	186	16.7

(i) The results have been translated into pounds sterling at weighted average rates of exchange for the year. The translation rates are fiscal 2006: £1 = \$1.84 (2005: £1 = \$1.83).

For the year ended December 31, 2006, revenue and operating profit from continuing operations increased by 13.5% to \$797 million and 17.7% to \$399 million, respectively. Underlying trading performance across all ownership types was strong, although the pace of RevPAR growth achieved in the first half of the year was not maintained throughout the second half of the year.

Continuing owned and leased revenue and operating profit increased by 8.2% to \$211 million and 4.0% to \$26 million respectively. Owned and leased InterContinental branded hotels achieved RevPAR growth in excess of 12% over 2005, driven by gains in both daily rates and occupancy levels. The owned and leased results were impacted, as expected, by a \$6 million loss at the recently opened InterContinental Boston. Excluding this loss, the combined impact of RevPAR growth and operating efficiencies led to a 28% increase in operating profit from continuing owned and leased hotels.

Managed revenues increased by 21.2% to \$143 million during the year as a result of strong underlying trading, restructured management agreements, an increased number of hotels under management contracts and the full year benefit of contracts negotiated during 2005 as part of the hotel disposal program. RevPAR growth in the managed hotels was strong across most brands. Holiday Inn growth levels were impacted during the fourth quarter by hotel refurbishments (nine of 28 hotels). Managed revenues include \$80 million (2005 \$70 million) from properties that are structured, for legal reasons, as operating leases but with the same characteristics as management contracts.

Managed operating profit increased by 38.9% to \$50 million including \$9 million (2005 \$9 million) from the managed properties held as operating leases and \$3 million from the receipt of business interruption proceeds following hurricane damage in 2005. As a consequence of the 2005 hurricane season, ongoing insurance costs increased significantly, reducing managed operating profit in 2006 by an incremental \$3 million.

Franchised revenue and operating profit increased by 13.9% to \$443 million and 12.4% to \$382 million respectively, driven by RevPAR growth of 9.2%, net room count growth of 4% and fees associated with record levels of signings. The RevPAR gains were achieved across all brands despite high prior year comparables. Holiday Inn Express and Crowne Plaza both reported double digit RevPAR growth, driven by higher average daily rates.

Americas regional overheads were 4.8% lower in 2006, primarily as a result of lower claims in the Group-funded employee healthcare program.

Americas net hotel and room count grew by 96 hotels (8,303 rooms) to 2,930 hotels (394,909 rooms). The net growth includes openings of 222 hotels (26,613 rooms) led by demand for Holiday Inn Express 128 hotels (11,155 rooms). Although the regions net growth was predominantly achieved in the US markets, Mexico represented over 10% of the expansion. The net growth also included removals of 126 hotels (18,310 rooms), of which Holiday Inn hotels represented 56% (74% of rooms).

The Americas pipeline continued to achieve record growth levels and totaled 1,012 hotels (105,685 rooms) at December 31, 2006. Signing levels outpaced prior year as demand for the new Holiday Inn prototype and Holiday Inn Express continued to accelerate throughout 2006. During the year 61,673 room signings were completed, compared to 49,765 room signings in 2005. This level of growth demonstrates strong demand for IHG brands and represents a key driver of future profitability.

Europe, Middle East and Africa

Continuing EMEA Results

	Year ended December 31, 2006	Year ended December 31, 2005	Change
	(£ million)		%
Revenue:			
Owned and leased	100	110	(9.1)
Managed	71	55	29.1
Franchised	35	35	
	206	200	3.0
Operating profit before other operating income and expenses:			
Owned and leased	(5)	(5)	
Managed	37	31	19.4
Franchised	24	26	(7.7)
	56	52	7.7
Regional overheads	(20)	(21)	(4.8)
Total £ million	36	31	16.1
Dollar equivalent \$ million ⁽ⁱ⁾	67	56	19.6

(i) The results have been translated into US dollars at weighted average rates of exchange for the year. The translation rates are 2006: \$1 = £0.54 (2005: \$1 = £0.55).

In the owned and leased estate, continuing revenues declined by £10 million to £100 million as a result of the major refurbishment at the InterContinental London Park Lane. The hotel reopened in November 2006 following a 13 month closure and is expected to be fully operational by Spring 2007. Continuing operating loss remained in line with 2005. However, excluding the impact of the InterContinental London Park Lane in 2005 and 2006, the continuing owned and leased operating profit increased by £5 million, driven by enhanced trading performance at the InterContinental Paris Le Grand where RevPAR growth was more than 25% over 2005.

Managed revenues and operating profit increased by 29.1% to £71 million and 19.4% to £37 million respectively. The growth was driven by the impact of management contracts negotiated in 2005 and 2006 as part of the hotel disposal program in the UK and Europe, together with strong RevPAR growth in the key regions including Continental Europe and the Middle East.

Franchised revenue of £35 million was in line with 2005 revenues, whilst operating profit decreased by £2 million to £24 million. The prior year included £7 million in liquidated damages for the termination of franchise contracts in South Africa. Excluding the impact of this, franchised operating profit increased by 26.3% as a result of strong RevPAR growth across the UK and Continental Europe and increased room count. The increased room count was driven by the negotiation of franchise contracts in Continental Europe as part of the hotel disposal program and further expansion in the region.

During 2006, EMEA hotel and room count grew by 13 hotels (1,181 rooms). The net growth included the opening of 31 hotels (4,823 rooms) and the removal of 18 hotels (3,642 rooms), including exits on a limited number of managed hotels, as agreed at the time of the UK portfolio disposal in May 2005.

The pipeline in EMEA increased by 57 hotels (7,779 rooms) to 143 hotels (22,057 rooms). The growth included a record level of 13,321 room signings, driven by demand for Holiday Inn and Holiday Inn Express in the UK, Continental Europe and South Africa, and for all brands in the Middle East and Russia.

Asia Pacific

Continuing Asia Pacific Results

	Year ended December 31, 2006	Year ended December 31, 2005	Change
	(\$ million)		%
Revenue:			
Owned and leased	131	108	21.3
Managed	65	45	44.4
Franchised	8	6	33.3
	204	159	28.3
Operating profit before other operating income and expenses:			
Owned and leased	31	20	55.0
Managed	39	29	34.5
Franchised	5	5	
	75	54	38.9
Regional overheads	(23)	(15)	53.3
Total \$ million	52	39	33.3
Sterling equivalent £ million ⁽ⁱ⁾	29	21	38.1

(i) The results have been translated into pounds sterling at weighted average rates of exchange for the year. The translation rates are fiscal 2006: £1 = \$1.84 (2005: £1 = \$1.83).

Revenue and operating profit from continuing operations increased by 28.3% to \$204 million and 33.3% to \$52 million, respectively, during 2006.

Continuing owned and leased operating profit increased by 55.0% to \$31 million driven by trading at the InterContinental Hong Kong which achieved rate-led RevPAR growth of over 30.0%. The hotel also benefited from a rooms refurbishment program and the prior year repositioning of its food and beverage operations.

The managed estate achieved revenue growth of 44.4% increasing from \$45 million to \$65 million due to the retention of management contracts on the 10 owned and leased hotels sold in 2005 combined with strong underlying trading in Greater China where comparable RevPAR increased by 12.1% over 2005.

Regional overheads increased by \$8 million to \$23 million. The increase reflects infrastructure and development costs including additional headcount, office facility and IT costs, all associated with ongoing expansion in the region.

Net hotel and room count in Asia Pacific increased by 26 hotels (9,229 rooms). The net growth includes 14 hotels (3,628 rooms) in Greater China reflecting continued expansion in one of IHG's strategic markets, and 13 hotels (4,937 rooms) in Japan that joined the system as part of the IHG ANA transaction.

The pipeline in Asia Pacific increased by 30 hotels (12,880 rooms) to 86 hotels (30,249 rooms). The substantial growth indicates the demand for IHG's brands in the Chinese market where signings of 16,445 rooms were more than double 2005 signings.

Central

	Year ended December 31, 2006	Year ended December 31, 2005	Change %
	(£ million)		
Revenue	55	42	31.0
Gross central costs	(136)	(107)	27.1
Net central costs £ million	(81)	(65)	24.6
Dollar equivalent \$ million ⁽ⁱ⁾	(149)	(118)	26.3

(i) The results have been translated into US dollars at weighted average rates of exchange for the year. The translation rates are 2006: \$1 = £0.54 (2005: \$1 = £0.55).

Net central costs increased by £16 million to £81 million and included significant investment in new global research, designed to enable higher quality brand development and enhance IHG's franchising capability; the increase also included higher IT infrastructure costs.

Discontinued Operations

For the year ended December 31, 2006 operating profit from hotels classified as discontinued was £30 million (2005 £96 million) and was £nil (2005 £70 million) for the Soft Drinks business.

The net gain on disposal of assets for Hotels was £117 million (2005 £27 million) and for Soft Drinks was £nil (2005 £284 million).

Highlights for the 12 months ended December 31, 2005

Continuing revenue increased £107 million (17.7%) from £606 million for the year ended December 31, 2004 to £713 million for the year ended December 31, 2005.

Continuing operating profit before other operating income and expenses increased £53 million (44.2%) from £120 million for the year ended December 31, 2004 to £173 million for the year ended December 31, 2005.

Americas

Americas continuing operating profit was \$339 million, a 24.6% increase on continuing operating profit for the year ended December 31, 2004 of \$272 million.

Continuing owned and leased revenue increased by over 30% driven by strong trading in the comparable estate (those hotels fully trading as owned and leased in both financial years). Comparable RevPARs were 17.7% up for InterContinental and 14.0% up for Holiday Inn with average daily rate growth fuelling the increased RevPAR. The InterContinental Buckhead, Atlanta, also contributed its first full year of trading after opening in November 2004. These revenue increases, together with improved operating efficiency in the hotels, led to continuing owned and leased operating profit increasing significantly over 2004, from \$6 million to \$25 million.

Managed revenue increased from \$55 million in 2004 to \$118 million as a result of strong trading in the comparable estate and the contribution from management contracts negotiated during 2004 and 2005 as part of the asset disposal program. Managed revenue also includes \$70 million (2004 \$27 million) from properties (including the InterContinental San Juan sold in the year) that are structured, for legal reasons, as operating leases but with the same economic characteristics as a management contract. Overall, managed RevPARs grew by 16.2% for InterContinental, 12.9% for Crowne Plaza, 11.0% for Holiday Inn, 9.1% for Staybridge Suites and 14.8% for Candlewood Suites.

Managed operating profit increased from \$12 million to \$36 million including \$9 million (2004 \$3 million) from the managed properties held as operating leases, including a contribution from the 15 hotels moving from ownership to management.

Franchised revenue increased by 9.0% to \$389 million as a result of strong trading and increased room count and signings. RevPARs across the brands showed strong growth, with Holiday Inn RevPAR 9.2% up on 2004, Holiday Inn Express 10.3% up and Crowne Plaza 8.4% up. The franchised estate increased by 3,878 rooms in the year with the most significant increase being in the Holiday Inn Express brand. Franchised revenue also benefited from the number of signings in 2005 with a record 47,245 room signings (50% up on 2004) leading to higher sales revenues than in 2004. Franchised operating profit rose by \$36 million to \$340 million.

Americas regional overheads increased to \$62 million from \$50 million in 2004, reflecting investment in additional development resources and information technology.

Americas hotel and room count grew by a net 51 hotels (279 rooms) to 2,834 hotels (386,606 rooms). 190 hotels (22,043 rooms) entered the system and 139 hotels (21,764 rooms) left the system. Of the removals, 83 hotels (16,188 rooms) were Holiday Inn and 53 hotels (4,561 rooms) were Holiday Inn Express.

The Americas pipeline grew to record levels, 742 hotels (76,865 rooms), with 447 hotels (49,765 rooms) signing contracts during the year to enter the system. Of these signings, 19,355 rooms were Holiday Inn Express.

EMEA

The EMEA operating model changed in 2005 as a result of the disposal of 73 hotels in the United Kingdom to LRG Acquisition and LRG Holdings Limited (LRG) and a number of smaller transactions. As a result, the number of owned and leased hotels reduced by 85 whilst the number of managed hotels increased by 77, including 73 in connection with the LRG transaction.

Revenue from continuing operations increased by 7.5% to £200 million and continuing operating profit before other operating income and expenses increased by £20 million to £31 million.

Owned and leased revenue from continuing operations decreased by 5.2% from £116 million in 2004 to £110 million in 2005. Performance across the region was mixed with variable trading conditions in parts of Continental Europe. The refurbishment of the InterContinental London impacted the overall result with the hotel being disrupted for most of the year and closed in the final quarter of the year. Owned and leased

operating profit from continuing operations increased by £6 million during 2005, reducing the £11 million loss in 2004 to £6 million in 2005.

Managed revenue increased by £12 million to £55 million. The 2004 result benefited from the receipt in 2004 of approximately £4 million liquidated damages from the early termination of the InterContinental Barcelona management contract. The 2005 result was affected by a loss of earnings following the bombings in Beirut, but underlying trading was strong, particularly in the Middle East where managed RevPAR increased by 11.9%. Management fees are also included from LRG for the hotels sold in May 2005 (including incentive fees); Holiday Inn UK RevPAR overall was up to 4.6%.

Franchised revenue for EMEA increased by £8 million to £35 million. Holiday Inn franchised RevPAR increased by 4.9% and Holiday Inn Express RevPAR increased by 5.9%. Franchised operating profit increased by £5 million to £26 million and included £7 million liquidated damages for the termination of franchise agreements in South Africa.

EMEA hotel and room count at December 31, 2005 was broadly level with December 31, 2004 at 610 hotels (105,419 rooms) despite the termination of the master franchise agreement in South Africa (6,338 rooms). Two significant deals added hotels to the system during the year, five Holiday Inn hotels (602 rooms) in the UK from a franchise agreement with Stardon, a joint venture company formed between Starwood Capital Europe and Chardon Hotels, and 13 hotels (2,233 rooms) in the UK from a franchise agreement with Queens Moat Houses Limited.

The EMEA pipeline at December 31, 2005 was 86 hotels (14,278 rooms).

Asia Pacific

Asia Pacific revenue from continuing operations increased by 18.7% to \$159 million and operating profit before other operating income and expenses increased by 30.0% to \$39 million.

Continuing owned and leased operating profit grew from \$17 million in 2004 to \$20 million in 2005 mainly reflecting strong trading in the InterContinental Hong Kong which achieved RevPAR growth of 11.7% over 2004, driven by average daily rate growth.

Asia Pacific managed operating profit grew strongly from \$25 million to \$29 million, reflecting both the impact of improved RevPAR and an increase in room count over 2004. Greater China managed RevPAR increased by 13.6% and Australia, New Zealand and South Pacific managed RevPAR increased by 6.1%. Asia Pacific franchised operating profit increased by \$2 million \$5 million.

Regional overheads were level at \$15 million despite increased resources for the planned expansion in Greater China.

During 2005, a further nine hotels (2,839 rooms) opened in Greater China and 20 hotels (7,308 rooms) signed contracts and entered the pipeline. On a net basis, the number of hotels in Asia Pacific increased by 13 hotels (3,383 rooms). During the year, ten owned and leased hotels (2,315 rooms) in Australia, New Zealand and Fiji were sold but retained with management contracts.

Asia Pacific pipeline grew by 14 managed hotels (4,564 rooms) primarily in the InterContinental and Crowne Plaza brands. In addition, on February 15, 2006, IHG announced that it had signed contracts with a single owner to manage six hotels (over 4,500 rooms) in China's Sichuan province, and on February 24, 2006 announced that it had signed contracts with an owner to manage four hotels, with over 1,400 rooms, also in China.

Central

Net central costs increased by £8 million reflecting increased governance costs, further investment to support development and the accounting treatment of share scheme costs. Under IFRS, the charges for share option schemes established after November 2002 are accounted for in the income statement. As share scheme

awards are generally made annually and the accounting cost is spread over three years, 2005 is the first year that a full annual cost is taken into account.

Discontinued Operations

For the year ended December 31, 2005 operating profit from Hotels classified as discontinued was £96 million (2004 £149 million) and operating profit from the Soft Drinks business was £70 million (2004 £77 million).

The net gain on disposal of assets for Hotels was £27 million (2004 £19 million) and for Soft Drinks was £284 million (2004 £nil).

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

The Company is financed by a £1.1 billion Syndicated Facility which has a maturity of November 2009. Short-term borrowing requirements are met from drawings under bilateral bank facilities.

At December 31, gross debt was £313 million (£533 million after derivative transactions). The currency denomination of non sterling gross debt, after derivative transactions, was £101 million of euro denominated borrowings, £282 million of US dollar denominated borrowings £48 million of borrowings denominated in other currencies mainly Hong Kong dollars.

At December 31, 2006 committed bank facilities amounted to £1,157 million of which £944 million were unutilized. Uncommitted facilities totaled £39 million. In the Company's opinion, the available facilities are sufficient for the Company's present requirements.

The Company also held short term deposits and investments at December 31, 2006 amounting to £179 million (£403 million after the effect of derivative transactions). Credit risk on treasury transactions is minimised by operating a policy on investment of surplus funds that generally restricts counterparties to those with an A credit rating or better or those providing adequate security. Limits are also set on the amounts invested with individual counterparties. Most of the Company's surplus funds are held in the United Kingdom or United States and there are no material funds where repatriation is restricted as a result of foreign exchange regulations.

The Company is in compliance with its financial covenants in its loan documentation none of which represent a material restriction on funding or investment policy in the foreseeable future.

Details of exchange and interest rate risk and financial instruments are disclosed in Item 11. Quantitative and Qualitative Disclosures about Market Risk .

Cash From Operating Activities

Net cash from operating activities totaled £230 million for the year ended December 31, 2006 (2005 £302 million). The decrease reflects the impact of the asset disposals.

Cash flow from operating activities is the principal source of cash used to fund the ongoing operating expenses, interest payments, maintenance capital expenditure and dividend payments of the Group. The Group believes that the requirements of its existing business and future investment can be met from cash generated internally, disposition of assets and businesses and external finance expected to be available to it.

Cash From Investing Activities

Net cash from investing activities totaled £620 million (2005 £1,863 million) reflecting the lower level of asset disposals in 2006 compared to 2005. The main hotel disposals in 2006 were the sale of 24 hotels in Continental Europe to a subsidiary of Westbridge Hospitality Fund LP and the sale of seven European InterContinental hotels to Morgan Stanley Real Estate Funds. In 2006 proceeds from the disposal of hotels and other assets totaled £744 million.

Cash Used in Financing Activities

Net cash used in financing activities totaled £1,002 million (2005 £1,906 million). Cash outflows associated with shareholder returns in 2006 totaled £821 million and included £260 million of share repurchases and a special dividend of £497 million. On February 20, 2007 the Company announced a £150 million share repurchase and a special dividend of £700 million.

As of December 31, 2006, the Group had committed contractual capital expenditure of £24 million. Contracts for expenditure on fixed assets are not authorized by the directors on an annual basis, as divisional capital expenditure is controlled by cash flow budgets. Authorization of major projects occurs shortly before contracts are placed.

Off-Balance Sheet Arrangements

As at December 31, 2006, the Company had no off-balance sheet arrangements that have or are reasonably likely to have an effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Contractual Obligations

The Company had the following contractual obligations outstanding as of December 31, 2006:

	Total amounts committed	Less than 1 year	1-3 years	3-5 years	After 5 years
	(£ million)				
Long-term debt	216	7	209		
Finance lease obligations ⁽ⁱ⁾	1,781	3	16	17	1,745
Operating lease obligations	190	27	40	23	100
Agreed pension scheme contributions	47	27	20		
Capital contracts placed	24	24			
	2,258	88	285	40	1,845

(i) Represents the minimum lease payments related to the 99 year lease on the InterContinental Boston.

The Company may provide performance guarantees to third-party owners to secure management contracts. The maximum exposure under such guarantees is £142 million (2005 £134 million). It is the view of the directors that, other than to the extent that liabilities have been provided for in the Consolidated Financial Statements, such guarantees are not expected to result in financial loss to the Group.

As of December 31, 2006, the Group had outstanding letters of credit of £31 million mainly relating to self-insurance programs.

The Company may guarantee loans made to facilitate third-party ownership of hotels in which the Group has an equity interest and also a management contract. As of December 31, 2006, the Group was a guarantor of loans which could amount to a maximum exposure of £13 million.

The Company has given warranties in respect of the disposal of certain of its former subsidiaries. The Company believes that, other than to the extent that liabilities have been provided for in the Consolidated Financial Statements, such warranties are not expected to result in financial loss to the Group.

Pension Plan Commitments

IHG operates two main schemes; the InterContinental Hotels UK Pension Plan, and the US based InterContinental Hotels Pension Plan.

The InterContinental Hotels UK Pension Plan was established with effect from April 1, 2003. On an IAS 19 Employee Benefits basis, at December 31, 2006 the Plan had a deficit of £29 million. The defined benefits section of this Plan is generally closed to new members. In 2007, the Group expects to make projected regular contributions to the UK principal plan of £7 million. In addition the Group has agreed to pay special contributions of £40 million to the UK Pension Plan; £20 million in 2007, £10 million in 2008 and £10 million in 2009.

The US based InterContinental Hotels Pension Plan is closed to new members and pensionable service no longer accrues for current employee members. On an IAS 19 basis, at December 31, 2006 the Plan had a deficit of \$65 million.

The Group is exposed to the funding risks in relation to the defined benefit sections of the InterContinental Hotels UK Pension Plan and the US based InterContinental Hotels Pension Plan, as explained in Item 3. Key Information Risk Factors .

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS AND SENIOR MANAGEMENT

Overall strategic direction of the Group is provided by the board of directors, comprising executive and non-executive directors, and by members of the executive committee.

The directors and officers of InterContinental Hotels Group PLC as at March 16, 2007 are:

Directors

Name	Title	Initially appointed to the board	Date of next reappointment by shareholders*
Andrew Cosslett	Director and Chief Executive	2005	2008
Richard Hartman ⁽²⁾	Director and President, EMEA	2003	N/A
David Kappler ⁽¹⁾	Director and Senior Independent Director	2004	2008
Ralph Kugler ⁽¹⁾	Director	2003	2008
Jennifer Laing ⁽¹⁾	Director	2005	2009
Robert C. Larson ⁽¹⁾	Director	2003	2007
Jonathan Linen ⁽¹⁾	Director	2005	2009
Stevan Porter	Director and President, The Americas	2003	2009
Sir David Prosser ⁽¹⁾	Director	2003	2007
Richard Solomons	Director and Finance Director	2003	2007
David Webster	Chairman	2003	2007

(1) Non-executive independent director.

(2) Richard Hartman due to retire in September 2007.

* Robert C. Larson, being over the age of 70, is required to retire and stand for re-election at each Annual General Meeting, if he wishes to continue to serve as a director. Sir David Prosser and David Webster are required, under the Company's articles of association, to stand for re-election at the 2007 Annual General Meeting. Richard Solomons is also standing for re-election at the 2007 meeting on a voluntary basis. Andrew Cosslett, David Kappler and Ralph Kugler will be required to stand for re-election at the 2008 Annual General Meeting. Any further appointments at the 2008 meeting would be on a voluntary basis.

Officers

Name	Title	Initially appointed
Tom Conophy	Executive Vice President and Chief Information Officer	2006
Peter Gowers	Executive Vice President and Chief Marketing Officer	2003
Patrick Imbardelli	President, Asia Pacific	2003
Tracy Robbins	Executive Vice President, Global Human Resources	2005
Richard Winter	Executive Vice President, Corporate Services, General Counsel and Company Secretary	2003

Former Directors and Officers

Sir Howard Stringer served as an independent non-executive director from April 2003 until November 2006.

*Directors and Officers**Tom Conophy*

Has over 26 years experience in the IT industry, including management and development of new technology solutions within the travel and hospitality business. He 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 46.

Andrew Cosslett

Appointed Chief Executive in February 2005. He joined 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. He also has over 11 years experience in brand marketing with Unilever. He is Non-Executive Chairman of Duchy Originals Limited. Age 51.

Peter Gowers

Has previous international experience in management consultancy based in London and Singapore. He joined the Group in 1999 and was appointed Executive Vice President, Global Brand Services in January 2003. Appointed Chief Marketing Officer in 2005, he now has responsibility for worldwide brand management, reservations, e-commerce, global sales, relationship and distribution marketing and loyalty program. Age 34.

Richard Hartman

Has over 40 years experience in the hotel industry including 30 years with Sheraton. He joined the Group in 1999 as Managing Director, Asia Pacific. Subsequently, as Managing Director, Europe, Middle East and Africa, he was appointed an Executive Director in April 2003. Responsible for the business development and performance of all the Hotel brands and properties in the EMEA region. He will retire from the Group in September 2007. Age 61.

Patrick Imbardelli

Has over 25 years experience in the hotel industry including 12 years with Southern Pacific Hotels Corporation. He joined the Group in 2000 and was appointed Managing Director, Asia Pacific in January

2003. Responsible for the business development and performance of all the Hotel brands and properties in the Asia Pacific region. Age 46.

David Kappler

Appointed a Director and Senior Independent Director in June 2004. He is Non-Executive Chairman of Premier Foods plc and a Non-Executive Director of Shire plc. A qualified accountant and formerly Chief Financial Officer of Cadbury Schweppes plc until April 2004, he also served as a Non-Executive Director of Camelot Group plc and HMV Group plc. Chairman of the Audit Committee. Age 60.

Ralph Kugler

Appointed a Director in April 2003, he is President, Unilever Home and Personal Care, and joined the Boards of Unilever plc and Unilever NV in May 2005. He has held a variety of senior positions globally for Unilever and has experience of regional management in Asia, Latin America and Europe, with over 25 years experience of general management and brand marketing. Age 51.

Jennifer Laing

Appointed a Director in August 2005, she is Associate Dean, External Relations at the London Business School. A fellow of the Marketing Society and of the Institute of Practitioners in Advertising, she has over 30 years experience in advertising including 16 years with Saatchi & Saatchi, to whom she sold her own agency. She also serves as a Non-Executive Director of Hudson Highland Group Inc., a US human resources company. Age 60.

Robert C Larson

Appointed a Director in April 2003, he is a Managing Director of Lazard Frères Alternative Investments LLC and Chairman of Lazard Frères Real Estate Investors, LLC. He is also Chairman of Larson Realty Group and Non-Executive Chairman of United Dominion Realty Trust Inc. and Commonwealth Atlantic Properties Inc. He served as a Non-Executive Director of Six Continents PLC (formerly Bass PLC) from 1996 until April 2003. Age 72.

Jonathan Linen

Appointed a Director in December 2005, he was formerly Vice Chairman of the American Express Company, having held a range of senior positions including in New Product Development, Marketing and Sales and Travel Services throughout his career of over 35 years with American Express. A management development graduate of Harvard Business School, he also serves on the Board and Executive Committees of a number of US companies and Councils. Age 63.

Stevan Porter

Previously 13 years with Hilton Corporation in a variety of senior management positions. He joined the Group in 2001 as Chief Operating Officer, The Americas. Subsequently, as President, The Americas, he was appointed an Executive Director in April 2003. Responsible for the business development and performance of all the Hotel brands and properties in the Americas region. Additionally, he has responsibility for the development and deployment of best practice in franchising, globally. Age 52.

Sir David Prosser

Qualified actuary with over 40 years experience in financial services. Appointed a Director in April 2003, he was formerly Group Chief Executive of Legal & General Group Plc. He is a Non-Executive Director of Investec plc and of Investec Limited, a Director of the Royal Automobile Club Limited and of Epsom Downs Racecourse Limited. Chairman of the Remuneration Committee. Age 63.

Tracy Robbins

Has over 21 years experience in line and HR roles in service industries. She 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. Responsible for global talent management and leadership development, reward strategy and implementation. Age 43.

Richard Solomons

Qualified as a chartered accountant in 1985, followed by seven years in investment banking, based in London and New York. He 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. Responsible for corporate and regional finance, Group financial control, asset management, strategy and corporate development, investor relations, tax and treasury. Age 45.

David Webster

Appointed Deputy Chairman and Senior independent Director of InterContinental Hotels Group upon the Separation. Appointed Non-Executive Chairman on 1 January 2004. He is also Non-Executive Chairman of Makinson Cowell Limited, a capital markets advisory firm. He was formerly Chairman of Safeway plc and a Non-Executive Director of Reed Elsevier PLC. Chairman of the Nomination Committee. Age 62.

Richard Winter

Solicitor, qualified in 1973 with over 20 years commercial law experience in private practice. He joined the Group in 1994 as Director of Group Legal and was appointed Company Secretary in 2000. Now responsible for corporate governance, corporate social responsibility, risk management, insurance, internal audit, data privacy, company secretariat and group legal matters. Age 57.

There are no family relationships between any of the persons named above.

There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any person named above was selected as a director or member of senior management.

COMPENSATION

In fiscal 2006, the aggregate compensation (including pension contributions, bonus and awards under the long term incentive plans) of the directors and officers of the Company was £17.9 million. The aggregate amount set aside or accrued by the Company in fiscal 2006 to provide pension retirement or similar benefits for those individuals was £858,900. An amount of £7.9 million was charged in fiscal 2006 in respect of bonuses payable to them under performance related cash bonus schemes and long term incentive plans.

Note 3 of Notes to the Financial Statements sets out the individual compensation of the directors. The following are details of the Company's principal share schemes, in which the directors of the Company participated during the period.

Share Plans

Under the terms of the Separation, holders of options under the Six Continents Executive Share Option Schemes were given the opportunity to exchange their Six Continents options for equivalent value new options over IHG PLC shares. At December 31, 2006 4,055,674 such options were outstanding.

Executive Share Option Plan

The Remuneration Committee, consisting solely of independent non-executive directors, may select employees within the Group, including executive directors, of the Company, to receive a grant of options to

acquire ordinary shares in the Company. Under the terms of the Plan the option price may not be less than the market value of an ordinary share, or the nominal value if higher. The market value is either 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. The international schedule to the share plan extends it to executives outside the United Kingdom. Grants of options under the Executive Share Option Plan have normally been made annually and except in exceptional circumstances, have not, in any year, exceeded three times annual salary for executive directors. A performance condition must be met before options can be exercised. The performance condition is set by the Remuneration Committee.

Following a full review of incentive arrangements, the Remuneration Committee concluded in 2005 that share options are not the most effective incentive for the foreseeable future and therefore no further grants of options have been made or are expected to be made. However, the Remuneration Committee believes that share ownership by executive directors and senior executives strengthens the link between the individual's personal interest and that of the shareholders.

As of March 16, 2007, options over 13,540,481 IHG PLC shares were outstanding under the Executive Share Option Plan.

Short Term Deferred Incentive Plan

The IHG Short Term Deferred Incentive Plan (the STDIP) enables eligible employees, including executive directors, to receive all or part of their bonus in the form of IHG shares on a deferred basis. Matching shares may also be awarded up to half the deferred amount. The bonus and matching shares are deferred and will normally be released at the end of the three years following deferral. Participation in the STDIP is at the discretion of the IHG directors. The number of shares is calculated by dividing a specific percentage of the participant's salary by the average share price for a period of days prior to the date on which the shares are granted. As of March 16, 2007, there were 716,257 IHG shares over which conditional rights had been awarded to participants under the Plan.

Performance Restricted Share Plan

The Performance Restricted Share Plan allows executive directors and eligible employees to receive share awards, subject to the satisfaction of a performance condition, set by the Remuneration Committee, which is normally measured over a three-year period. Awards are normally made annually and, except in exceptional circumstances, will not exceed three times annual salary for executive directors. In determining the level of awards within this maximum limit, the Committee takes into account the level of Executive Share Options already granted to the same person. The grant of awards is restricted so that in each year the aggregate of (i) 20% of the market value of the executive share options and (ii) 33% of the market value of performance restricted shares, will not exceed 130% of annual salary, taking the market value in each case as at the date of grant. As of March 16, 2007 there were 8,653,114 IHG shares over which conditional rights had been awarded to employees under the Plan. The Plan provides for the grant of nil cost options to participants as an alternative to share awards. As of March 16, 2007, no such nil cost options had been granted.

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 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 immediately before invitations go out. As of March 16, 2007, options over 83,111 IHG shares were outstanding under the Sharesave Plan at a subscription price of 420.5p, exercisable up to the year 2009.

Options and Ordinary Shares held by Directors

Details of the directors' interests in the Company's shares are set out on page 70 and page F-41.

BOARD PRACTICES***Contracts of Service***

The Remuneration Committee's policy is for Executive Directors to have rolling contracts with a notice period of 12 months.

Andrew Cosslett, Richard Hartman, Stevan Porter and Richard 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 period reducing to 12 months may be useful.

David Webster's appointment as non-executive Chairman, effective from January 1, 2004, is subject to six months notice.

Non-executive directors, Ralph Kugler, Robert C Larson and Sir David Prosser signed letters of appointment effective from the listing of IHG in April 2003. These were renewed, effective from completion of the capital reorganisation of the Group and the listing of new IHG shares on June 27, 2005. David Kappler signed a letter of appointment effective from his date of original appointment to the Board on June 21, 2004. This was also renewed, effective from June 27, 2005. Jennifer Laing and Jonathan Linen signed letters of appointment effective from their appointment dates, respectively August 25, 2005 and December 1, 2005.

All non-executive directors' appointments, with the exception of the Chairman, are subject to three months' notice.

Directors' Contracts

Directors	Contract date	Unexpired term/ notice period
Andrew Cosslett	2.3.05	12 months
Richard Hartman	4.15.03	6 months ⁽¹⁾
Stevan Porter	4.15.03	12 months
Richard Solomons	4.15.03	12 months

(1) Richard Hartman is due to retire in September 2007. Having given contractual notice, his unexpired term of office as at the date of this report is six months.

Each of the executive directors signed a letter of appointment, effective from completion of the capital reorganization of the Company and the listing of new IHG shares on June 27, 2005. The terms of each appointment were as set out in each executive director's original service agreement.

On September 25, 2006 IHG announced the forthcoming retirement of Richard Hartman who will leave the Group in September 2007.

See Note 3 of the Notes to the Consolidated Financial Statements for details of directors' service contracts.

Payments on Termination

No provisions for compensation for termination following change of control, or 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 minimize any liability.

Upon retirement, and under certain other specified circumstances on termination of his employment, a director will become eligible to receive benefit from his participation in a Company pension plan. See Note 3 of Notes to the Financial Statements for details of directors' pension entitlements at December 31, 2006.

Committees

Each Committee of the Board has written terms of reference which have been approved by the Board.

Executive Committee

The Executive Committee is chaired by the Chief Executive. It consists of the executive directors and senior executives from the Group and the regions 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 regional Hotels businesses and, until its flotation as an independent company in December 2005, the Britvic 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.

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 2006, the other Audit Committee members were Sir David Prosser, Ralph Kugler and Jennifer Laing. All Audit Committee members are independent. The Audit Committee is scheduled to meet at least four times a year. All Audit Committee members attended every meeting.

The Audit Committee's principal responsibilities are as follows:

- review the Group's public statements on internal control 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 Internal Audit;

- assuming responsibility for the appointment, compensation, resignation, dismissal and the oversight 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

- adopt the Group's Code of Ethics and Business Conduct and oversight of 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 Audit Committee commissions reports, either from external advisers, the Head of Internal Audit, or Group management, after consideration of the major risks to the Group or in response to developing issues. The external auditor attends its meetings as does the Head of Internal Audit, both of whom have the opportunity to meet privately with the Audit 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 auditors independence and objectivity.

Remuneration Committee

The Remuneration Committee, chaired by Sir David Prosser, also comprises the following non-executive, independent directors: David Kappler, Robert C Larson, Jonathan Linen and Sir Howard Stringer (until November 10, 2006). It meets at least three times a year. The Remuneration Committee advises the Board on overall remuneration policy. The Remuneration Committee also determines, on behalf of the Board, and with the benefit of advice from external consultants and members of the Human Resources department, the remuneration packages of the executive directors and other members of the Executive Committee. No member of the Remuneration Committee has any personal financial interest, other than as a shareholder, in the matters to be decided by the Remuneration Committee.

Nomination Committee

The Nomination Committee's quorum comprises any three non-executive, independent directors although, where possible, all non-executive directors are present. It is chaired by the Chairman of the Company. The Nomination Committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board, and also for succession planning. The Nomination Committee generally engages external consultants to advise on candidates for Board appointments, and did so in connection with the appointments of Jennifer Laing and Jonathan Linen. Candidate profiles and objective selection criteria were prepared in advance of these engagements. The Nominations Committee also assists the Board in identifying and developing the role of the Senior Independent Director.

Disclosure Committee

The Disclosure Committee, chaired by the Group's Financial Controller and comprising of the Company Secretary and other senior executives, reports to the Chief Executive, the Finance Director, 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 represent the Group's position in all material respects.

General Purposes Committee

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

A description of the significant ways in which the Company's actual corporate governance practices differ from the New York Stock Exchange corporate governance requirements followed by U.S. companies can be found on the Company's website at www.ihg.com.

EMPLOYEES

The Group employed an average of 11,456 people worldwide in the year ended December 31, 2006. Of these, approximately 88% were employed on a full-time basis and 12% were employed on a part-time basis.

The table below analyzes the distribution of the average number of employees for the last three fiscal periods by division and by geographic region.

	United Kingdom	Rest of Europe, the Middle East and Africa	United States	Asia Pacific	Total
2006	960	3,763	4,268	2,465	11,456
2005:					
Hotels	4,610	6,145	6,329	1,911	18,995
Soft Drinks ⁽ⁱ⁾	2,991				2,991
InterContinental Hotels Group	7,601	6,145	6,329	1,911	21,986
2004:					
Hotels	9,676	6,601	8,241	2,317	26,835
Soft Drinks ⁽ⁱ⁾	2,824				2,824
InterContinental Hotels Group	12,500	6,601	8,241	2,317	29,659

(i) With effect from December 14, 2005, the Group no longer employed any individuals in the Soft Drinks Sector.

Under EU law, many employees of Group companies are now covered by the Working Time Regulations which came into force in the United Kingdom on October 1, 1998. These regulations implemented the European Working Time Directive and parts of the Young Workers Directive, and lay down rights and protections for employees in areas such as maximum working hours, minimum rest time, minimum days off and paid leave.

In the United Kingdom there is in place a national minimum wage under the National Minimum Wage Act. At December 31, 2006, the minimum wage for individuals between 18 and under the age of 22 was £4.45 per hour and £5.35 per hour for individuals age 22 and above. This particularly impacts businesses in the hospitality and retailing sectors. Compliance with the National Minimum Wage Act is being monitored by the Low Pay Commission, an independent statutory body established by the UK Government.

Less than 5% of the Group's UK employees are covered by collective bargaining agreements with trade unions.

Continual attention is paid to the external market in order to ensure that terms of employment are appropriate. The Group believes the Group companies will be able to conduct their relationships with trade unions and employees in a satisfactory manner.

SHARE OWNERSHIP

The interests of the directors and officers of the Company at March 16, 2007 were as follows:

	Ordinary shares of 11 ³ / ₇ pence	% of shares outstanding
Directors		
Andrew Cosslett	111,243	0.03
Richard Hartman	84,114	0.02
David Kappler	1,669	N/A
Ralph Kugler	1,393	N/A
Jennifer Laing	1,673	N/A
Robert C. Larson	6,874 ⁽¹⁾	N/A
Jonathan Linen	8,750 ⁽¹⁾	N/A
Stevan Porter	200,364	0.06
Sir David Prosser	2,863	N/A
Richard Solomons	186,838	0.05
David Webster	31,975	0.01
Officers		
Tom Conophy	Nil	N/A
Peter Gowers	93,990	0.03
Patrick Imbardelli	101,723	0.03
Tracy Robbins	11,740	N/A
Richard Winter	105,637	0.03

(1)Held in the form of American Depositary Receipts

The above shareholdings are all beneficial interests and include shares held for the benefit of directors and officers by trustees of the Company's Executive Share Ownership Trust. The percentage of ordinary share capital owned by each of the directors is negligible.

On March 16, 2007, the executive directors' technical interest in unallocated IHG ordinary shares held by the Trustees of the Employee Share Ownership Trust was 2,410,526 shares.

The directors' interests in options to subscribe for shares in InterContinental Hotels Group PLC as at December 31, 2006 are set out on page F-40.

The directors do not have different voting rights from other shareholders of the Company.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**MAJOR SHAREHOLDERS**

As far as is known to management, IHG is not directly or indirectly owned or controlled by another corporation or by any government. Under the provisions of the Companies Act, the Company has been advised of the following interests in its shares, being greater than 3% of its issued share capital as of March 16, 2007:

Identity of person or group	March 2007		March 2006		April 2005	
	Number of shares/ADSs	Percent of class	Number of shares/ADSs	Percent of class	Number of shares/ADSs	Percent of class
Ellerman Corporation Limited	25,286,950	7.13%	(1)	(1)	(1)	(1)
Lloyds TSB Group Plc	13,619,563	3.84%	19,534,651	4.51%	26,773,575	4.44%

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Legal & General Group Plc	11,927,715	3.37%	13,753,588	3.17%	24,233,225	4.02%
Barclays PLC	(1)	(1)	(1)	(1)	20,246,584	3.36%
AXA SA	(1)	(1)	(1)	(1)	18,121,201	3.00%

(1) No notification of an above 3% shareholding received.

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The Company's major shareholders do not have different voting rights from other shareholders of the Company. The Company does not know of any arrangements the operation of which may result in a change in its control.

As of March 16, 2007, 26,610,300 ADSs equivalent to 26,610,300 ordinary shares, or approximately 7.51% of the total ordinary shares in issue, were outstanding and were held by 1,009 holders. Since certain ordinary shares are registered in the names of nominees, the number of shareholders of record may not be representative of the number of beneficial owners.

As of March 16, 2007, there were a total of 67,402 record holders of ordinary shares, of whom 200 had registered addresses in the United States and held a total of 519,278 ordinary shares (0.15% of the total issued).

RELATED PARTY TRANSACTIONS

The Company has not entered into any related party transactions or loans for the period beginning January 1, 2006 up to March 16, 2007.

ITEM 8. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Financial Statements

See Item 18. Financial Statements .

Legal Proceedings

Group companies have extensive operations in the United Kingdom, as well as internationally, and are involved in a number of legal and arbitration proceedings incidental to those operations. It is the Company's view that such proceedings, either individually or in the aggregate, have not in the recent past and are not likely to have a significant effect on the Group's financial position or profitability.

Dividends

See Item 3. Key Information - Dividends .

SIGNIFICANT CHANGES

None.

ITEM 9. THE OFFER AND LISTING

The principal trading market for the Company's ordinary shares is the London Stock Exchange on which Six Continents shares were traded since its incorporation in 1967 until Separation in 2003 and on which InterContinental Hotels Group shares have been traded since Separation. The ordinary shares are also listed on the New York Stock Exchange trading in the form of ADSs evidenced by ADRs. Each ADS represents one ordinary share.

InterContinental Hotels Group has a sponsored ADR facility with JPMorgan Chase Bank, N.A. as Depositary.

The following tables show, for the fiscal periods indicated, the reported high and low middle market quotations (which represent an average of closing bid and ask prices) for the ordinary shares on the London

Stock Exchange, as derived from the Daily Official List of the UK Listing Authority, and the highest and lowest sales prices of the ADSs as reported on the New York Stock Exchange composite tape.

Year ended September 30	£ per ordinary share		\$ per ADS	
	High	Low	High	Low
2002	7.83	5.41	11.73	7.49

15 months ended December 31	£ per ordinary share		\$ per ADS	
	High	Low	High	Low
2003 October 1 to April 11 Six Continents	6.35	4.61	10.08	7.49
2003 April 15 to December 31 IHG	5.55	3.38	9.82	5.26

Year ended December 31

2004	6.91	4.79	13.09	8.70
2005	8.42	6.12	14.53	11.49

Year ended December 31	£ per ordinary share		\$ per ADS	
	High	Low	High	Low
2005				
First quarter	6.97	6.17	13.06	11.65
Second quarter	7.06	6.12	12.99	11.49
Third quarter	7.57	7.01	13.81	12.44
Fourth quarter	8.42	6.88	14.53	12.04
2006				
First quarter	9.01	8.07	15.83	14.40
Second quarter ⁽¹⁾	10.00	8.98	21.21	16.54
Third quarter	9.56	8.37	17.91	15.99
Fourth quarter	12.65	9.31	26.27	17.64
2007				
First quarter (through March 16, 2007)	13.15	11.82	25.86	22.80

(1) Prices adjusted for the share consolidation effective June 12, 2006. Unadjusted prices for the quarter were £10.01 and £8.98 and \$18.56 and \$15.06, respectively.

Month ended	£ per ordinary share		\$ per ADS	
	High	Low	High	Low
September 2006	9.47	9.15	17.91	17.35
October 2006	10.19	9.31	19.50	17.64
November 2006	10.66	10.02	20.44	19.29
December 2006	12.65	10.18	26.27	20.37
January 2007	13.08	11.84	25.79	23.12
February 2007	13.15	12.00	25.86	22.97
March 2007 (through to March 16, 2007)	12.43	11.82	24.03	22.80

Fluctuations in the exchange rates between pounds sterling and the US dollar will affect the dollar equivalent of the pounds sterling price of the ordinary shares on the London Stock Exchange and, as a result, are likely to affect the market price of ADSs.

PLAN OF DISTRIBUTION

Not applicable.

SELLING SHAREHOLDERS

Not applicable.

DILUTION

Not applicable.

EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

MEMORANDUM AND ARTICLES OF ASSOCIATION

The following summarizes material rights of holders of the Company's ordinary shares under the material provisions of the Company's memorandum and articles of association and English law. This summary is qualified in its entirety by reference to the Companies Act and the Company's memorandum and articles of association. The Company's memorandum and articles of association were filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-126139) filed with the SEC on June 27, 2005.

The Company's shares may be held in certificated or uncertificated form. No holder of the Company's shares will be required to make additional contributions of capital in respect of the Company's shares in the future.

In the following description, a shareholder is the person registered in the Company's register of members as the holder of the relevant share.

Principal Objects

The Company is incorporated under the name InterContinental Hotels Group PLC and is registered in England and Wales with registered number 5134420. The Company's memorandum of association provides that its objects include to acquire certain predecessor companies and carry on business as an investment holding company, licensed victuallers, to deal in commodities, to acquire and operate breweries, hotels and restaurants, as well as to carry on any other business which the Company may judge capable of enhancing the value of the Company's property or rights. The memorandum grants to the Company a range of corporate capabilities to effect these objects.

Directors

Under the Company's articles of association, a director may not vote in respect of any proposal in which he, or any person connected with him, has any material interest other than by virtue of his interests in securities of, or otherwise in or through, the Company. This is subject to certain exceptions relating to proposals (a) indemnifying him in respect of obligations incurred on behalf of the Company, (b) indemnifying a third party in respect of obligations of the Company for which the director has assumed responsibility under an indemnity or guarantee, (c) relating to an offer of securities in which he will be interested as an underwriter, (d) concerning another body corporate in which the director is beneficially interested in less than one percent of the issued shares of any class of shares of such a body corporate, (e) relating to an employee benefit in which the director will share equally with other employees and (f) relating to liability insurance that the Company is empowered to purchase for the benefit of directors of the Company in respect of actions undertaken as directors (or officers) of the Company.

The directors are empowered to exercise all the powers of the Company to borrow money, subject to the limitation that the aggregate amount of all moneys borrowed by the Company and its subsidiaries shall not exceed an amount equal to three times the Company's share capital and aggregate reserves, unless sanctioned by an ordinary resolution of the Company.

Directors are not required to hold any shares of the Company by way of qualification.

Rights Attaching to Shares

Under English law, dividends are payable on the Company's ordinary shares only out of profits available for distribution, as determined in accordance with accounting principles generally accepted in the United Kingdom and by the Companies Act. Holders of the Company's ordinary shares are entitled to receive such dividends as may be declared by the shareholders in general meeting, rateably according to the amounts paid up on such shares, provided that the dividend cannot exceed the amount recommended by the directors.

The Company's board of directors may pay shareholders such interim dividends as appear to them to be justified by the Company's financial position. If authorized by an ordinary resolution of the shareholders, the board of directors may also direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid up shares or debentures of any other company).

Any dividend unclaimed after six years from the date the dividend was declared, or became due for payment, will be forfeited and will revert to the Company.

Voting Rights

Voting at any general meeting of shareholders is by a show of hands unless a poll, which is a written vote, is duly demanded. On a show of hands, every shareholder who is present in person or by proxy at a general meeting has one vote regardless of the number of shares held. On a poll, every shareholder who is present in person or by proxy has one vote for every 11³/₇ pence in nominal amount of the shares held by that shareholder. A poll may be demanded by any of the following:

the chairman of the meeting;

at least five shareholders entitled to vote at the meeting;

any shareholder or shareholders representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to vote at the meeting; or

any shareholder or shareholders holding shares conferring a right to vote at the meeting on which there have been paid-up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A proxy form will be treated as giving the proxy the authority to demand a poll, or to join others in demanding one.

The necessary quorum for a general meeting is three persons carrying a right to vote upon the business to be transacted, whether present in person or by proxy.

Matters are transacted at general meetings of the Company by the proposing and passing of resolutions, of which there are three kinds:

an ordinary resolution, which includes resolutions for the election of directors, the approval of financial statements, the cumulative annual payment of dividends, the appointment of auditors, the increase of authorized share capital or the grant of authority to allot shares;

a special resolution, which includes resolutions amending the Company's memorandum and articles of association, disapplying statutory pre-emption rights or changing the Company's name; and

an extraordinary resolution, which includes resolutions modifying the rights of any class of the Company's shares at a meeting of the holders of such class or relating to certain matters concerning the Company's winding up.

An ordinary resolution requires the affirmative vote of a majority of the votes of those persons voting at a meeting at which there is a quorum.

Special and extraordinary resolutions require the affirmative vote of not less than three-fourths of the persons voting at a meeting at which there is a quorum.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting is entitled to cast the deciding vote in addition to any other vote he may have.

Annual General Meetings must be convened upon advance written notice of 21 days. Other meetings must be convened upon advance written notice of 21 days for the passing of a special resolution and 14 days for any other resolution, depending on the nature of the business to be transacted. The days of delivery or receipt of the notice are not included. The notice must specify the nature of the business to be transacted. The board of directors may if they choose make arrangements for shareholders who are unable to attend the place of the meeting to participate at other places.

Each Director shall retire every three years in Annual General Meeting and unless otherwise decided by the Directors, shall be eligible for re-election. Any director attaining 70 years of age shall retire at the next Annual General Meeting. Such a director may be re-elected but shall retire every year (and be eligible for re-election) at the next, and all subsequent, Annual General Meetings.

Variation of Rights

If, at any time, the Company's share capital is divided into different classes of shares, the rights attached to any class may be varied, subject to the provisions of the Companies Act, with the consent in writing of holders of three-fourths in value of the shares of that class or upon the adoption of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class. At every such separate meeting, all of the provisions of the articles of association relating to proceedings at a general meeting apply, except that the quorum is to be the number of persons (which must be two or more) who hold or represent by proxy not less than one-third in nominal value of the issued shares of the class.

Rights in a Winding-up

Except as the Company's shareholders have agreed or may otherwise agree, upon the Company's winding up, the balance of assets available for distribution:

after the payment of all creditors including certain preferential creditors, whether statutorily preferred creditors or normal creditors; and

subject to any special rights attaching to any class of shares; is to be distributed among the holders of ordinary shares according to the amounts paid-up on the shares held by them. This distribution is generally to be made in cash. A liquidator may, however, upon the adoption of an extraordinary resolution of the shareholders, divide among the shareholders the whole or any part of the Company's assets in kind.

Limitations on Voting and Shareholding

There are no limitations imposed by English law or the Company's memorandum or articles of association on the right of non-residents or foreign persons to hold or vote the Company's ordinary shares or ADSs, other than the limitations that would generally apply to all of the Company's shareholders.

MATERIAL CONTRACTS

The following contracts have been entered into otherwise than in the course of ordinary business by members of the Group either (i) in the two years immediately preceding the date of this document in the case of contracts which are or may be material or (ii) which contain provisions under which any Group member has any obligation or entitlement which is material to the Group as at the date of this document. To the extent that these agreements include representations, warranties and indemnities, such provisions are considered standard in an agreement of that nature, save to the extent identified below.

IHG Facility Agreement

On November 9, 2004, InterContinental Hotels Limited signed a five year £1,600 million bank facility agreement (the IHG Facility Agreement) with The Bank of Tokyo-Mitsubishi, Ltd., Barclays Capital, Citigroup Global Markets Limited, HSBC Bank plc, J.P. Morgan plc, Lloyds TSB Bank plc, The Royal Bank of Scotland plc, SG Corporate & Investment Banking (the corporate and investment banking division of Société Generale) and WestLB AG, London Branch, all acting as mandated lead arrangers and underwriters and HSBC Bank plc as agent bank.

The facility was split into a £1.1 billion five year revolving credit facility and a £500 million 364 day revolving credit facility. The latter was canceled in November 2005.

The interest margin payable on borrowings under the IHG Facility Agreement is linked to IHG's consolidated net debt to consolidated EBITDA ratio; initially the margin was set at LIBOR + 0.375% p.a. The margin can vary between LIBOR + 0.325% and LIBOR + 0.60% depending on the level of the ratio.

As part of this refinancing the Group repurchased its euro and sterling denominated bonds. The Group's new parent company InterContinental Hotels Group PLC, acceded to the IHG Facility Agreement in July 2005, following the capital restructuring described in Item 4.

Disposal to Hospitality Properties Trust

On December 17, 2004, BHR Texas L.P., InterContinental Hotels Group Resources, Inc., Crowne Plaza LAX, LLC, Crowne Plaza Hilton Head Holding Company, Holiday Pacific Partners Limited Partnership, 220 Bloor Street Hotel Inc. and Staybridge Markham, Inc. (together, the Vendors) entered into a Purchase and Sale Agreement (as amended and restated on February 9, 2005) with HPT IHG-2 Properties Trust (HPT IHG-2), pursuant to which HPT IHG-2 purchased from the Vendors 12 hotels situated in the United States and Canada. On the same date, Six Continents International Holdings B.V. (SIH), entered into a Stock Purchase Agreement (as amended and restated on February 9, 2005) with HPT IHG-2, pursuant to which HPT IHG-2 purchased from SIH all of the shares in Crowne Plaza (Puerto Rico) Inc., which is the owner of a hotel in Puerto Rico. The total consideration payable by HPT IHG-2 for the sales amounted to US\$425 million, before transaction costs, equivalent to net book value (of which US\$395 million was received upon the main completion of the sale on February 16, 2005, with the remaining US\$30 million received upon the completion of the sale of the InterContinental Hotel in Austin, on June 1, 2005). The Group continues to manage the hotels.

Under the Purchase and Sale Agreement and Stock Purchase Agreement, the Vendors have given certain customary warranties and indemnities to HPT IHG-2.

In connection with the disposals referred to above, IHG has agreed to guarantee certain amounts payable to HPT IHG and HPT IHG-2 in relation to the managed hotels sold by the Group to HPT IHG and HPT IHG-2. The guarantee is for a maximum amount of \$125 million and requires amounts to be paid by IHG to HPT IHG and/or HPT IHG-2 (and/or their designated affiliate) irrespective of the revenue generated by the relevant hotels. The guarantee may be terminated if certain financial tests are met.

UK Hotels Disposal

A Share Purchase Agreement (the SPA) was entered into on March 10, 2005 between Six Continents, IHC London (Holdings) Limited (IHC Holdings) and LRG. Pursuant to the SPA, Six Continents and IHC Holdings (the Sellers) agreed to sell all of the issued ordinary share capital of Six Continents Hotels & Holidays Limited, Holiday Inn Limited, NAS Cobalt No. 2 Limited and London Forum Hotel Limited respectively (together, the LRG Shares) to LRG and to transfer to LRG certain contractual rights to the extent they related to the hotels LRG indirectly acquired under the SPA (the LRG Hotels) and which remained to be completed or performed, or remained in force, after completion of the sale of the LRG Shares to LRG.

The agreed sale price for the LRG Shares was £1 billion. Proceeds of £40 million were deferred and are contingent upon certain pre-agreed performance targets being reached. Following completion, the Group continues to manage the LRG Hotels.

Under the SPA, the Sellers gave certain warranties in relation to the assets disposed of and LRG gave certain warranties in relation to its authority to enter into the SPA and its capacity to perform its obligations under the SPA. Certain indemnities were also given by the Sellers.

Australasian Hotels Disposals

On September 1, 2005, Holiday Inn Holdings (Australia) Pty Limited, SPHC Group Pty Limited and HIA(T) Pty Limited (for the Australian assets) and Hale International Limited (for the New Zealand asset), all three of which are members of the Group, (IHG) entered into two sale and purchase agreements with HANZ (Australia) Pty Limited (for the Australian assets) and HANZ Holdings (New Zealand) Limited (for the New Zealand asset), both companies being subsidiaries of the Hotel Alternative (Australia and New Zealand) Private Syndicate managed by Eureka Funds Management Limited (Eureka) pursuant to which Eureka purchased from IHG nine hotels situated in Australia and New Zealand for AUS\$390 million in cash (before transaction costs) which is AUS\$75 million above the net book value of AUS\$315 million. IHG gave to Eureka normal warranties in relation to the hotels and an indemnity for pre-completion tax liabilities. The transaction completed on October 31, 2005.

The Group continues to manage the hotels for Eureka under ten year management contracts entered into at the time of the transaction, with an option to extend for ten further years at the Group's discretion.

Disposal to Dabicam SAS

On September 8, 2005, a sale and purchase agreement (SPA) was entered into between BHR Holdings BV, a wholly owned subsidiary of IHG, and Dabicam SAS, an affiliate of GIC Real Estate Pte. Ltd. Under the SPA the seller agreed to sell the InterContinental Hotel Paris. The agreed sale price for the hotel was 315 million. The hotel is no longer operated under an IHG brand. Under the SPA the sellers gave certain customary warranties and indemnities to the purchaser. Following receipt of shareholder approval, in connection with the sale, at an Extraordinary General Meeting of IHG on October 26, 2005 the sale was completed on November 1, 2005.

Britvic Underwriting Agreement

An Underwriting Agreement was entered into on November 25, 2005 between, inter alia, Britvic, IHG in its capacity as a selling shareholder, the directors of Britvic, Citigroup and Deutsche Bank AG (as joint sponsors) and Citigroup, Deutsche Bank AG, Lehman Brothers International (Europe) and Merrill Lynch International (as joint Underwriters). This set out the mechanics for the Britvic initial public offering and included customary termination rights. Britvic gave customary warranties, indemnities and undertakings in the context of an agreement of this sort. IHG also gave customary warranties and indemnities in its capacity as a selling shareholder. Under this agreement, each of the selling shareholders paid a commission equal to 2% of the offer price multiplied by the number of shares sold by that selling shareholder to the joint Underwriters.

Disposal to Westbridge

On March 10, 2006 a Sale and Purchase Agreement (SPA) was entered into between BHR Luxembourg S.a.r.l. and other wholly owned subsidiaries of IHG as sellers (BHR Luxembourg S.a.r.l. being the principal seller) and Cooperatie Westbridge Europe I U.A. as purchaser and Westbridge Hospitality Fund L.P. as the purchaser's guarantor. Under the SPA the sellers agreed to sell 23 hotels situated across Europe in France, Germany, Belgium, the Netherlands, Austria, Italy and Spain.

The agreed sale price was 352 million. IHG's share of the proceeds was 345.2 million (before transaction costs), in cash and the assumption of debt, and the balance of 6.8 million relates to third-party minority interests.

The hotels continue to be operated by the purchaser under the same IHG brands under 15 year franchise agreements.

Under the SPA the sellers gave certain customary warranties and indemnities to the purchaser.

Disposal to Morgan Stanley Real Estate Funds

On July 13, 2006 a sale and purchase agreement (SPA) was entered into between BHR Holdings BV and other wholly owned subsidiaries of IHG as sellers (BHR Holdings BV being the principal seller) and a subsidiary of Morgan Stanley Real Estate Funds MSREF VI Danube BV. Under the SPA the sellers agreed to sell seven InterContinental branded hotels situated across Europe in France, Germany, the Netherlands, Austria, Hungary, Italy and Spain.

The agreed sale price for the seven hotels was 634 million. IHG retained 30 year management contracts on the hotels, with two ten year renewals at IHG's discretion, giving a total potential contract length of 50 years.

Under the SPA the sellers gave certain customary warranties and indemnities to the purchaser.

EXCHANGE CONTROLS

There are no restrictions on dividend payments to US citizens.

Although there are currently no UK foreign exchange control restrictions on the export or import of the capital or the payment of dividends on the ordinary shares or the ADSs, from time to time English law imposes restrictions on the payment of dividends to persons resident (or treated as so resident) in or governments of (or persons exercising public functions in) certain countries (each of the foregoing, a Prohibited Person).

There are no restrictions under the articles of association or under English law that limit the right of non-resident or foreign owners to hold or vote the ordinary shares. However, under current English law, ordinary shares or ADSs may not be owned by a Prohibited Person. In addition, the Company's articles of association contain certain limitations on the voting and other rights of any holder of ordinary shares, whose holding may, in the opinion of the directors, result in the loss or failure to secure the reinstatement of any license or franchise from any US governmental agency held by Six Continents Hotels Inc or any subsidiary thereof.

TAXATION

This section provides a summary of the material US federal income tax and UK tax consequences to US holders, as defined below, of owning and disposing of ordinary shares or ADSs of the Company. This section addresses only the tax position of a US holder who holds ordinary shares or ADSs as capital assets. This section does not, however, discuss the tax consequences of members of special classes of holders subject to special rules, such as certain financial institutions;

insurance companies;

dealers and traders in securities or foreign currencies;

persons holding ordinary shares or ADSs as part of a hedge, straddle, conversion transaction or other integrated transaction;

persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;

partnerships or other entities classified as partnerships for U.S. federal income tax purposes;

persons liable for the alternative minimum tax;

tax-exempt organizations;

persons who acquired our ADSs or shares pursuant to the exercise of any employee stock option or otherwise as compensation.

and holders that, directly or indirectly, hold 10% or more of the Company's voting stock. This section does not generally deal with the position of a US holder who is resident or ordinarily resident in the United Kingdom for UK tax purposes or who is subject to UK taxation on capital gains or income by virtue of carrying on a trade, profession or vocation in the United Kingdom.

A US holder is a beneficial owner of shares or ADSs that is for US federal income tax purposes (i) a citizen or resident of the US, (ii) a US domestic corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or (iii) an estate whose income is subject to US federal income tax regardless of its source, or (iv) a trust if a US court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, and on UK tax laws and published practice of the UK HM Revenue and Customs, all as of the date hereof, and on the current Double Taxation Convention between the United States and the United Kingdom (the Treaty). These laws are subject to change, possibly on a retroactive basis.

This section is further based in part upon the representations of the Depositary and assumes that each obligation in the Company ADR Deposit Agreement and any related agreement will be performed in accordance with its terms. For US federal income tax purposes, a holder of ADRs evidencing ADSs will be treated as the owner of the shares represented by those ADRs. Generally, exchanges of ordinary shares for ADRs, and ADRs for ordinary shares, will not be subject to US federal income tax or UK taxation on capital gains.

The US Treasury has previously expressed concerns that parties to whom ADRs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits for US holders of ADRs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, for qualified dividend income. Accordingly, the analysis of the availability of the reduced rate of tax for qualified dividend income described below could be affected by actions taken by parties to whom the ADRs are pre-released.

Investors should consult their own tax advisor regarding the US federal, state and local, the UK and other tax consequences of owning and disposing of shares and ADSs in their particular circumstances, and in particular whether they are eligible for the benefits of the Treaty.

Taxation of Dividends

United Kingdom Taxation

Under current UK tax law, the Company will not be required to withhold tax at source from dividend payments it makes.

United States Federal Income Taxation

Subject to the passive foreign investment company (PFIC) rules discussed below, a US holder is subject to US federal income taxation on the gross amount of any dividend paid by the Company out of its current or accumulated earnings and profits (as determined for US federal income tax purposes). Subject to applicable limitations and the discussion above regarding concerns expressed by the US Treasury, dividends paid to a non-corporate US holder in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to the holder at a maximum tax rate of 15%. The Company expects that dividends paid by the Company with respect to the shares or ADSs will constitute qualified dividend income. U.S. Holders should consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to be taxed at this favorable rate.

Dividends must be included in income when the US holder, in the case of shares, or the Depository, in the case of ADSs, actually or constructively receives the dividend, and will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. For foreign tax credit limitation purposes, dividends will be income from sources outside the United States.

The amount of any dividend paid in pounds will be the US dollar value of the pound sterling payments made, determined at the spot pound sterling/ US dollar rate on the date the dividend distribution is includible in income, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in income to the date the payment is converted into US dollars will be treated as ordinary income or loss and, for foreign tax credit limitation purposes, from sources within the United States.

Distributions in excess of the Company's current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a return of capital to the extent of the US holder's basis in the shares or ADSs and thereafter as capital gain. Because the Company has not historically maintained, and does not currently maintain, books in accordance with US tax principles, the Company does not expect to be in a position to determine whether any distribution will be in excess of the Company's current and accumulated earnings and profits as computed for US federal income tax purposes. As a result, the Company expects that amounts distributed will be reported to the Internal Revenue Service as dividends.

Taxation of Capital Gains

United Kingdom Taxation

A US holder who is not resident or ordinarily resident for United Kingdom tax purposes in the United Kingdom will not generally be liable for UK taxation on capital gains realized or accrued on the sale or other disposal of ADSs or ordinary shares unless, at the time of the sale or other disposal, the US holder carries on a trade, profession or vocation in the United Kingdom through a branch, agency or permanent establishment and such ADSs or ordinary shares are or have been used, held or acquired for the purposes of such trade, profession or vocation.

A US holder of ADSs or ordinary shares who is an individual and who, broadly, has temporarily ceased to be resident or ordinarily resident in the UK or has become temporarily treated as non-resident for UK tax purposes for a period of less than five years of assessment and who disposes of ordinary shares or ADSs during that period may, for the year of assessment when that individual becomes resident again in the UK, also be liable to UK tax on capital gains (subject to any available exemption or relief), notwithstanding the fact that such US holder was not resident or ordinarily resident in the United Kingdom at the time of the sale or other disposal.

United States Federal Income Taxation

Subject to the PFIC rules discussed below, a US holder that sells or otherwise disposes of shares or ADSs will recognize a capital gain or loss for US federal income tax purposes equal to the difference between the US dollar value of the amount realized and its tax basis, determined in US dollars, in the shares or ADSs.

Generally, capital gain of a non-corporate US holder that is recognized in tax years beginning before January 1, 2011 is taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. The deductibility of losses is subject to limitations.

PFIC Rules

The Company believes that the Company shares and ADSs will not be treated as stock of a PFIC for US federal income tax purposes for its 2006 taxable year. However, this conclusion is an annual factual determination and thus may be subject to change. Unless a US holder elects to be taxed annually on a mark-to-market basis with respect to the Company shares or ADSs, if the Company were to be treated as a PFIC, gain realized on the sale or other disposition of Company shares or ADSs would in general not be treated as capital gain. Instead, gain would be treated as if the US holder had realized such gain ratably over the holding period for the Company shares or ADSs and, to the extent allocated to the taxable year of the sale or other exchange and to any year before the Company became a PFIC, would be taxed as ordinary income. The amount allocated to each other taxable year would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. In addition, similar rules would apply to any excess distribution received on the Company shares or ADSs (generally, the excess of any distribution received on the Company shares or ADSs during the taxable year over 125% of the average amount of distributions received during a specified prior period), and the preferential rate for qualified dividend income received by certain non-corporate US holders would not apply. Certain elections may be available (including a market-to-market election) to US holders that may mitigate the adverse tax consequences resulting from PFIC status.

Additional Tax Considerations

United Kingdom Inheritance Tax

An individual who is domiciled in the United States (for the purposes of the Estate and Gift Tax Convention) and is not a UK national as defined in the Convention will not be subject to UK inheritance tax in respect of ADSs on the individual's death or on a transfer of the ADSs during their lifetime, provided that any applicable US federal gift or estate tax is paid, unless the ADSs are part of the business property of a UK permanent establishment or pertain to a UK fixed base of an individual used for the performance of independent personal services. Where the ADSs have been placed in trust by a settlor, they may be subject to UK inheritance tax unless, when the trust was created, the settlor was domiciled in the United States and was not a UK national. Where ADSs are subject to both UK inheritance tax and to US federal gift or estate tax, the Estate and Gift Tax Convention generally provides for either a credit against US federal tax liabilities for UK inheritance tax paid or for a credit against UK inheritance tax liabilities for US federal tax paid, as the case may be.

United Kingdom Stamp Duty and Stamp Duty Reserve Tax (SDRT)

The transfer of ordinary shares will generally be liable to stamp duty at the rate of 0.5% of the amount or value of the consideration given (rounded up to the nearest £5). An unconditional agreement to transfer ordinary shares will generally be subject to SDRT at 0.5% of the agreed consideration. However, if within the period of six years of the date of such agreement becoming unconditional an instrument of transfer is executed pursuant to the agreement and duly stamped, any liability to SDRT will usually be repaid, if already paid, or canceled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee.

No stamp duty or SDRT will generally arise on a transfer of ordinary shares into CREST, unless such transfer is made for a consideration in money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5% of the value of the consideration.

A transfer of ordinary shares effected on a paperless basis within CREST will generally be subject to SDRT at the rate of 0.5% of the value of the consideration.

Stamp duty, or SDRT, is generally payable upon the transfer or issue of ordinary shares to, or to a nominee or, in some cases, agent of, a person whose business is or includes issuing depositary receipts or the provision of clearance services. For these purposes, the current rate of stamp duty and SDRT is usually 1.5% (rounded up, in the case of stamp duty, to the nearest £5). The rate is applied, in each case, to the amount or value of the consideration or, in some circumstances, to the value or the issue price of the ordinary shares. In accordance with the terms of the deposit agreement, any tax or duty payable on deposits of ordinary shares by the depositary or by the custodian of the depositary will be charged to the party to whom ADSs are delivered against such deposits.

Provided that the instrument of transfer is not executed in the United Kingdom and remains at all subsequent times outside the United Kingdom, no stamp duty should be payable on the transfer of ADSs. An agreement to transfer ADSs in the form of depositary receipts will not give rise to a liability to SDRT.

DOCUMENTS ON DISPLAY

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 100 F Street, NE Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The Company's SEC filings since May 22, 2002 are also publicly available through the SEC's website located at <http://www.sec.gov>.

ITEM 11. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Exchange and Interest Rate Risk, and Financial Instruments

The Company's treasury policy is to manage the financial risks that arise in relation to the underlying business needs. The activities of the treasury function are carried out in accordance with board approved policies and are subject to regular internal audit. The treasury function does not operate as a profit center.

Treasury Risk Management

The treasury function seeks to reduce the financial risk of the Company 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, options and forward rate agreements. One of the primary objectives of the Company's treasury risk management policy is to mitigate the adverse impact of movements in interest rates and foreign exchange rates. Derivatives are not used for trading or speculative purposes.

Credit Risk

Credit Risk on treasury transactions is minimised by operating a policy on the investment of surplus funds that generally restricts counterparties to those with an A credit rating or better, or those providing adequate security. Limits are also set for individual counterparties. Most of the Company's surplus 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.

Interest Rate Risk

The Company has an exposure to interest rate fluctuations on its borrowings and it seeks to manage these by the use of interest rate swaps and options, and forward rate agreements. The Company takes out interest rate swaps to fix the interest flows on between 25% and 75% of its borrowings in major currencies.

At December 31, 2006, the Company held interest rate swaps with notional principals of US\$100 million and 80 million (2005 US\$200 million and 160 million). 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 £1 million.

Currency Risk

The US dollar is the predominant currency of the Company's revenue and cash flows and movements in foreign exchange rates, particularly the US dollar and euro, can affect the company's reported profits, net assets and interest cover. To hedge this translation exposure the Company denominates the currency of its debt (either directly or via derivatives) to match the currency of its net assets, whilst trying to maximise the amount of US dollars borrowed. At December 31, 2006, the Company held outstanding forward foreign exchange contracts of £224 million which were used as effective hedges against the currency of the Company's net assets.

A general weakening of the US dollar (specifically as a one cent rise in the sterling: US dollar rate) would have reduced the Company's profit before tax by an estimated £1 million.

The Company is exposed to foreign currency risk on income streams denominated in foreign currencies. Foreign exchange transaction exposure is managed by forward purchase or sale of foreign currencies or the use of currency options. Most significant exposures of the Company are in currencies that are freely convertible. At the year end there were no outstanding contracts hedging currency risk on income streams.

Quantitative Information about Market Risk**Interest Rate Sensitivity**

The tables below provide information about the Company's derivative and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps and debt obligations. For long-term debt obligations (excluding debt due entirely within one year), the table presents principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate swaps and forward rate agreements, the table presents notional amounts and weighted average interest rates by expected maturity dates. Weighted average variable rates are based on rates set at the balance sheet date. The actual currencies of the instruments are indicated in parentheses.

At December 31, 2006

Expected to mature before December 31,

	2007	2008	2009	2010	2011	Thereafter	Total	Fair value ⁽ⁱ⁾
(£ million, except percentages)								
Long-Term Debt:								
Fixed Rate lease debt (US dollar)	3	7	6	6	5	70	97	97
Average dollar interest rate	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	
Variable Rate (various currencies)	7		209				216	216
Average interest rate	7.5%		5.3%				5.3%	

Expected to mature before December 31,

	2007	2008	2009	2010	2011	Thereafter	Total	Fair value ⁽ⁱ⁾
(local currency million, except percentages)								
Interest Rate Swaps and Forward rate agreements:								
Principal (US dollar)		100					100	
Fixed rate payable		4.5%					4.5%	

Variable rate receivable	5.7%	5.7%
Principal (euro)	80	80
Fixed rate payable	3.0%	3.0%
Variable rate receivable	4.0%	4.0%

(i) Represents the net present value of the expected cash flows discounted at current market rates of interest.

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Exchange Risk Sensitivity

The following information provides details of the Company's derivative and other financial instruments by currency presented in sterling equivalents. Forward exchange contracts provide a currency hedge against currency net assets. All forward exchange agreements mature within one year.

	Pay 2006	Receive 2006
	(local currency million)	(£ million)
Sale of US dollars against sterling	(251)	130
Sale of euros against sterling	(70)	47
Sale of Hong Kong dollars against sterling	(690)	47

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES***Disclosure Controls and Procedures***

As at the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Chief Executive and Finance Director, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Rules 13a-15(c) and 15d-15(e)). These are defined as those controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the specified periods. Based on that evaluation, the Chief Executive and Finance Director concluded that the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934.

Management has issued a report on the effectiveness of the Company's Internal Control over Financial reporting as at December 31, 2006. This report appears on page F-1 of the Company's Consolidated Financial Statements contained in this Annual Report.

Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on management's assessment of the Company's internal control over financial reporting. This report appears on page F-2 of the Company's consolidated financial statements contained in this Annual Report.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting that occurred during the period covered by this Form 20-F that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 16. [RESERVED]**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Senior Independent Director David Kappler, who has significant recent and relevant financial experience is the Audit Committee Financial Expert as defined under the regulations of the US Securities and Exchange Commission. David Kappler is independent as that term is defined under the listing Standards of the NYSE.

ITEM 16B. CODE OF ETHICS

The board has adopted a global Code of Ethics and Business Conduct that applies to all directors, officers and employees of IHG, including the Chief Executive and Finance Director. This Code of Ethics has been signed by the Chief Executive and the Finance Director of the Company and by the Group Financial Controller and regional financial heads. The Company has published its Code of Ethics and Business Conduct on its website www.ihg.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees for professional services provided by Ernst & Young LLP, the Group's independent auditors in each of the last two fiscal periods in each of the following categories are:

	Year ended December 31, 2006	Year ended December 31, 2005
	(£ million)	
Audit Fees	2.4	3.9
Audit Related Fees	2.1	2.7
Tax Fees	0.7	0.6
Total	5.2	7.2

Further detail is provided in Note 4 Auditor's remuneration paid to Ernst & Young LLP of Item 18 Financial Statements.

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.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Period of fiscal year	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
Month 1 (no purchases in this month)	0	0.00	0	55,178,065.00
Month 2 (no purchases in this month)	0	0.00	0	55,178,065.00
Month 3 (03.03.06 03.28.06)	3,195,000	8.68	3,195,000	51,983,065.00
Month 4 (04.03.06 04.25.06)	3,327,752	9.41	3,327,752	48,655,313.00
Month 5 (05.19.06 05.25.06)	4,500,000	9.18	4,500,000	44,155,313.00
Month 6 (06.05.06 06.03.06)	1,645,001	9.19	1,645,001	53,805,720.00
Month 7 (07.03.06 07.31.06)	6,522,000	9.12	6,522,000	47,283,720.00
Month 8 (08.01.06 08.31.06)	5,710,000	8.62	5,710,000	41,573,720.00
Month 9 (09.04.06 09.29.06)	1,763,000	9.29	1,763,000	39,810,720.00
Month 10 (10.03.06 10.13.06)	815,000	9.53	815,000	38,995,720.00
Month 11 (no purchases in this month)	0	0.00	0	38,995,720.00
Month 12 (12.05.06 12.11.06)	932,000	10.73	932,000	38,063,720.00

The first share repurchase program was announced on March 11, 2004 with the intention to repurchase £250 million worth of shares (US\$456,525,000). A second £250 million share repurchase program followed, announced September 9, 2004. These programs were completed on December 20, 2004 and April 11, 2006, respectively.

On September 8, 2005, the Company announced a further £250 million share repurchase program. By December 31, 2006 23.9 million shares had been repurchased at an average price per share of 913 pence (approximately GBP£219 million). By March 16, 2007 a total of 26.05 million shares had been repurchased under the third repurchase program at an average price of 938 pence per share (approximately £244 million).

During fiscal 2006, 4,997,699 ordinary shares were purchased by the Company's Employee Share Ownership Trust at prices ranging from 839 pence to 1054 pence per share, for the purpose of satisfying future share awards to employees.

On February 20, 2007, the Company announced a fourth, £150 million share repurchase program. By March 16, 2007 no shares had been repurchased under the fourth repurchase program.

PART III**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The following consolidated financial statements and related schedule, together with the report thereon of Ernst & Young LLP, are filed as part of this Annual Report:

	Page
<u>Management's Report on Internal Control over Financial Reporting</u>	F-1
<u>Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting</u>	F-2
<u>Report and Consent of Independent Registered Public Accounting Firm</u>	F-3
Financial Statements	
<u>Consolidated Income Statement for the years ended December 31, 2006, 2005 and 2004</u>	F-5
<u>Consolidated Statement of Recognized Income and Expense for the years ended December 31, 2006, 2005 and 2004</u>	F-6
<u>Consolidated Balance Sheet for the years ended December 31, 2006 and 2005</u>	F-7
<u>Consolidated Statement of Changes in Shareholders' Funds for the years ended December 31, 2006, 2005 and 2004</u>	F-8
<u>Consolidated Cash Flow Statement for the years ended December 31, 2006, 2005 and 2004</u>	F-10
<u>Notes to the Financial Statements</u>	F-11
Schedule for the years ended December 31, 2006, 2005 and 2004	
<u>Schedule II Valuation and Qualifying Accounts</u>	S-1

ITEM 19. EXHIBITS

The following exhibits are filed as part of this Annual Report:

Exhibit 1	Memorandum and Articles of Association of IHG (incorporated by reference to Exhibit 4 of InterContinental Hotels Group's Registration Statement on S-8 (File No. 333-126139) filed with the SEC on June 27, 2005)
Exhibit 4(a)(i)	£1,600 million Facility Agreement dated November 9, 2004 among Bank of Tokyo-Mitsubishi, Ltd., Barclays Capital, Citigroup Global Markets Limited, HSBC Bank plc, JP Morgan plc, Lloyds Bank plc, The Royal Bank of Scotland plc, SG Corporate & Investment Banking and West LB AG (incorporated by reference to Exhibit 4(ii) of InterContinental Hotels Group PLC Annual Report on Form 20-F (File No 1-10409) dated May 3, 2005)
Exhibit 4(b)(i)	Amended and Restated Purchase and Sale Agreement dated February 9, 2005 among BHR Texas L.P., InterContinental Hotels Group Resources Inc, Crowne Plaza LAX, LLC, Crowne Plaza Hilton Head Holding Company, Holiday Pacific Partners Limited Partnership, Staybridge Markham and HPT (incorporated by reference to Exhibit 4(b)(ii) of InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated May 3, 2005)
Exhibit 4(b)(ii)	Amended and Restated Stock Purchase Agreement dated February 9, 2005 between Six Continents International Holdings, B.V. and HPT IHG-2 (incorporated by reference to Exhibit 4(b)(v) of InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated May 3, 2005)
Exhibit 4(b)(iii)	Share Purchase Agreement dated March 10, 2005 between IHC London (Holdings) Limited, and LGR Acquisition (currently LRG Acquisition) and LGR Holdings Limited (currently LRG Holdings Limited) (incorporated by reference to Exhibit 4(b)(iv) of InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated May 3, 2005)

- Exhibit 4(b)(iv) New Zealand Share Sale Deed dated September 1, 2005 between Hale International Limited, Six Continents Limited, HANZ Holdings (New Zealand) Limited and Eureka Funds Management Limited (incorporated by reference to Exhibit 4(b)(v) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated March 31, 2006)
- Exhibit 4(b)(v) Australia Share and Unit Sale Deed dated September 1, 2005 between Holiday Inns Holdings (Australia) Pty Limited, SPHC Group Pty Limited, HIA(T) Pty Ltd, Six Continents Limited, HANZ (Australia) Pty Limited and Eureka Funds Management Limited (incorporated by reference to Exhibit 4(b)(vi) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated March 31, 2006)
- Exhibit 4(b)(vi) Sale and Purchase Agreement dated September 8, 2005 between BHR Holdings BV and DABICAM SAS relating to the sale of the InterContinental Hotel, Paris.
- Exhibit 4(b)(vii) Britvic Underwriting Agreement dated November 25, 2005 between, inter alia, Britvic, IHG, the directors of Britvic, Citigroup and Deutsche Bank AG (as joint sponsors) and Citigroup, Deutsche Bank AG, Lehman Brothers International (Europe) and Merrill Lynch International (as joint Underwriters) (incorporated by reference to Exhibit 4(b)(vii) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated March 31, 2006)
- Exhibit 4(b)(viii) Sale and Purchase Agreement dated March 10, 2006 among BHR Luxembourg S.à.r.l., Others, Cooperatie Westbridge Europe I.U.A., Others and Westbridge Hospitality Fund L.P. relating to a portfolio of certain companies and businesses in continental Europe (incorporated by reference to Exhibit 4(b)(viii) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated March 31, 2006)
- Exhibit 4(b)(ix) Sale and Purchase Agreement dated July 13, 2006 between BHR Holdings BV and MSREF VI Danube BV relating to the sale of certain companies and businesses in continental Europe and Side Letter dated September 5, 2006.
- Exhibit 4(c)(i) Richard Hartman's service contract dated February 12, 2003 (incorporated by reference to Exhibit 4(c)(i) of InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated April 8, 2004)
- Exhibit 4(c)(ii) Richard Hartman's letter of appointment dated April 2005, effective from June 27, 2005 on completion of the Scheme of Arrangement and the introduction of the new parent company to the Group (incorporated by reference to Exhibit 4(c)(ii) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated March 31, 2006)
- Exhibit 4(c)(iii) Stevan Porter's service contract dated February 12, 2003 (incorporated by reference to Exhibit 4(c)(iii) of InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated April 8, 2004)
- Exhibit 4(c)(iv) Stevan Porter's letter of appointment dated April 2005, effective from June 27, 2005 on completion of the Scheme of Arrangement and the introduction of the new parent company to the Group (incorporated by reference to Exhibit 4(c)(iv) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated March 31, 2006)
- Exhibit 4(c)(v)

Richard Solomons service contract dated February 12, 2003 (incorporated by reference to Exhibit 4(c)(iv) of InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated April 8, 2004)

- Exhibit 4(c)(vi) Richard Solomons letter of appointment dated April 2005, effective from June 27, 2005 on completion of the Scheme of Arrangement and the introduction of the new parent company to the Group (incorporated by reference to Exhibit 4(c)(vi) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated March 31, 2006)
- Exhibit 4(c)(vii) Andrew Cosslett's service contract dated December 13, 2004 (incorporated by reference to Exhibit 4(c)(v) of InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated May 3, 2005)
- Exhibit 4(c)(viii) Andrew Cosslett's letter of appointment dated April 2005, effective from June 27, 2005 on completion of the Scheme of Arrangement and the introduction of the new parent company to the Group (incorporated by reference to Exhibit 4(c)(viii) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated March 31, 2006)
- Exhibit 8 List of Subsidiaries
- Exhibit 12(a) Certification of Andrew Cosslett filed pursuant to 17 CFR 240.13a-14(a)
- Exhibit 12(b) Certification of Richard Solomons filed pursuant to 17 CFR 240.13a-14(a)
- Exhibit 13(a) Certification of Andrew Cosslett and Richard Solomons furnished pursuant to 17 CFR 240.13a-14(b) and 18 U.S.C.1350
- Exhibit 15(a) Consent of Ernst & Young LLP (included on page F-4)

**MANAGEMENT'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of InterContinental Hotels Group PLC (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company's transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company's annual consolidated financial statements, management has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this assessment, management has concluded that as of December 31, 2006, the Company's internal control over financial reporting is effective based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements, has issued an attestation report on management's assessment of internal control over financial reporting, a copy of which appears on the next page of this annual report.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Board of Directors and Shareholders of InterContinental Hotels Group PLC:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that InterContinental Hotels Group PLC maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). InterContinental Hotels Group PLC's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that InterContinental Hotels Group PLC maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, InterContinental Hotels Group PLC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of InterContinental Hotels Group PLC as of December 31, 2006 and 2005, and the related Consolidated Income Statements, Consolidated Statements of Recognized Income and Expense, Consolidated Statements of Changes in Shareholders' Funds and Consolidated Cash Flow Statements for each of the three years in the period ended December 31, 2006, and the financial statement schedule listed in the Index at Item 18. Financial Statements and our report dated March 30, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP

London, England

March 30, 2007

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INTERCONTINENTAL HOTELS GROUP PLC
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of InterContinental Hotels Group PLC

We have audited the accompanying Consolidated Balance Sheets of InterContinental Hotels Group PLC as of December 31, 2006 and 2005, and the related Consolidated Income Statements, Consolidated Statements of Recognized Income and Expense, Consolidated Statements of Changes in Shareholders' Funds and Consolidated Cash Flow Statements for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the index at Item 18. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of InterContinental Hotels Group PLC at December 31, 2006 and 2005, and the consolidated results of its operations and its consolidated cash flows for each of the three years in the period ended December 31, 2006, in conformity with International Financial Reporting Standards as adopted by the European Union which differ in certain respects from United States generally accepted accounting principles (see Note 32 of Notes to the Consolidated Financial Statements). Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of InterContinental Hotels Group PLC's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 30, 2007 expressed an unqualified opinion thereon.

As discussed in Note 32 of the Notes to the Consolidated Financial Statements, the Company changed its method of accounting for financial instruments in 2005.

Ernst & Young LLP

London, England
March 30, 2007.

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form F-3 No. 333-108084 and Form S-8 Nos. 333-01572, 333-08336, 333-99785, 333-104691 and 333-126139) of InterContinental Hotels Group PLC of the reference to our name in Item 3. Key Information and our reports dated March 30, 2007, with respect to the Consolidated Financial Statements and Schedule of InterContinental Hotels Group PLC, InterContinental Hotels Group PLC management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of InterContinental Hotels Group PLC, included in this Annual Report (Form 20-F) for the year ended December 31, 2006.

Ernst & Young LLP

London, England
March 30, 2007

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INTERCONTINENTAL HOTELS GROUP PLC
CONSOLIDATED INCOME STATEMENT

	Year ended December 31, 2006			Year ended December 31, 2005			Year ended December 31, 2004		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
(£ million, except per ordinary share amounts)									
Revenue									
(Note 2)	805	155	960	713	1,197	1,910	606	1,598	2,204
Cost of sales	(364)	(121)	(485)	(333)	(884)	(1,217)	(300)	(1,177)	(1,477)
Administrative expenses	(180)		(180)	(150)	(74)	(224)	(140)	(68)	(208)
	261	34	295	230	239	469	166	353	519
Depreciation and amortization (Note 2)	(60)	(4)	(64)	(57)	(73)	(130)	(46)	(127)	(173)
Other operating income and expenses (Note 5)	27		27	(22)		(22)	(49)		(49)
Operating profit (Note 2)	228	30	258	151	166	317	71	226	297
Financial income (Note 6)	26		26	30		30	70		70
Financial expenses (Note 6)	(37)		(37)	(54)	(9)	(63)	(103)		(103)
Profit before tax	217	30	247	127	157	284	38	226	264
Tax (Note 7)	50	(9)	41	(24)	(56)	(80)	196	(69)	127
Profit after tax	267	21	288	103	101	204	234	157	391
Gain on disposal of assets, net of tax charge of £6 million (2005 £38 million: 2004 credit of £4 million)		117	117		311	311		19	19
Profit for the year	267	138	405	103	412	515	234	176	410

Attributable to:									
Equity holders of the parent ⁽ⁱ⁾	267	138	405	103	393	496	234	149	383
Minority equity interest					19	19		27	27
Profit for the year	267	138	405	103	412	515	234	176	410
Earnings per ordinary share:(Note 9)									
Basic	68.6p	35.5p	104.1p	19.8p	75.4p	95.2p	32.9p	21.0p	53.9p
Diluted	66.9p	34.6p	101.5p	19.3p	73.8p	93.1p	32.6p	20.7p	53.3p

- (i) A summary of the significant adjustments to profit available for IHG equity holders of the parent that would be required had United States generally accepted accounting principles been applied instead of International Financial Reporting Standards as adopted by the European Union is set out in Note 32 of Notes to the Consolidated Financial Statements.

The Notes to the Consolidated Financial Statements are an integral part of these Financial Statements.

INTERCONTINENTAL HOTELS GROUP PLC
CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
(£ million)			
Income and expense recognized directly in equity			
Gains on valuation of available-for-sale assets	16	31	
Gains on cash flow hedges	1	1	
Exchange differences on retranslation of foreign operations	(30)	29	(12)
Actuarial losses on defined benefit pension plans	(2)	(23)	(51)
Deficit transferred in respect of previous acquisition			(6)
	(15)	38	(69)
Transfers to the income statement			
On cash flow hedges	(1)	(6)	
On disposal of foreign operations	4	2	
On disposal of available-for-sale assets	(14)		
	(11)	(4)	
Tax			
Tax on items above taken directly to or transferred from equity	4	(1)	14
Deferred tax related to share schemes recognized directly in equity	26	8	
	30	7	14
Net income/(expense) recognized directly in equity	4	41	(55)
Profit for the year	405	515	410
Total recognized income and expense for the year⁽ⁱ⁾	409	556	355
Attributable to:			
Equity holders of the parent	409	541	338
Minority equity interest		15	17
	409	556	355
Effects of changes in accounting policy			
Losses on valuation of available-for-sale assets		(10)	
Gains on cash flow hedges		6	
		(4)	

- (i) The statement of comprehensive income required under United States generally accepted accounting principles is set out in Note 32 of Notes to the Consolidated Financial Statements.

The Notes to the Consolidated Financial Statements are an integral part of these Financial Statements.

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INTERCONTINENTAL HOTELS GROUP PLC
CONSOLIDATED BALANCE SHEET

	December 31, 2006	December 31, 2005
	(£ million)	
ASSETS		
Property, plant and equipment (Note 10)	997	1,356
Goodwill (Note 12)	109	118
Intangible assets (Note 13)	154	120
Investment in associates (Note 14)	32	42
Other financial assets (Note 15)	96	113
Total non-current assets	1,388	1,749
Inventories (Note 16)	3	3
Trade and other receivables (Note 17)	237	252
Current tax receivable	23	22
Cash and cash equivalents (Note 18)	179	324
Other financial assets (Note 15)	13	106
Total current assets	455	707
Non-current assets classified as held for sale (Note 11)	50	279
Total assets	1,893	2,735
LIABILITIES		
Loans and other borrowings (Note 20)	(10)	(2)
Trade and other payables (Note 19)	(402)	(468)
Current tax payable	(231)	(324)
Total current liabilities	(643)	(794)
Loans and other borrowings (Note 20)	(303)	(410)
Employee benefits (Note 3)	(71)	(76)
Trade and other payables (Note 19)	(109)	(107)
Deferred tax payable (Note 25)	(79)	(210)
Total non-current liabilities	(562)	(803)
Liabilities classified as held for sale (Note 11)	(2)	(34)
Total liabilities	(1,207)	(1,631)
Net assets	686	1,104
EQUITY		
Equity share capital	66	49
Capital redemption reserve	4	1

Shares held by employee share trusts	(17)	(22)
Other reserves	(1,528)	(1,528)
Unrealized gains and losses reserve	27	23
Currency translation reserve	(3)	19
Retained earnings	2,129	2,542
IHG shareholders' equity⁽ⁱ⁾	678	1,084
Minority equity interest (Note 26)	8	20
Total equity	686	1,104

(i) A summary of the significant adjustments to IHG shareholders' equity that would be required had United States generally accepted accounting principles been applied instead of International Financial Reporting Standards as adopted by the European Union is set out in Note 32 of Notes to the Consolidated Financial Statements.

The Notes to the Consolidated Financial Statements are an integral part of these Financial Statements.

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INTERCONTINENTAL HOTELS GROUP PLC
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS FUNDS

	Share Capital		Retained earnings and other reserves					Total IHG shareholders equity	
	Number of ordinary shares ⁽ⁱ⁾	Ordinary Share premium ⁽ⁱ⁾	Share redemption reserve ⁽ⁱⁱ⁾	Other reserves ⁽ⁱⁱⁱ⁾	Shares held by employee share trusts ^(iv)	Unrealized gains and losses ^(v)	Currency translation reserve ^(vi)		Retained earnings
(£ million, except per ordinary share amounts)									
At January 1, 2004	739	739	14	1,462	(11)			119	2,323
Total recognized income and expense for the year							(12)	350	338
Share capital consolidation	(75)								
Issue of ordinary shares	4	4	12						16
Repurchase of shares	(46)	(46)						(211)	(257)
Transfer to capital redemption reserve			46					(46)	
Purchase of own shares by employee share trusts					(33)				(33)
Release of own shares by employee share trusts					22			(6)	16
Equity-settled share-based cost								18	18
Equity dividends paid								(600)	(600)
At December 31, 2004	622	697	26	1,462	(22)		(12)	(376)	1,821

Effect of implementing IAS 32/39							3		(7)	(4)
At January 1, 2005	622	697	26	46	1,462	(22)	3	(12)	(383)	1,817
Total recognized income and expense for the year							20	31	490	541
Issue of ordinary shares	1	1	3							4
Repurchase of shares	(19)	(22)							(102)	(124)
Transfer to capital redemption reserve				22					(22)	
Capital reorganization	(161)	(632)	(29)	(68)	(2,990)				2,723	(996)
Proceeds from capital reorganization							4			4
Issue of ordinary shares	1		6							6
Repurchase of shares	(11)	(1)							(82)	(83)
Transfer to capital redemption reserve				1					(1)	
Purchase of own shares by employee share trusts							(29)			(29)
Release of own shares by employee share trusts							25		(17)	8
Equity-settled share-based cost									17	17
Equity dividends paid									(81)	(81)
At December 31, 2005	433	43	6	1	(1,528)	(22)	23	19	2,542	1,084
Total recognized							4	(22)	427	409

income and expense for the year										
Issue of ordinary shares	4	1	19							20
Repurchase of shares	(28)	(3)						(257)		(260)
Share capital consolidation	(53)									
Transfer to capital redemption reserve				3				(3)		
Purchase of own shares by employee share trusts								(47)		(47)
Release of own shares by employee share trusts								52	(37)	15
Equity-settled share-based cost									18	18
Equity dividends paid								(561)		(561)
At December 31, 2006	356	41	25	4	(1,528)	(17)	27	(3)	2,129	678

At December 31, 2003 the authorized share capital was £10,000,050,000 comprising 10,000,000,000 ordinary shares of £1 each and one redeemable preference share of £50,000.

The Notes to the Consolidated Financial Statements are an integral part of these Financial Statements.

- (i) The Company was incorporated and registered in England and Wales with registered number 5134420 on May 21, 2004 as a limited company under the Companies Act 1985 with the name Hackremco (No. 2154) Limited. On March 24, 2005 Hackremco (No. 2154) Limited changed its name to New InterContinental Hotels Group Limited. On April 27, 2005 New InterContinental Hotels Group Limited re-registered as a public limited company and changed its name to New InterContinental Hotels Group PLC. On June 27, 2005 New InterContinental Hotels Group PLC changed its name to InterContinental Hotels Group PLC. On May 21, 2004 the Company had an authorized share capital of £100, divided into 100 ordinary shares of £1 each, of which one ordinary share was allotted, called up and fully paid on incorporation.

On December 10, 2004 shareholders approved a share capital consolidation on the basis of 25 new ordinary shares for every 28 existing ordinary shares. This provided for all the authorized ordinary shares of £1 each (whether issued or unissued) to be consolidated into new ordinary shares of 112 pence each. The share capital consolidation became effective on December 13, 2004. The consolidation had no impact on the authorized redeemable preference share.

On April 21, 2005 the authorized share capital was increased to £50,100 by the creation of one redeemable preference share of £50,000. The redeemable preference share so created was allotted and treated as paid up in full on this date.

On May 20, 2005 the authorized share capital of the Company was increased from £50,100 to £10,000,050,000 by the creation of 9,999,999,900 ordinary shares of £1 each. On May 20, 2005 all of the ordinary shares of £1 each were consolidated into ordinary shares of £6.25 each.

On June 27, 2005 the capital reorganization (by means of a scheme of arrangement under Section 425 of the Companies Act 1985) was completed. Under the arrangement, shareholders received 11 new ordinary shares and £24.75 cash in exchange for every 15 existing ordinary shares held on June 24, 2005. The entire issued share capital of InterContinental Hotels Group PLC was transferred to New InterContinental Hotels Group PLC at fair market value, in exchange for the issue of 443 million fully paid ordinary shares of 10 pence each, which were admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange on that date. In accordance with the merger relief provisions of Sections 131 and 133 of the Companies Act 1985, the 443 million shares are recorded only at nominal value.

On June 30, 2005 £6.15 on every £6.25 ordinary share was canceled, thereby reducing the nominal value of each ordinary share to 10 pence.

On September 8, 2005 the redeemable preference share was redeemed at par value. The redeemable preference share did not carry any right to receive dividends nor to participate in the profits of the Company.

During 2004 and 2005, the Company undertook to return funds of up to £750 million to shareholders by way of three consecutive £250 million share repurchase program, the third of which is expected to be completed in the first half of 2007. During the year, 28,409,753 (2005 30,600,010; 2004 46,385,981) ordinary shares were repurchased and canceled under the authorities granted by shareholders at general meetings held during 2003, 2004, 2005 and 2006. Of these, 11,122,753 were 10 pence shares in the capital of InterContinental Hotels Group PLC and 17,287,000 were 11³/₇ pence shares in the capital of InterContinental Hotels Group PLC.

On June 1, 2006, shareholders approved a share capital consolidation on the basis of seven new ordinary shares for every eight existing ordinary shares. This provided for all the authorized ordinary shares of 10 pence each (whether issued or unissued) to be consolidated into new ordinary shares of 11³/₇ pence each. The share capital consolidation became effective on June 12, 2006.

Whilst the authorized share capital includes one redeemable preference share of £50,000, following its redemption in September 2005, this redeemable preference share has not been re-issued.

The authority given to the Company at the Annual General Meeting on June 1, 2006 to purchase its own shares was still valid at December 31, 2006. A resolution to renew the authority will be put to shareholders at the Annual General Meeting on June 1, 2007.

At December 31, 2006 the authorized share capital was £160,050,000, comprising 1,400,000,000 ordinary shares of 11³/₇ pence each and one redeemable preference share of £50,000.

- (ii) The share premium account and capital redemption reserve are not distributable.
- (iii) Other reserves comprises the revaluation reserve previously recognized under UK GAAP and a merger reserve.
- (iv) The shares held by employee share trusts comprises £16.8 million (2005 £21.7 million, 2004 £21.8 million) in respect of 1.7 million (2005 2.9 million; 2004 3.1 million) InterContinental Hotels Group PLC ordinary shares held by employee share trusts, with a market value at December 31, 2006 of £21 million (2005 £25 million, 2004 £20 million).
- (v) The net unrealized gains and losses reserve records movements for available-for-sale financial assets to fair value 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 cashflow hedging instruments outstanding at December 31, 2006 was a £1 million asset (2005 £1 million, 2004 £nil).
- (vi) The currency translation 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 zero as permitted by IFRS 1. During the year ended December 31, 2006, the impact of hedging net investments in foreign operations was to reduce the amount recorded in the currency translation reserve by £32 million (2005 £9 million, 2004 £54 million). The fair value of derivative instruments designated as hedges of net investments in foreign operations outstanding at December 31, 2006 was a £3 million asset (2005 £5 million net liability, 2004 £nil million).

The Notes to the Consolidated Financial Statements are an integral part of these Financial Statements.

INTERCONTINENTAL HOTELS GROUP PLC
CONSOLIDATED CASH FLOW STATEMENT

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(£ million)		
Profit for the year	405	515	410
Adjustments for:			
Net financial expense	11	33	33
Income tax (credit)/charge	(41)	80	(127)
Gain on disposal of assets, net of tax	(117)	(311)	(19)
Other operating income and expenses	(27)	22	49
Depreciation and amortization	64	130	173
Equity settled share-based cost, net of payments	14	12	12
Other gains and losses			4
Operating cash flow before movements in working capital	309	481	535
Decrease in inventories			1
Increase in receivables	(31)		(13)
Increase/(decrease) in provisions and other payables	10	(32)	50
Employee benefit contributions, net of cost		(26)	(58)
Cash flow from operations	288	423	515
Interest paid	(33)	(59)	(91)
Interest received	24	29	72
Tax paid	(49)	(91)	(35)
Net cash from operating activities	230	302	461
Cash flow from investing activities			
Purchases of property, plant and equipment Hotels	(87)	(107)	(143)
Purchases of intangible assets Hotels	(23)	(19)	(33)
Purchases of other financial assets Hotels	(8)	(10)	(11)
Acquisition of subsidiary, net of cash acquired	(6)		
Disposal of assets, net of cash disposed of Hotels	620	1,816	101
Proceeds from other financial assets Hotels	124	10	5
Purchases of property, plant and equipment Soft Drinks		(47)	(70)
Disposal of business, net of cash disposed of Soft Drinks		220	
Net cash from investing activities	620	1,863	(151)
Cash flow from financing activities			
Proceeds from the issue of share capital	20	10	16
Purchase of own shares	(260)	(207)	(257)
		(996)	

Payment to shareholders as a result of the capital reorganisation on June 27, 2005			
Purchase of own shares by employee share trusts	(47)	(29)	(33)
Proceeds on release of own shares by employee share trusts	19	16	16
Dividends paid to shareholders	(561)	(81)	(600)
Dividends paid to minority interests	(1)	(177)	(26)
(Decrease)/increase in borrowings	(172)	(442)	258
Costs associated with new facilities			(5)
Financial expense on early settlement of debt			(17)
Net cash from financing activities	(1,002)	(1,906)	(648)
Net movement in cash and cash equivalents in the year	(152)	259	(338)
Cash and cash equivalents at beginning of the year	324	72	411
Exchange rate effects	7	(7)	(1)
Cash and cash equivalents at end of the year	179	324	72

The significant differences between the cash flow statement presented above and that required under United States generally accepted accounting principles are described in Note 32 of Notes to the Consolidated Financial Statements.

The Notes to the Consolidated Financial Statements are an integral part of these Financial Statements.

Note 1 Corporate Information and Accounting Policies

Corporate information

The consolidated financial statements of InterContinental Hotels Group PLC (IHG) were prepared under IFRS for the year ended December 31, 2006 were authorized for issue in accordance with a resolution of the Directors on February 19, 2007. 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 are presented in sterling and all values are rounded to the nearest million except where otherwise indicated.

Statement of compliance

The consolidated financial statements of IHG have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and as applied in accordance with the provisions of the Companies Act 1985.

New accounting standards and interpretations issued by the International Accounting Standard Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) becoming effective during the year, have not had a material impact on the Company s financial statements.

The principal accounting policies of the Company are set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and entities controlled by the Company. All inter-company 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 Company s control.

Foreign currencies

Transactions in foreign currencies are translated into 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 at the balance sheet date. All foreign exchange differences arising on translation are recognized 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 sterling at the relevant rates of exchange ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at weighted 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 recognized in the currency translation reserve relating to that particular foreign operation is recycled against the gain or loss on disposal.

Derivative financial instruments and hedging

Interest arising from currency swap agreements is taken to financial income or expense on a gross basis over the term of the relevant agreements. Interest arising from other currency derivatives and interest rate swaps is taken to financial income or expense on a net basis over the term of the agreement.

Foreign exchange gains and losses on currency instruments are recognized in financial income and expense unless they form part of effective hedge relationships.

Derivatives designated as hedging instruments are accounted for in line with the nature of the hedging arrangement. The Company's detailed accounting policies with respect to hedging instruments are set out in note 21. Documentation outlining the measurement and effectiveness of the hedging arrangement is maintained throughout the life of the hedge relationship. Any ineffective element of a hedge arrangement is recognized in financial income or expense.

The fair value of derivatives is calculated by discounting the expected future cash flows at prevailing interest rates.

Property, plant and equipment

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

Borrowing costs are not capitalized. 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;
Fixtures, fittings and equipment	3-25 years; and
Plant and machinery	4-20 years.

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

Property, plant and equipment are reviewed 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 estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Recoverable amount is the greater of fair value less cost 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.

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 Company's share of identifiable assets, liabilities and contingent liabilities. 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.

Intangible assets

Software

Acquired software licenses and software developed in-house are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Costs are amortized over estimated useful lives of three to seven years on a straight line basis.

Management contracts

When assets are sold and a purchaser enters into a management or franchise contract with the Company, the Company capitalizes 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 amortized 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 capitalized and amortized over the shorter of the contracted period and 10 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 capitalized and amortized over the life of the asset.

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

Associates

An associate is an entity over which the Company 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 Company's investment is recorded at cost adjusted by the Company's share of post acquisition profits and losses. When the Company's share of losses exceeds its interest in an associate, the Company's carrying amount is reduced to £nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an associate.

Financial assets

Under IAS 39 Financial Instruments: Recognition and Measurement current and non-current financial assets are classified as loans and receivables; held-to-maturity investments; or as available-for-sale. The Company determines the classification of its financial assets at initial recognition and they are subsequently held at fair value or amortized cost. Changes in fair values of available-for-sale financial assets are recorded directly in the unrealized gains and losses reserve.

Financial assets are tested for impairment at each balance sheet date. If impaired, the difference between carrying value and fair value is transferred from equity to the income statement to the extent that there is sufficient surplus in equity; any excess goes directly to the income statement.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, canceled or expires.

Inventories

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

Trade receivables

Trade receivables are recorded at their original amount less an allowance for any doubtful amounts. An allowance is made when collection of the full amount is no longer considered probable.

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 cash flow statement cash and cash equivalents are shown net of short-term overdrafts which are repayable on demand and form an integral part of the Company'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 sales value less cost to sell.

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

Trade payables

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

Loyalty program

The hotel loyalty program, Priority Club Rewards, enables members to earn points, funded through hotel assessments, during each stay at an IHG hotel and redeem the 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 actuarial methods to give eventual redemption rates and points values.

The Company pays interest to the loyalty program on the accumulated cash received in advance of redemption of the points awarded.

Self insurance

The Company is self insured for various levels of general liability, workers compensation and employee medical and dental coverage. Insurance reserves 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 recognized when the Company 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.

Bank and other borrowings

Bank and other borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. They are subsequently measured at amortized cost. Finance charges, including issue costs, are charged to the income statement using an effective interest rate method.

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

Employee 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 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 recognized 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 recognized 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 recognized in the consolidated statement of recognized income and expense.

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 balance sheet date.

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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax assets and liabilities are recognized 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 Company 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 recognized to the extent that it is regarded as probable that the deductible temporary differences can be realized. The recoverability of all deferred tax assets is reassessed at each balance sheet date.

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 balance sheet date.

Revenue recognition

Revenue is derived from the following sources: owned and leased properties; management fees; franchise fees; sale of soft drinks and other revenues which are ancillary to the Company's operations.

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

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 Company's brand names. Revenue is recognized when rooms are occupied and food and beverages are sold.

Management fees earned from hotels managed by the Company, 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 recognized when earned and realized or realizable under the terms of the contract.

Franchise fees received in connection with the license of the Company's brand names, usually under long-term contracts with the hotel owner. The Company charges franchise royalty fees as a percentage of room revenue. Revenue is recognized when earned and realized or realizable under the terms of the agreement.

Share-based payments

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

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which any performance 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 recognized at the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The Company has taken advantage of the transitional provisions of IFRS 2 Share-based Payments in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after November 7, 2002 that had not vested before January 1, 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 Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease, with a corresponding liability being recognized 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 Company recognizes the sales proceeds and related gain or loss on disposal on completion of the sales process. In determining whether revenue and gain or loss should be recorded, the Company considers whether it:

- has a continuing managerial involvement to the degree associated with asset ownership;

- has transferred 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 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.

Special items

The Company discloses certain financial information both including and excluding special items. The presentation of information excluding special items allows a better understanding of the underlying trading performance of the Company and provides consistency with the Company's internal management reporting. Special items, which include other operating income and expenses, are identified by virtue of either their size or incidence so as to facilitate comparison with prior periods and to assess underlying trends in financial performance. Special 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 judgments

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 recognized in the financial statements are:

Impairment – the Company 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.

Pension 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 judgments 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 recognized for unused tax attributes to the extent that it is probable that taxable profit will be available against which they can be utilized. Judgment is required as to the amount that can be recognized based on the likely amount and timing of future taxable profits, taking into account expected tax planning.

Loyalty program – the future redemption liability included in trade and other payables is estimated using actuarial methods based on statistical formulae that project the timing of future point redemptions based on historical levels to give eventual redemption rates and points values.

Trade receivables – an allowance for doubtful amounts of trade receivables is made on the basis of historical experience and other factors considered relevant by management.

Other – the Company also makes estimates and judgments in the valuation of management and franchise 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 and interpretations

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) issued the following standards and interpretations with an effective date after the date of these financial statements. They have not been adopted early by the Company and the Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Company's reported income or net assets in the period of adoption.

IFRS 7	Financial Instruments: Disclosures Effective from January 1, 2007
IFRS 8	Operating Segments Effective from January 1, 2009
IFRIC 10	Interim Financial Reporting and Impairment Effective from November 1, 2006
IFRIC 11	Group and Treasury Share Transactions Effective from March 1, 2007

Note: the effective dates are in respect of accounting periods beginning on or after the date.

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Note 2 Segmental Information

Exchange Rates

The results of foreign operations have been translated into sterling at weighted average rates of exchange for the period. In the case of the US dollar, the translation rate is £1 = \$1.84 (2005 £1 = \$1.83, 2004 £1 = \$1.82). In the case of the euro, the translation rate is £1 = 1.47 (2005 £1 = 1.46, 2004 £1 = 1.47).

Foreign currency denominated assets and liabilities have been translated into sterling at the rates of exchange on the balance sheet date. In the case of the US dollar, the translation rate is £1 = \$1.96 (2005 £1 = \$1.73, 2004 £1 = \$1.93). In the case of the euro, the translation rate is £1 = 1.49 (2005 £1 = 1.46; 2004 £1 = 1.41).

Hotels

The primary segmental reporting format is determined to be three main geographical regions:
the Americas;

Europe, the Middle East and Africa (EMEA); and

Asia Pacific.

These, together with Central functions, form the principal format by which management is organized and makes operational decisions.

The Company further breaks each geographical region into three distinct business models which offer different growth, return, risk and reward opportunities:

Franchised

Where the Company neither owns nor manages the hotel, but licenses the use of a Company brand and provides access to reservation systems, loyalty schemes, and know-how. The Company derives revenues from a brand royalty or licensing fee, based on a percentage of room revenue.

Managed

Where, in addition to licensing the use of a Company brand, the Company manages the hotel for third party owners. The Company derives revenues from base and incentive management fees and provides the system infrastructure necessary for the hotel to operate. Management contract fees are generally a percentage of hotel revenue and may have an additional incentive fee linked to profitability or cash flow. The terms of these agreements vary, but are often long-term (for example, 10 years or more). The Company's responsibilities under the management agreement typically include hiring, training and supervising the managers and employees that operate the hotels under the relevant brand standards. In order to gain access to central reservation systems, global and regional brand marketing and brand standards and procedures, owners are typically required to make a further contribution.

Owned and leased

Where the Company both owns (or leases) and operates the hotel and, in the case of ownership, takes all the benefits and risks associated with ownership.

Segmental results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Soft Drinks

This business, which manufactures a variety of soft drink brands with distribution concentrated mainly in the UK, was sold in December 2005.

Segmental Information*Year ended December 31, 2006**Revenue*

	Americas	EMEA	Asia Pacific	Central	Total Group
	(£ million)				
Hotels					
Owned and leased	115	100	71		286
Managed	77	71	36		184
Franchised	241	35	4		280
Central				55	55
Continuing operations	433	206	111	55	805
Discontinued operations	owned and leased	30	125		155
	463	331	111	55	960

Segmental result

	Americas	EMEA	Asia Pacific	Central	Total Group
	(£ million)				
Hotels					
Owned and leased	14	(5)	17		26
Managed	27	37	21		85
Franchised	208	24	3		235
Regional and central	(32)	(20)	(12)	(81)	(145)
Continuing operations	217	36	29	(81)	201
Discontinued operations	owned and leased	4	26		30
	221	62	29	(81)	231

Year ended December 31, 2006

	Continuing	Discontinued	Group
	(£ million)		
Group			
Hotels	201	30	231
Other operating income and expenses	27		27

Operating profit	228	30	258
Net finance costs	(11)		(11)
Profit before tax	217	30	247
Tax	50	(9)	41
Profit after tax	267	21	288
Gain on disposal of assets, net of tax		117	117
Profit for the year	267	138	405

Assets and liabilities

	Americas	EMEA	Asia Pacific	Central	Total Group
	(£ million)				
Segment assets	647	583	338	73	1,641
Non-current assets classified as held for sale	40	10			50
	687	593	338	73	1,691
Unallocated assets:					
Current tax receivable					23
Cash and cash equivalents					179
Total assets					1,893
Segment liabilities	295	234	53		582
Liabilities classified as held for sale	2				2
	297	234	53		584
Unallocated liabilities:					
Current tax payable					231
Deferred tax payable					79
Loans and other borrowings					313
Total liabilities					1,207

*Year ended December 31, 2006**Other segmental information*

	Americas	EMEA	Asia Pacific	Central	Total Group
	(£ million)				
Continuing operations:					
Capital expenditure ⁽ⁱ⁾	34	50	17	15	116
Additions to:					
Property, plant and equipment	116	53	9	4	182
Intangible assets	10	31	1	11	53
Depreciation and amortization ⁽ⁱⁱ⁾	18	19	10	13	60
Reversal of previously recorded impairment		(2)			(2)
Discontinued operations:					
Capital expenditure ⁽ⁱ⁾	1	7			8
Additions to property, plant and equipment		4			4
Depreciation and amortization ⁽ⁱⁱ⁾	1	3			4

Impairment of assets held for sale

3

3

- (i) Comprises purchases of property, plant and equipment, intangible assets and other financial assets and acquisitions of subsidiaries as included in the cash flow statement.
- (ii) Included in the £64 million of depreciation and amortization is £21 million relating to administrative expenses and £43 million relating to cost of sales.

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*Year ended December 31, 2005**

Revenue

	Americas	EMEA	Asia Pacific	Central	Total Hotels
(£ million)					
Hotels					
Owned and leased	106	110	59		275
Managed	65	55	25		145
Franchised	213	35	3		251
Central				42	42
Continuing operations	384	200	87	42	713
Discontinued operations owned and leased	61	411	54		526
	445	611	141	42	1,239
(£ million)					
Group					
Hotels			713	526	1,239
Soft Drinks				671	671
Total revenue			713	1,197	1,910

*Year ended December 31, 2005**

Segmental result

	Americas	EMEA	Asia Pacific	Central	Total Hotels
(£ million)					
Hotels					
Owned and leased	14	(5)	11		20
Managed	20	31	16		67
Franchised	186	26	2		214
Regional and central	(34)	(21)	(8)	(65)	(128)
Continuing operations	186	31	21	(65)	173
Discontinued operations owned and leased	12	73	11		96
	198	104	32	(65)	269

	Continuing	Discontinued	Group
	(£ million)		
Group			
Hotels	173	96	269
Soft Drinks		70	70
	173	166	339
Other operating income and expenses	(22)		(22)
Operating profit	151	166	317
Net finance costs	(24)	(9)	(33)
Profit before tax	127	157	284
Tax	(24)	(56)	(80)
Profit after tax	103	101	204
Gain on disposal of assets, net of tax		311	311
Profit for the year	103	412	515

* Other than for Soft Drinks which reflects the 50 weeks and three days ended December 14.

*Year ended December 31, 2005**

Assets and liabilities

	Americas	EMEA	Asia Pacific	Central	Total Hotels	Soft Drinks	Total Group
	(£ million)						
Segment assets	689	987	346	88	2,110		2,110
Non-current assets classified as held for sale	21	258			279		279
	710	1,245	346	88	2,389		2,389
Unallocated assets:							
Current tax receivable					22		22
Cash and cash equivalents					324		324
Total assets					2,735		2,735
Segment liabilities	340	261	50		651		651
Liabilities classified as held for sale	1	33			34		34

	341	294	50	685	685
Unallocated liabilities:					
Current tax payable				324	324
Deferred tax payable				210	210
Loans and other borrowings				412	412
Total liabilities				1,631	1,631

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Other segmental information

	Americas	EMEA	Asia Pacific	Central	Total Hotels	Soft Drinks	Total Group
(£ million)							
Continuing operations:							
Capital expenditure ⁽ⁱ⁾	22	19	28	13	82		82
Additions to:							
Property, plant and equipment	12	15	30	6	63		63
Intangible assets	27	51	9	7	94		94
Depreciation and amortization ⁽ⁱⁱ⁾	19	15	8	15	57		57
Impairment of property, plant and equipment		7			7		7
Discontinued operations:							
Capital expenditure ⁽ⁱ⁾	6	44	4		54	47	101
Additions to:							
Property, plant and equipment	4	33	4		41	36	77
Intangible assets						7	7
Depreciation and amortization ⁽ⁱⁱ⁾	1	24	3		28	45	73

* Other than for Soft Drinks which reflects the 50 weeks and three days ended December 14.

(i) Comprises purchases of property, plant and equipment, intangible assets and other financial assets and acquisitions of subsidiaries as included in the cash flow statement.

(ii) Included in the £130 million of depreciation and amortization is £23 million relating to administrative expenses and £107 million relating to cost of sales.

Year ended December 31, 2004**

Revenue

	Americas	EMEA	Asia Pacific	Central	Total Hotels
(£ million)					
Hotels					
Owned and leased	80	116	50		246
Managed	30	43	21		94
Franchised	196	27	3		226
Central				40	40
Continuing operations	306	186	74	40	606
Discontinued operations owned and leased	189	643	60		892
	495	829	134	40	1,498
			Continuing	Discontinued	Group

	(£ million)		
Group			
Hotels	731	767	1,498
Soft Drinks		706	706
Total revenue	731	1,473	2,204

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Segmental result

	Americas	EMEA	Asia Pacific	Central	Total Hotels
(£ million)					
Hotels					
Owned and leased	3	(11)	9		1
Managed	6	24	14		44
Franchised	167	21	2		190
Regional and central	(27)	(23)	(8)	(57)	(115)
Continuing operations	149	11	17	(57)	120
Discontinued operations owned and leased	24	118	7		149
	173	129	24	(57)	269

*Year ended December 31, 2004***

	Continuing	Discontinued	Group
(£ million)			
Group			
Hotels	120	149	269
Soft Drinks		77	77
	120	226	346
Other operating income and expenses	(49)		(49)
Operating profit	71	226	297
Net finance costs	(33)		(33)
Profit before tax	38	226	264
Tax	196	(69)	127
Profit after tax	234	157	391
Gain on disposal of assets, net of tax		19	19
Profit available for shareholders	234	176	410

** Other than for Soft Drinks which reflects the 53 weeks ended December 25.

Assets and liabilities

	Americas	EMEA	Asia Pacific	Central	Total Hotels	Soft Drinks	Total Group
	(£ million)						
Segment assets	583	1,202	437	86	2,308	458	2,766
Non-current assets classified as held for sale	424	1,402			1,826		1,826
	1,007	2,604	437	86	4,134	458	4,592
Unallocated assets:							
Current tax receivable					14		14
Cash and cash equivalents					60	12	72
Total assets					4,208	470	4,678
Segment liabilities	300	290	28		618	291	909
Liabilities classified as held for sale	24	124			148		148
	324	414	28		766	291	1,057
Unallocated liabilities:							
Current tax payable					248	13	261
Deferred tax payable					246	(12)	234
Loans and other borrowings					1,185	3	1,188
Total liabilities					2,445	295	2,740

*Year ended December 31, 2004****Other segmental information*

	Americas	EMEA	Asia Pacific	Central	Total Hotels	Soft Drinks	Total Group
	(£ million)						
Continuing operations:							
Capital expenditure ⁽ⁱ⁾	43	14	15	12	84		84
Additions to:							
Property, plant and equipment	32	16	10		58		58
Intangible assets	4		1	12	17		17
Depreciation and amortization ⁽ⁱⁱ⁾	11	14	6	15	46		46
Impairment of property, plant and equipment	14	30	4		48		48
Discontinued operations:							
Capital expenditure ⁽ⁱ⁾	17	81	5		103	70	173
Additions to:							

Property, plant and equipment	17	81	5	103	56	159
Intangible assets					16	16
Depreciation and amortization ⁽ⁱⁱ⁾	18	56	7	81	46	127

** Other than for Soft Drinks which reflects the 53 weeks ended December 25.

(i) Comprises purchases of property, plant and equipment, intangible assets and other financial assets of subsidiaries as included in the cash flow statement.

(ii) Included in the £173 million of depreciation and amortization is £23 million relating to administrative expenses and £150 million relating to cost of sales.

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Note 3 Staff costs and Directors' emoluments*Costs*

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(£ million)		
Wages and salaries	301	465	570
Social security costs	38	61	66
Pension and other post-retirement benefits:			
Defined benefit plans	6	19	21
Defined contribution plans	11	15	12
	356	560	669

Employee numbers

Average number of employees, including part-time employees:

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(Number)		
Hotels	11,456	18,995	26,835
Soft Drinks		2,991	2,824
	11,456	21,986	29,659

Employee benefits

Retirement and death in service benefits are provided for eligible employees in the United Kingdom principally by the InterContinental Hotels UK Pension Plan. The plan covers approximately 410 (2005 400) employees, of which 220 (2005 240) are in the defined benefit section which provides pensions based on final salaries and 190 (2005 160) are in the defined contribution section. The assets of the plan are held in self-administered trust funds separate from the Company's assets. The Company also maintains a US-based InterContinental Hotels Pension Plan and post-employment benefits scheme. This plan is now closed to new members and pensionable service no longer accrues for current employee members. In addition, the Company operates a number of minor pension schemes outside the United Kingdom, the most significant of which is a defined contribution scheme in the United States; there is no material difference between the pension costs of, and contributions to, those schemes.

On December 14, 2005, the Soft Drinks business, including the Britvic Pension Plan, was sold. The comparative information provided below includes movements for the Britvic Pension Plan up to the date of disposal.

The amounts recognized in the income statement are:

	Pension plans						Post-employment benefits			Total		
	UK			US								
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
Recognized in administrative expenses												
	(£ million)											
Current service costs	5	19	18							5	19	18
Past service costs			1									1
Interest cost on benefit obligation	13	30	27	5	6	5	1	1	1	19	37	33
Expected return on plan assets	(14)	(32)	(27)	(4)	(5)	(4)				(18)	(37)	(31)
	4	17	19	1	1	1	1	1	1	6	19	21
Recognized in other operating income and expense												
Plan curtailment		(7)									(7)	

The curtailment gain arose as a result of the sale of 73 UK hotel properties.

The amounts recognized in the consolidated statement of recognized income and expense are:

	Pension plans						Post-employment benefits			Total		
	UK			US								
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
Actuarial gains and losses												
	(£ million)											
Actual return on scheme assets	21	79	41	6	4	5				27	83	46
Less: expected return on scheme assets	(14)	(32)	(27)	(4)	(5)	(4)				(18)	(37)	(31)
	7	47	14	2	(1)	1				9	46	15
Other actuarial gains and losses	(12)	(67)	(60)		(3)	(5)	1	1	(1)	(11)	(69)	(66)
	(5)	(20)	(46)	2	(4)	(4)	1	1	(1)	(2)	(23)	(51)
Deficit transferred in respect of previous acquisition			(6)									(6)

The assets and liabilities of the schemes are:

	Pension plans				Post-employment benefits		Total	
	UK		US					
	2006	2005	2006	2005	2006	2005	2006	2005
	(£ million)							
Fair value of scheme assets	269	250	56	62			325	312
Present value of benefit obligations	(298)	(274)	(89)	(103)	(9)	(11)	(396)	(388)
Employee benefits liability	(29)	(24)	(33)	(41)	(9)	(11)	(71)	(76)
Comprising:								
Funded plans	(6)	(2)	(9)	(14)			(15)	(16)
Unfunded plans	(23)	(22)	(24)	(27)	(9)	(11)	(56)	(60)
	(29)	(24)	(33)	(41)	(9)	(11)	(71)	(76)

The principal assumptions used by the actuaries to determine the benefit obligation were:

	Pension plans						Post-employment benefits		
	UK			US					
	2006	2005	2004	2006	2005	2004	2006	2005	2004
	(%)								
Wages and salaries increases	4.6	4.3	4.3				4.0	4.0	4.0
Pensions increases	3.1	2.8	2.8						
Discount rate	5.0	4.7	5.3	5.8	5.5	5.8	5.8	5.5	5.8
Inflation rate	3.1	2.8	2.8						
Healthcare cost trend rate assumed for next year							10.0	9.0	9.5
Ultimate rate that the cost trend rate trends to							5.0	4.5	4.5

In 2017 the healthcare cost trend rate reaches the assumed ultimate rate. A one per cent point increase/(decrease) in assumed healthcare costs trend rate would increase/(decrease) the accumulated post-employment benefit obligations as of December 31, 2006, 2005 and 2004, by approximately £1 million, and would increase/(decrease) the total of the service and interest cost components of net post-employment healthcare cost for the period then ended by approximately £nil.

Post-retirement mortality (years)	Pension plans					
	UK			US		
	2006	2005	2004	2006	2005	2004
Current pensioners at 65 male ⁽ⁱ⁾	23	21	21	18	17	17
Current pensioners at 65 female ⁽ⁱ⁾	26	24	24	20	22	22
Future pensioners at 65 male ⁽ⁱⁱ⁾	24	22	22	18	17	17
Future pensioners at 65 female ⁽ⁱⁱ⁾	27	25	25	20	22	22

(i) Relates to assumptions based on longevity (in years) following retirement at the balance sheet date.

(ii) Relates to assumptions based on longevity (in years) relating to an employee retiring in 2026.

The post-retirement mortality assumptions allow for expected increases in longevity.

Movement in benefit obligation	Pension plans						Post-employment benefits		Total	
	UK			US						
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005

	(£ million)							
Benefit obligation at beginning of year	274	600	103	88	11	11	388	699
Current service cost	5	19					5	19
Past service cost								
Members' contributions	1	2					1	2
Interest expense	13	30	5	6	1	1	19	37
Benefits paid	(7)	(11)	(6)	(6)	(1)	(1)	(14)	(18)
Plan curtailment		(7)						(7)
Deficit transferred in respect of previous acquisition								
Actuarial loss/(gain) arising in the year	12	67		3	(1)	(1)	11	69
Separation of Soft Drinks		(426)						(426)
Exchange adjustments			(13)	12	(1)	1	(14)	13
Benefit obligation at end of year	298	274	89	103	9	11	396	388

The defined benefit obligation comprises £340 million (2005 £328 million) arising from plans that are wholly or partly funded and £56 million (2005 £60 million) arising from unfunded plans.

The combined assets of the principal schemes and expected rate of return were:

	2006		2005		2004	
	Long-term rate of return expected	Value	Long-term rate of return expected	Value	Long-term rate of return expected	Value
	(%)	(£ million)	(%)	(£ million)	(%)	(£ million)
UK Schemes						
Equities	7.9	128	7.5	125	8.0	272
Bonds	4.6	123	4.2	110	4.9	173
Other	7.9	18	7.5	15	8.0	25
Total market value of assets		269		250		470
US Schemes						
Equities	9.5	34	9.6	38	9.6	34
Fixed income	5.5	22	5.5	24	5.5	22
Total market value of assets		56		62		56

The expected rate of return on assets has been determined following advice from the plans' independent actuaries and is based on the expected return on each asset class together with consideration of the long-term asset strategy.

	Pension plans				Post-employment benefits		Total	
	UK		US					
	2006	2005	2006	2005	2006	2005	2006	2005
	(£ million)							
Fair value of plan assets at beginning of year	250	470	62	56			312	526
Company contributions	4	45	1	2	1	1	6	48
Members' contributions	1	2					1	2
Assets transferred in respect of previous acquisition								
Benefits paid	(7)	(11)	(6)	(6)	(1)	(1)	(14)	(18)
Expected return on assets	14	32	4	5			18	37
Actuarial gain/(loss) arising in the year	7	47	2	(1)			9	46
Separation of Soft Drinks		(335)						(335)
Exchange adjustments			(7)	6			(7)	6

Fair value of plan assets at end of year	269	250	56	62	325	312
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Normal company contributions are expected to be £7 million in 2007. In addition, the Company has agreed to pay special contributions of £40 million to the UK Pension Plan; £20 million in 2007, £10 million in 2008 and £10 million in 2009.

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History of experience gains and losses:

UK Pension plans	2006	2005	2004	2003
	(£ million)			
Fair value of scheme assets	269	250	470	353
Present value of benefit obligations	(298)	(274)	(600)	(477)
Deficit in the scheme	(29)	(24)	(130)	(124)
Experience adjustments arising on plan liabilities	(12)	(67)	(60)	
Experience adjustments arising on plan assets	7	47	14	

US Pension plans	2006	2005	2004	2003
	(£ million)			
Fair value of scheme assets	56	62	56	48
Present value of benefit obligations	(89)	(103)	(88)	(91)
Deficit in the scheme	(33)	(41)	(32)	(43)
Experience adjustments arising on plan liabilities		(3)	(5)	
Experience adjustments arising on plan assets	2	(1)	1	

US Post-employment benefits	2006	2005	2004	2003
	(£ million)			
Present value of benefit obligations	(9)	(11)	(11)	(11)
Experience adjustments arising on plan liabilities	1	1	(1)	

The cumulative amount of actuarial gains and losses recognized since January 1, 2004 in the statement of recognized income and expense is £76 million (2005 £74 million, 2004 £51 million). The Company is unable to determine how much of the pension scheme deficit recognized on transition to IFRS of £178 million and taken directly to total equity is attributable to actuarial gains and losses since inception of the schemes. Therefore, the Company is unable to determine the amount of actuarial gains and losses that would have been recognized in the statement of recognized income and expense before January 1, 2004.

Policy on remuneration of Executive Directors and senior executives

The following policy has applied throughout the year and, except where stated, will apply in future years, subject to ongoing review.

Total level of remuneration

The Remuneration Committee aims to ensure that remuneration packages are offered which:

attract high quality executives in an environment where compensation levels are based on global market practice;

provide appropriate retention strength against loss of key executives;

drive aligned focus and attention to key business initiatives and appropriately reward their achievement;

support equitable treatment between members of the same executive team; and

facilitate global assignments and relocation.

The Remuneration Committee is aware that, as the Company's primary listing is on the London Stock Exchange, IHG's incentive arrangements may be expected to recognize UK investor guidelines. However, given the global nature of the Hotels business, an appropriate balance needs to be drawn in the design of relevant remuneration packages between domestic and international expectations.

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The main components

The Company has performance-related reward policies. These are designed to provide the appropriate balance between fixed remuneration and variable risk reward, which is linked to the performance of both the Company and the individual. Company performance-related measures are chosen carefully to ensure a strong link between reward and true underlying financial performance, and emphasis is placed on particular areas requiring executive focus.

The normal policy for all Executive Directors is that, using target or expected value calculations, their performance-related incentives will equate to approximately 70% of total annual remuneration (excluding pensions & benefits).

The main components of remuneration are as follows:

Basic salary and benefits The salary for each Executive Director is reviewed annually and based on both individual performance and on the most recent relevant market information provided from independent professional sources on comparable salary levels. Internal relativities and salary levels in the wider employment market are also taken into account.

Basic salary is the only element of remuneration which is pensionable.

In addition, benefits are provided to Executive Directors in accordance with the policy applying to other executives in their geographic location.

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

size turnover, profits and the number of people employed;

diversity and complexity of businesses;

geographical spread of businesses; and

relevance to the hotel industry.

Annual Performance Bonus This has two elements the Short Term Incentive Plan (STI) and the Short Term Deferred Incentive Plan (STDIP). Both elements require the achievement of challenging performance goals before target bonus is payable.

The STI is linked to individual performance as measured by an assessment of comprehensive business unit deliverables, demonstrated leadership behaviours, and the achievement of specific Key Performance Objectives that are linked directly to the Company s strategic priorities. For Executive Directors, the target bonus opportunity under the STI in 2007 is 40% of salary, payable in cash.

The STDIP is linked to the Company s financial and operational performance. The target bonus opportunity under the STDIP in 2007 is 50% of salary of which half is linked to net annual room additions and half is linked to earnings before special items, interest and taxation.

It is possible for participants to earn maximum bonuses of double the targets under the STI and the STDIP. No bonus is payable if financial and operational performance is less than 90% of target and maximum bonus is payable if performance exceeds 110% of target.

Under the 2006 STDIP, 80% of bonus must be paid in shares and deferred. Participants may defer the remaining 20% of bonus on the same terms. For 2007, 100% of the bonus will be paid in shares and deferred. Matching shares may also be awarded up to half the total deferred amount. Any matching award is taken into account when the Remuneration Committee decides the basic level of payment under the STDIP. Therefore there is no separate performance test governing the vesting of matching awards. Such awards are, however, conditional on the Directors continued employment with the Company until the release date. The shares will normally be released at the end of the three years following deferral.

Performance Restricted Shares The Performance Restricted Share Plan (PRSP) allows Executive Directors and eligible employees to receive share awards, subject to the satisfaction of a performance condition, set by the Committee, which is normally measured over a three-year period. Awards are normally made annually and, other than in exceptional circumstances, will not exceed three times annual salary for Executive Directors.

For the 2006/08 PRSP cycle, performance will be measured by reference to:

the increase in IHG's Total Shareholder Return (TSR) over the performance period relative to nine* identified comparator companies: Accor, Hilton Hotels Corp., Choice, Marriott Hotels, Millennium & Copthorne, NH Hotels, Sol Melia, Starwood Hotels and Wyndham Worldwide; and

the cumulative annual growth in the number of rooms within the IHG system over the performance period relative to eight identified comparator companies: Carlson Hospitality Worldwide, Choice, Hilton Hotels Corp., Hyatt Hotels & Resorts, Marriott Hotels, Sol Melia, Starwood Hotels and Wyndham Worldwide.

* Following the delisting of De Vere Group Plc Shares in September 2006.

In respect of TSR performance, 10% of the award will be released for the achievement of fifth place within the TSR group and 50% of the award will be released for the achievement of first or second place. In respect of rooms growth performance, 10% of the award will be released for the achievement of median growth and 50% of the award will be released for the achievement of upper quartile growth. Vesting between all stated points will be on a straight line basis which is the simplest and fairest method of calculating awards that lie between threshold and maximum levels.

Awards under the PRSP lapse if the performance conditions are not met there is no retesting.

As indicated in last year's report, the Remuneration Committee believes that relative TSR and a rooms growth related performance measure are appropriate performance measures, effectively aligning appropriate elements of incentive pay with shareholder interests and the Company's stated objective of increasing organic growth and the number of rooms in the IHG system.

The target date for achieving the current rooms growth objective is the end of 2008 and therefore the Remuneration Committee has concluded that a rooms growth related measure is now more appropriately measured and awarded through the annual bonus plan. For the 2007/09 cycle, the performance measures for the PRSP will therefore be as follows:

50% of the award will continue to be based on IHG's TSR relative to its peer comparator companies. 10% of the award will be released for the achievement of median growth and 50% of the award will be released for the achievement of first place only (previously first or second place). Vesting between all stated points will continue to be on a straight line basis.

The other 50% of the award will depend on growth in adjusted earnings per share (EPS) over the period. 10% of the award will be released if adjusted EPS growth is 10% per annum and 50% of the award will be released if adjusted EPS growth is 20% per annum or more. There will be no adjustment for any increase in the UK Retail Price Index (RPI) because this does not significantly affect IHG's results.

Executive Share Options As reported last year, executive share options do not presently form part of the Company's remuneration strategy. Details of prior executive share option grants are given in the table on page F-40.

For options granted in 2004 and 2005, a performance condition has to be met before options can be exercised. For both grants, the Company's adjusted EPS over a three-year period must increase by at least nine percentage points over the increase in RPI for the same period for one-third of the options granted to vest; 12 percentage points over the increase in RPI for the same period for two-thirds of the options granted to vest; and 15 percentage points over the increase in RPI for the same period for the full award to vest.

Share Ownership The Remuneration Committee believes that share ownership by Executive Directors and senior executives strengthens the link between the individual's personal interest and that of the shareholders.

The Executive Directors are expected to hold all shares earned (net of any share sales required to meet personal tax liabilities) from the Company's remuneration plans while the value of their holding is less than twice their base salary or three times in the case of the Chief Executive.

Policy on external appointments

The Company recognizes that its Directors may be invited to become Non-Executive Directors of other companies and that such duties can broaden experience and knowledge, and benefit the business. Executive Directors are, therefore, allowed to accept one Non-Executive appointment (excluding positions where the Director is appointed as the Group's representative), subject to Board approval, as long as this is not likely to lead to a conflict of interest, and to retain the fees received.

Andrew Cosslett is Non-Executive Chairman of Duchy Originals Limited, for which he receives no remuneration.

Contracts of service

a) Policy

The Remuneration Committee's policy is for Executive Directors to have rolling contracts with a notice period of 12 months. Andrew Cosslett, Richard Hartman, Stevan Porter and Richard 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 period reducing to 12 months may be used, following guidance in the Combined Code.

No provisions for compensation for termination following change of control, or 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.

David Webster's appointment as Non-Executive Chairman, effective from January 1, 2004, is subject to six months notice. All other Non-Executive Directors' appointments are subject to three months' notice.

b) Directors' contracts

Director	Contract effective date¹	Unexpired term/ notice period
Andrew Cosslett	02.03.05	12 months
Richard Hartman	04.15.03	6 months ²
Stevan Porter	04.15.03	12 months
Richard Solomons	04.15.03	12 months

1 Each of the Executive Directors signed a letter of appointment, effective from completion of the June 2005 capital reorganisation of the Company on the same terms as their original service agreements.

2 Richard Hartman is due to retire in September 2007. Having given contractual notice, his unexpired term of office as at the date of this report is six months.

Policy regarding pensions

Andrew Cosslett, Richard Solomons and other senior UK-based employees participate on the same basis in the executive section of the InterContinental Hotels UK Pension Plan and, if appropriate, the InterContinental Executive Top-Up Scheme. The latter is an unfunded arrangement, but with appropriate security provided via a fixed charge on a hotel asset. Currently, pensions benefits are provided from both the registered InterContinental Hotels UK Pension Plan and the unfunded InterContinental Executive Top-Up Scheme.

In response to the new pension regime resulting from the Finance Act 2004, from 2006 these plans were amended to continue to provide, tax efficiently, similar benefits in total, but with a different split of benefits between the two plans. As an alternative to these arrangements, a cash allowance may be taken.

Stevan Porter and senior US-based executives participate in US retirement benefits plans.

With effect from January 30, 2006, Richard Hartman ceased to be an active member of the InterContinental Hotels UK Pension Plan and InterContinental Executive Top-Up Scheme, and from that date participates in the InterContinental Hotels Group International Savings and Retirement Plan. Executives in other countries participate in these plans or local plans.

Directors emoluments

	Base			Total emoluments excluding pensions	
	salaries and fees	Performance payments ¹	Benefits ²	1.1.06 to 12.31.06	1.1.05 to 12.31.05
	£000	£000	£000	£000	£000
Executive Directors					
Andrew Cosslett	688	549	31	1,268	663
Richard Hartman	503	203	299	1,005	798
Stevan Porter ³	427	290	9	726	429
Richard Solomons	440	351	15	806	423
Non-executive Directors					
David Webster ⁴	350		4	354	522
David Kappler ⁵	80			80	80
Ralph Kugler ⁶	50			50	50
Jennifer Laing ⁶	50			50	18
Robert C. Larson ⁶	50			50	50
Jonathan Linen ⁶	50			50	4
Sir David Prosser ⁷	65			65	65
Sir Howard Stringer ⁸	43			43	50
Former directors⁹			1	1	917
Total	2,796	1,393	359	4,548	4,069

1 Performance payments include bonus awards in cash in respect of participation in the Short Term Incentive (STI) Plan and the Short Term Deferred Incentive Plan (STDIP) but exclude bonus awards in deferred shares and any matching shares, details of which are set out in the STDIP table on page F-36.

2 Benefits incorporate all tax assessable benefits arising from the individual s employment. For Messrs Cosslett, Hartman and Solomons, this relates in the main to the provision of a fully expensed company car and private healthcare cover. In addition, Mr. Hartman received housing, child education and other expatriate benefits. For Stevan Porter, benefits relate in the main to private healthcare cover and financial counselling.

3 Emoluments for Stevan Porter include £51,413 that was chargeable to UK income tax.

- 4 With effect from January 1, 2007, David Webster is paid an annual fee of £390,000.
- 5 With effect from January 1, 2007, David Kappler is paid a total annual fee of £95,000, reflecting his roles as Senior Independent Director and Chairman of the Audit Committee.
- 6 With effect from January 1, 2007, an annual fee of £60,000 is payable to each of Ralph Kugler, Jennifer Laing, Robert C. Larson and Jonathan Linen. All fees due to Ralph Kugler are paid to Unilever.
- 7 With effect from January 1, 2007, Sir David Prosser is paid a total annual fee of £80,000, reflecting his role as Chairman of the Remuneration Committee.
- 8 Sir Howard Stringer resigned as a Director on November 10, 2006.
- 9 Sir Ian Prosser retired as a Director on December 31, 2003. However, he had an ongoing healthcare benefit of £1,027 during the year.

Long-term Reward*Short-Term Deferred Incentive Plan (STDIP)*

Messrs Cosslett, Hartman, Porter and Solomons participated in the STDIP during the year ended December 31, 2006, and received an award on February 26, 2007.

Directors pre-tax interests during the year were:

	STDIP shares held at 1.1.06	STDIP shares awarded during the year 1.1.06 to 12.31.06	Award date	Market price per share at award	STDIP shares vested during the year 1.1.06 to 12.31.06	Vesting date	Market price per share at vesting	Value at vesting	STDIP shares held at 12.31.06	Planned vesting date	Value based on share price of 1262.0p at 12.31.06
							£				£
Directors											
Andrew Cosslett	39,916 ₁		4.1.05	617.5p	39,916	4.3.06	942p	376,009			
	39,916 ₁		4.1.05	617.5p					39,916	4.1.07	503,740
		105,276 _{3,7}	3.8.06	853.67p					32,168	3.8.07	405,961
									32,167	3.8.08	405,948
									32,168	3.8.09	405,961
Total									136,419		1,721,610
Richard Hartman	29,447 ₂		3.16.05	654p	29,447	3.16.06	891.58p	262,544			
	29,447 ₂		3.16.05	654p					29,447	3.16.07	371,622
	29,447 ₂		3.16.05	654p					29,447	3.16.08	371,622
		64,518 _{4,7}	3.8.06	853.67p					19,714	3.8.07	248,791
									19,714	3.8.08	248,791
									19,713	3.8.09	248,779
Total									118,035		1,489,605
Stevan Porter	26,978 ₂		3.16.05	654p	26,978	3.16.06	891.58p	240,530 ₈			
	26,978 ₂		3.16.05	654p					26,978	3.16.07	340,463
	26,978 ₂		3.16.05	654p					26,978	3.16.08	340,463
		67,557 _{5,7}	3.8.06	853.67p					20,643	3.8.07	260,515
									20,642	3.8.08	260,503
									20,642	3.8.09	260,503
Total									115,883		1,462,447
Richard Solomons	29,020 ₂		3.16.05	654p	29,020	3.16.06	891.58p	258,737			

29,020 ₂	3.16.05	654p	29,020	3.16.07	366,233
29,021 ₂	3.16.05	654p	29,021	3.16.08	366,246
67,296 _{6,7}	3.8.06	853.67p	20,563	3.8.07	259,506
			20,562	3.8.08	259,493
			20,563	3.8.09	259,506

Total			119,729		1,510,984
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- 1 This special award was made to Andrew Cosslett as part of his overall recruitment terms. The shares vest in equal portions on the first and second anniversary of the award date, subject to his continued employment until that time. The first half of the award vested on April 3, 2006 and the second half of the award is due to vest on April 2, 2007.
- 2 This award was based on financial year 2004 performance where the performance measures were related to earnings per share (EPS), earnings before interest and tax (EBIT) and personal performance. Total Shares held include matching shares.
- 3 This award was based on financial year 2005 performance and the bonus target was 50% of base salary. Andrew Cosslett was awarded 70% of his bonus target for EPS performance, 69.4% of his bonus target for Group EBIT performance and 45% of his bonus target for his personal performance. Andrew Cosslett's total bonus was therefore 184.4% of his bonus target. One matching share was awarded for every two bonus shares earned.
- 4 This award was based on financial year 2005 performance and the bonus target was 50% of base salary. Richard Hartman was awarded 70% of his bonus target for EPS performance, 46.2% of his bonus target for EMEA EBIT performance and 30% of his bonus target for

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his personal performance. Richard Hartman's total bonus was therefore 146.2% of his bonus target. One matching share was awarded for every two bonus shares earned.

- 5 This award was based on financial year 2005 performance and the bonus target was 50% of base salary. Stevan Porter was awarded 70% of his bonus target for EPS performance, 64.4% of his bonus target for The Americas EBIT performance and 45% of his bonus target for his personal performance. Stevan Porter's total bonus was therefore 179.4% of his bonus target. One matching share was awarded for every two bonus shares earned.
- 6 This award was based on financial year 2005 performance and the bonus target was 50% of base salary. Richard Solomons was awarded 70% of his bonus target for EPS performance, 69.4% of his bonus target for Group EBIT performance and 45% of his bonus target for his personal performance. Richard Solomons' total bonus was therefore 184.4% of his bonus target. One matching share was awarded for every two bonus shares earned.
- 7 These share interests were in InterContinental Hotels Group PLC 10p ordinary shares prior to the share consolidation effective from June 12, 2006. For every eight existing InterContinental Hotels Group PLC shares held on June 9, 2006, shareholders received seven new ordinary shares of 11³/₇p each and 118p per existing ordinary share. As a consequence, shares held at December 31, 2006 have been reduced accordingly.
- 8 The value of Stevan Porter's shares at vesting includes £17,037 that was chargeable to UK income tax.

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Performance Restricted Share Plan (PRSP)

In 2006, there were three cycles in operation and one cycle which vested.

The awards made in respect of the Performance Restricted Share Plan cycles ending on December 31, 2005, December 31, 2006, December 31, 2007 and December 31, 2008 and the maximum pre-tax number of ordinary shares due if performance target are achieved in full are set out in the table below. In respect of the cycle ending on December 31, 2006, the Company finished in third place in the TSR group and achieved ROCE growth of 98.2%. Accordingly, 62.4% of the award vested on February 21, 2007.

	Maximum PRSP shares awarded	Award date	Market price per share at award	PRSP shares vested	Market price per share at vesting	Value at vesting	Actual/ planned vesting date	Maximum PRSP shares held at 12.31.06	Maximum value based on share price of 1262.0p at 12.31.06	Expected value based on share price at 12.31.06
	1.1.06 to 12.31.06			1.1.06 to 12.31.06		£		£	£	
Directors										
Andrew Cosslett	68,216 ₁	4.1.05	617.5p	29,196	858p	250,502	3.3.06			
	136,432 ₂	4.1.05	617.5p				2.21.07	136,432	1,721,772	1,074,386 ₈
	276,200 ₃	6.29.05	706p				2.20.08	276,200	3,485,644	
	200,740 ₄	4.3.06	941.5p				2.18.09	200,740	2,533,339	
Total								613,372	7,740,755	
Richard Hartman	167,900 ₁	6.18.03	445p	71,861	858p	616,567	3.3.06			
	165,130 ₂	6.24.04	549.5p				2.21.07	165,130	2,083,941	1,300,380 ₈
	214,870 ₃	6.29.05	706p				2.20.08	214,870	2,711,660	
	146,110 ₄	4.3.06	941.5p				2.18.09	146,110	1,843,909	
Total								526,110	6,639,510	
Stevan Porter	170,710 ₁	6.18.03	445p	73,063	858p	626,881 ₇	3.3.06			
	142,290 ₂	6.24.04	549.5p				2.21.07	142,290	1,795,700	1,120,517 ₈
	174,900 ₃	6.29.05	706p				2.20.08	174,900	2,207,238	
	132,240 ₄	4.3.06	941.5p				2.18.09	132,240	1,668,869	
Total								449,430	5,671,807	
Richard Solomons	165,160 ₁	6.18.03	445p	70,688	858p	606,503	3.3.06			

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144,990 ₂	6.24.04	549.5p					2.21.07	144,990	1,829,774	1,141,779 ₈
176,550 ₃	6.29.05	706p					2.20.08	176,550	2,228,061	
	128,470 ₄	4.3.06	941.5p				2.18.09	128,470	1,621,292	

Total 450,010 5,679,127

Former Directors

Richard North	259,545 _{1,5}	6.18.03	445p	111,085	858p	953,109	3.3.06			
	144,993 _{2,5}	6.24.04	549.5p				2.21.07	144,993	1,829,812	1,141,803 ₈

Total 144,993 1,829,812

Sir Ian Prosser	65,410 _{1,6}	6.18.03	445p	27,995	858p	240,197	3.3.06			
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Total

Total 27,561,011

1 This award was based on performance to December 31, 2005 where the performance measure related to both the Company's Total Shareholder Return (TSR) against a group of 11 other comparator companies and growth in return on capital employed (ROCE). The number of shares released was graded, according to a) where the Company finished in the TSR comparator group, with 50% of the award being released for first or second position and 10% of the award being released for sixth place, and b) growth in ROCE, with 50%

of the award being released for 80% growth and 10% of the award being released for 30% growth. The Company finished in fifth place in the TSR group and achieved ROCE growth of 46%. Accordingly 42.8% of the award vested on March 3, 2006.

- 2 This award is based on performance to December 31, 2006 where the performance measure relates to both the Company's TSR against a group of eight other comparator companies and growth in ROCE. The number of shares released is graded, according to a) where the Company finishes in the TSR comparator group, with 50% of the award being released for first or second position and 10% of the award being released for fifth place; and b) growth in ROCE, with 50% of the award being released for 141.6% growth and 10% of the award being released for 70% growth.
- 3 This award is based on performance to December 31, 2007 where the performance measure relates to both the Company's TSR against a group of eight other comparator companies and the relative cumulative annual growth rate of rooms in the IHG system.
- 4 This award is based on performance to December 31, 2008 where the performance measure relates to both the Company's TSR against a group of nine other comparator companies and the relative cumulative annual growth of rooms in the IHG system.
- 5 Richard North's awards were pro-rated to reflect his contractual service during the applicable performance periods.
- 6 Sir Ian Prosser's award was pro-rated to reflect his actual service during the applicable performance period.
- 7 The value of Stevan Porter's shares at vesting includes £44,404 that was chargeable to UK income tax.
- 8 The Company finished in third place in the TSR group and achieved ROCE growth of 98.2%. Accordingly, 62.4% of the award vested on February 21, 2007.

Share options

In 2003, Directors and other executives with outstanding options under the Six Continents Executive Share Option Schemes were permitted to roll over those options into options of equivalent value over shares. In 2003, a grant of options was made under the IHG all-employee Sharesave Plan. In 2003, 2004 and 2005, grants of options were made under the IHG Executive Share Option Plan.

	Ordinary shares under option					Weighted	
	Options held at 1.1.06 or date of appointment	Granted during the year	Lapsed during the year	Exercised during the year	Options held at 12.31.06	average option price	Option price
Directors						(pence)	(pence)
Andrew Cosslett	157,300				157,300 ₁	619.83	
Total	157,300				157,300	619.83	
Richard Hartman	952,832			136,795		458.66	349.13
				105,332			422.81
				122,261			434.22
				250,684			438.00
					337,760 ₁	538.37	
Total	952,832			615,072	337,760	538.37	
Stevan Porter	576,513			254,883 ₃		490.34	438.00
					321,630 ₁	531.82	
Total	576,513			254,883	321,630	531.82	
Richard Solomons	574,365 ₂			239,726		494.24	438.00
					334,639 _{1,2}	531.10	
Total	574,365			239,726	334,639	531.10	

1 Where options are not yet exercisable. Sharesave options granted in 2003 are exercisable for six months from March 2009. Executive share options granted in 2004 are exercisable between April 2007 and April 2014. Executive share options granted in 2005 are exercisable between April 2008 and April 2015. The performance condition relating to both the 2004 and 2005 grants of executive share options is set out on page F-33.

2 Includes 3,769 Sharesave options granted in 2003.

3 The value of Stevan Porter's shares on exercise includes £91,778 that was chargeable to UK income tax.

Option prices range from 308.48 pence to 619.83 pence per share. The closing market value share price on December 29, 2006 was 1262.00 pence and the range during the year was 806.69 pence to 1265.00 pence per share.

The gain on exercise by Directors in aggregate was £6,662,750 in the year ended December 31, 2006 (£1,658,109 in the year ended December 31, 2005). The market value share prices on the exercise of options by Richard Hartman, Stevan Porter and Richard Solomons were 1047.34 pence, 946.35 pence and 1054.12 pence per share, respectively.

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Directors' shareholdings

	December 31, 2006 InterContinental Hotels Group PLC ordinary shares of 11³/₇ pence³	January 1, 2006¹ InterContinental Hotels Group PLC ordinary shares of 10 pence
Executive Directors		
Andrew Cosslett	42,063	7,332
Richard Hartman		70,117
Stevan Porter	114,446	64,589
Richard Solomons	104,247	60,339
Non-executive Directors		
David Kappler	1,669	1,908
Ralph Kugler	572	654
Jennifer Laing	872	
Robert C Larson	6,874 ₂	7,857 ₂
Jonathan Linen	8,750 ₂	
Sir David Prosser	2,863	3,273
David Webster	31,975	31,823

1 These share interests were in InterContinental Hotels Group PLC 10 pence ordinary shares prior to the share consolidation effective from June 12, 2006. For every eight existing InterContinental Hotels Group PLC shares held on June 9, 2006, shareholders received seven new ordinary shares of 11³/₇ pence each and 118 pence per existing ordinary share.

2 Held in the form of American Depositary Receipts.

3 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.

At December 31, 2006, the Executive Directors of the Company, as potential beneficiaries under the Company's Employee Benefit Trust (the Trust), were each technically deemed to be interested in 1,324,110 unallocated shares held by the Trust (2,924,775 Shares as at December 31, 2005). In the period from December 31, 2006 to March 16, 2007, a further 1,543,646 shares were released from the Trust. The Directors hold a residual interest to 2,410,526 shares in total.

The Company's Register of Directors' Interests, which is open to inspection at the Registered Office, contains full details of Directors' shareholdings and share options.

Directors' pensions

The following information relates to the pension arrangements provided for Messrs Cosslett, Hartman and Solomons under the executive section of the InterContinental Hotels UK Pension Plan (the IC Plan) and the unfunded InterContinental Executive Top-Up Scheme (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 1/30th 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.

Richard Hartman, who reached the IC Plan normal pension age of 60 on January 30, 2006, ceased to be an active member of the IC Plan and ICETUS with effect from the date, and instead participates in the InterContinental Hotels Group International Savings and Retirement Plan (IS&RP), which is a Jersey-based defined contribution plan to which the Company contributes.

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Stevan Porter has retirement benefits provided via the 401(k) Retirement Plan for employees of Six Continents Hotels Inc. (401(k)) and the Six Continents Hotels Inc. Deferred Compensation Plan (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.

Directors pension benefits

	Age at 12.31.06	Directors contributions in the year (note 1) £	Transfer value of accrued benefits		Increase in transfer value over the year, less Directors contributions	Increase in accrued pension (note 2) £ pa	Increase in accrued pension (note 3) £ pa	Accrued pension at 12.31.06 (note 4) £ pa
			1.1.06	12.31.06				
			£	£	£			
Directors								
Andrew Cosslett	51	28,300	266,900	595,300	300,100	24,200	23,600	43,800
Richard Hartman	60	1,300	1,848,200	1,935,400	85,900	8,100	5,600	94,700
Richard Solomons	45	19,500	1,227,100	1,470,200	223,900	24,500	21,000	143,800

note 1: Contributions paid in the year by the Directors under the terms of the plans. Contributions increased in April 2006 under the new pensions regime, to 5% of full pensionable salary.

note 2: The absolute increase in accrued pension during the year.

note 3: The increase in accrued pension during the year excluding any increase for inflation, on the basis that increases to accrued pensions are applied at October 1.

note 4: Accrued pension is that which would be paid annually on retirement at 60, based on service to December 31, 2006, except that for Richard Hartman the figure shown is the pension at age 60, increase to allow for its late payment.

The figures shown in the above table relate to the final salary plans only. For defined contribution plans, the contributions made by and in respect of Stevan Porter during the year are:

	Director's contribution to		Company's contribution to	
	DCP	401(k)	DCP	401(k)

	£	£		£	£
Stevan Porter	43,300	6,000	Stevan Porter	80,900	4,900

The Company contributions made in respect of Richard Hartman to the IS&RP during the year are £183,100. He made no contributions.

Note 4 Auditor s Remuneration paid to Ernst & Young LLP

	Year ended December 31, 2006	Year ended December 31, 2005
	(£ million)	
Audit fees	0.9	1.0
Audit fees in respect of subsidiaries	1.4	2.1
Tax fees	0.7	0.6
Fees in respect of reporting under Sarbanes Oxley Act	1.0	
Interim review fees	0.2	0.2
Other services pursuant to legislation	0.1	0.8
Corporate finance fees	0.1	1.8
Other	0.8	0.7
	5.2	7.2

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 United Kingdom and United States 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.

Note 5 Special Items

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(£ million)		
Other operating income and expenses			
Gain on sale of investment ⁽ⁱ⁾	25		
Reversal of previously recorded impairment ⁽ⁱⁱ⁾	2		
Impairment of property, plant and equipment ⁽ⁱⁱⁱ⁾		(7)	(48)
Restructuring costs ^(iv)		(13)	(11)
Property damage ^(v)		(9)	
Employee benefits curtailment gain ^(vi)		7	
Reversal of previously recorded provisions ^(vii)			20
Provision for investment in associates ^(viii)			(16)
Provision for investment in other financial assets			(2)
Write back of provision for investment in other financial assets			8
	27	(22)	(49)
Financing			
Financial income ^(ix)			22
Financial expenses ^(x)			(16)
Financial expense on early settlement of debt ^(xi)			(17)
			(11)
Tax			
Tax (charge)/credit on other operating income and expenses	(6)		22
Special tax credit ^(xii)	100	8	161
	94	8	183
Gain on disposal of assets			
Gain on disposal of assets	123	349	15
Tax (charge)/credit	(6)	(38)	4

The above items are treated as special by reason of their size or incidence (see Note 9).

(i) Gain on the sale of the Company's investment in FelCor Lodging Trust, Inc.

(ii) Relates to the reversal of impairment in value of an associate investment.

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- (iii) Property, plant and equipment were written down by £7 million in 2005 (2004 £48 million) following an impairment review of the hotel estate.
- (iv) Restructuring costs relate to the delivery of the further restructuring of the Hotels business.
- (v) Damage to properties resulting from fire and natural disasters.
- (vi) A curtailment gain arising as a result of the sale of UK hotel properties.
- (vii) Following adoption of IAS 39 at January 1, 2005, adjustments to market value are recorded directly in equity. In 2004, under UK GAAP, the adjustment is a reversal of previously recorded provisions.
- (viii) Relates to an impairment in value of associate investments.
- (ix) Relates to interest on special tax refunds.
- (x) Relates to costs of closing out currency swaps and costs related to refinancing the Company's debt.
- (xi) Relates to premiums paid on the repurchase of the Company's public debt.
- (xii) Represents the release of provisions which are special by reason of their size or incidence relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired, principally relating to intra-group financing and internal restructuring, together with, in 2004 and 2006, credit in respect of previously unrecognized losses.

Note 6 Finance costs

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(£ million)		
Financial income			
Interest on tax refunds			22
Interest income	21	28	48
Fair value gains	5	2	
	26	30	70
Financial expenses			
Financial expense on early settlement of debt			17
Costs of closing out currency swaps and refinancing the Company's debt			16
Interest expense - Hotels	33	51	70
Interest expense - Soft Drinks		9	
Finance charge payable under finance leases	4		
	37	60	103
Fair value charge		3	

37

63

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Included within the Hotels interest expense is £10 million (2005 £5 million, 2004 £2 million) payable to the Company's loyalty program relating to interest paid on the accumulated balance of cash received in advance of the redemption of points awarded.

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Note 7 Tax*Income tax*

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(£ million)		
UK corporation tax at 30% (2005 30%; 2004 30%):			
Current period	16	11	23
Benefit of tax reliefs on which no deferred tax previously recognized	(10)		
Adjustments in respect of prior periods	(4)	(6)	(48)
	2	5	(25)
Foreign tax:			
Current period	72	149	62
Benefit of tax reliefs on which no deferred tax previously recognized	(1)	(2)	(9)
Adjustments in respect of prior periods	(94)	(19)	(82)
	(23)	128	(29)
Total current tax	(21)	133	(54)
Deferred tax:			
Origination and reversal of temporary differences	27	(3)	18
Changes in tax rates	(4)	(2)	(11)
Adjustments to estimated recoverable deferred tax assets	(13)	1	12
Adjustments in respect of prior periods	(24)	(11)	(96)
Total deferred tax	(14)	(15)	(77)
Total income tax on profit for the year	(35)	118	(131)
Further analyzed as tax relating to:			
Profit before special items	53	88	56
Special items (Note 5):			
Other operating income and expenses:			
Gain on sale of investment	6		
Impairment of property, plant and equipment			(14)
Restructuring costs			(8)
Provision for investment in other financial assets			3
Financing:			
Financial expense on early settlement of debt			(5)
Other			2

Special tax credit ⁽ⁱ⁾	(100)	(8)	(161)
Tax (credit)/charge	(41)	80	(127)
Gain on disposal of assets	6	38	(4)
	(35)	118	(131)

The total tax (credit)/charge can be further analyzed as relating to:

Profit on continuing operations	(50)	24	(196)
Profit on discontinued operations	9	56	69
Gain on disposal of assets	6	38	(4)
	(35)	118	(131)

- (i) Represents the release of provisions which are special by reason of their size or incidence relating to tax matters which have been settled or in respect of which the relevant statutory limitation period has expired, principally relating to intra-group financing and internal restructuring, together with, in 2004 and 2006, a credit in respect of previously unrecognized losses.

Tax reconciliations

Reconciliation of tax (credit)/charge on total profit, including gain on disposal of assets

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
		%	
UK corporation tax at standard rate	30.0	30.0	30.0
Permanent differences	3.7	1.3	1.5
Net effect of different rates of tax in overseas businesses	3.5	2.9	6.3
Effect of changes in tax rates	(1.0)	(0.3)	(3.9)
Benefit of tax reliefs on which no deferred tax previously recognized	(3.0)	(0.1)	(1.1)
Effect of adjustments to estimated recoverable deferred tax assets	(0.2)	0.1	4.3
Adjustment to tax charge in respect of prior periods	(6.9)	(4.5)	(22.6)
Other	0.4	(0.1)	0.6
Special items and gain on disposal of assets	(36.1)	(10.7)	(61.9)
	(9.6)	18.6	(46.8)

Note 8 Dividends paid and proposed

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(pence per share)			(£ million)		
Paid during the year:						
Final (declared in previous year)	10.70	10.00	9.45	46	61	70
Interim	5.10	4.60	4.30	18	20	29
Special interim	118.00		72.00	497		501
	133.80	14.60	85.75	561	81	600

Proposed for approval at the Annual General Meeting (not recognized as a liability at December 31):

Final	13.30	10.70	10.00	47	46	62
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The proposed final dividend is payable on the shares in issue at March 23, 2007.

Note 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.

On June 1, 2006, shareholders approved a share capital consolidation on the basis of seven new ordinary shares for every eight existing ordinary shares, together with a special dividend of 118 pence per existing ordinary share. The overall effect of the transaction was that of a share repurchase at fair value, therefore no adjustment has been made to comparative data.

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Adjusted earnings per ordinary share is disclosed in order to show performance undistorted by special items, to give a more meaningful comparison of the Company's performance.

	Year ended December 31, 2006		Year ended December 31, 2005		Year ended December 31, 2004	
	Continuing operations	Total	Continuing operations	Total	Continuing operations	Total
Basic earnings per share						
Profit available for equity holders (£ million)	267	405	103	496	234	383
Basic weighted average number of ordinary shares (millions)	389	389	521	521	710	710
Basic earnings per share (pence)	68.6	104.1	19.8	95.2	32.9	53.9
Diluted earnings per share						
Profit available for equity holders (£ million)	267	405	103	496	234	383
Diluted weighted average number of ordinary shares (millions) (see below)	399	399	533	533	718	718
Diluted earnings per share (pence)	66.9	101.5	19.3	93.1	32.6	53.3

	2006	2005	2004
	(millions)		
Diluted weighted average of ordinary shares is calculated as:			
Basic weighted average number of ordinary shares	389	521	710
Dilutive potential ordinary shares – employee share options	10	12	8
	399	533	718

	Year ended December 31, 2006		Year ended December 31, 2005		Year ended December 31, 2004	
	Continuing operations	Total	Continuing operations	Total	Continuing operations	Total
(£ million)						
Adjusted earnings per share						
Profit available for equity holders	267	405	103	496	234	383
Less adjusting items (Note 5):						
Other operating income and expenses	(27)	(27)	22	22	49	49

Financing					11	11
Tax on other operating income and expenses	6	6			(22)	(22)
Special tax credit	(100)	(100)	(8)	(8)	(161)	(161)
Gain on disposal of assets, net of tax		(117)		(311)		(19)
Adjusted earnings	146	167	117	199	111	241
Basic weighted average number of ordinary shares (millions)	389	389	521	521	710	710
Adjusted earnings per share (pence)	37.5	42.9	22.5	38.2	15.6	33.9
Diluted weighted average number of ordinary shares (millions)	399	399	533	533	718	718
Adjusted diluted earnings per share (pence)	36.6	41.8	21.9	37.3	15.5	33.6

Note 10 Property, Plant and Equipment

	Land and buildings	Fixtures, fittings and equipment	Plant and machinery	Total
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(£ million)

Year ended December 31, 2005

Cost:

At January 1, 2005	1,421	985	182	2,588
Exchange and other adjustments	34	13		47
Additions	15	107	18	140
Net transfers to non-current assets classified as held for sale	(163)	(150)		(313)
Disposals	(152)	(333)	(200)	(685)
Impairment		(7)		(7)
At December 31, 2005	1,155	615		1,770

Depreciation:

At January 1, 2005	(132)	(425)	(105)	(662)
Exchange and other adjustments		(14)		(14)
Provided	(11)	(88)	(17)	(116)
Net transfers to non-current assets classified as held for sale	10	58		68
On disposals	32	156	122	310
At December 31, 2005	(101)	(313)		(414)
Net book value at December 31, 2005	1,054	302		1,356

Year ended December 31, 2006

Cost:

At January 1, 2006	1,155	615		1,770
Exchange and other adjustments	(73)	(42)		(115)
Additions	104	82		186
Transfers to non-current assets classified as held for sale	(363)	(118)		(481)
Disposals	(2)	(31)		(33)
At December 31, 2006	821	506		1,327

Depreciation:

At January 1, 2006	(101)	(313)		(414)
Exchange and other adjustments	7	23		30
Provided	(7)	(41)		(48)
Transfers to non-current assets classified as held for sale	17	55		72
On disposals	2	28		30

At December 31, 2006	(82)	(248)	(330)
Net book value at December 31, 2006	739	258	997

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

At December 31, 2005 property, plant and equipment was written down by £7 million (2004 £48 million) following an impairment review of hotel assets based on current market trading conditions. No impairment, or subsequent reversal, was required at December 31, 2006.

The carrying value of land and buildings held under finance lease at December 31, 2006 is £93 million (2005 £nil).

Note 11 Held for Sale and Discontinued Operations

Hotels

During the year ended December 31, 2006, the Company sold 32 hotels (2005 112 hotels, 2004 10 hotels) continuing the asset disposal program commenced in 2003, and an additional 10 hotels and two associates were classified as held for sale. At December 31, 2006, four hotels (2005 26 hotels) and two associates (2005 nil) were classified as held for sale.

At December 31, 2006, an impairment loss of £3 million has been recognized on the remeasurement of a property that had previously been classified as held for sale. The loss, which reduced the carrying amount of the asset to fair value less costs to sell, has been recognized in the income statement in gain on disposal of assets. Fair value was determined by an independent property valuation.

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	Year ended December 31,		
	2006	2005	2004
Net assets of hotels on disposal			
		(£ million)	
Property, plant and equipment	648	1,961	100
Goodwill		20	
Net working capital	(22)	1	(1)
Cash and cash equivalents	31	16	
Loans and other borrowings	(10)		
Deferred tax	(117)	(121)	(5)
Minority equity interest	(13)		(11)
Company's share of net assets disposed of	517	1,877	83
Consideration			
Current year disposals:			
Cash consideration, net of cost paid	628	1,832	101
Deferred consideration	10	40	
Management contract value	30	82	
Other	(14)	(12)	(3)
	654	1,942	98
Net assets disposed of	(517)	(1,877)	(83)
Other, including tax and impairment	(20)	(38)	4
Gain on disposal of assets, net of tax	117	27	19
Net cash inflow			
Current year disposals:			
Cash consideration, net of costs paid	628	1,832	101
Cash disposed of	(31)	(16)	
Prior year disposal	23		
	620	1,816	101
Assets and liabilities held for sale			
Non-current assets classified as held for sale:			
Property, plant and equipment	40	279	1,826
Associates	10		
	50	279	1,826
Liabilities classified as held for sale:			
Deferred tax	(2)	(34)	(148)
Cash flows related to discontinued operations			

Operating profit before interest, depreciation and amortization	34	124	203
Investing activities	(8)	(54)	(78)
Financing activities	(25)	(16)	(3)

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Soft Drinks

During December 2005, the Company disposed of all of its interests in the Soft Drinks business with the initial public offering of Britvic plc.

	Year ended December 31, 2005
	(£ million)
Net liabilities of Soft Drinks on disposal	
Property, plant and equipment	234
Goodwill	18
Software	25
Inventories	36
Trade and other receivables	141
Cash and cash equivalents	1
Current liabilities	(162)
Borrowings	(341)
Employee benefits	(91)
Deferred tax	8
Minority equity interest	66
Company's share of net liabilities disposed of	(65)
Consideration	
Cash consideration, net of costs paid	221
Other	(2)
	219
Net liabilities disposed of	65
Gain on disposal of assets, net of tax	284
Net cash inflow	
Cash consideration, net of costs paid	221
Cash disposed of	(1)
	220

	Year ended December 31,		
	2006	2005	2004
	(£ million)		
Cash flows related to discontinued operations			
Operating profit before interest, depreciation and amortization		115	123
			210

Investing activities	(47)	(70)
Financing activities	162	(25)

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Note 12 Goodwill

	At December 31,	
	2006	2005
	(£ million)	
At January 1	118	152
Acquisition of subsidiary (note 31)	2	
Disposals		(44)
Exchange and other adjustments	(11)	10
At December 31	109	118

Goodwill arising on business combinations that occurred before January 1, 2005 was not restated on adoption of IFRS as permitted by IFRS 1.

Goodwill has been allocated to cash-generating units (CGUs) for impairment testing as follows:

	At December 31,	
	2006	2005
	(£ million)	
The Americas managed operations	72	82
Asia Pacific managed and franchised operations	37	36
	109	118

The Company 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. The key assumptions for the value in use calculations are those regarding discount rates and growth rates. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Growth rates are based on management expectations and industry growth forecasts. The growth rates used to determine cash flows beyond five years do not exceed the average long-term growth rate for the relevant markets.

The Americas managed operations

The Company prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolates cash flows for the following four years based on an estimated growth rate of 4% (2005 4%, 2004 5%). After this period, the terminal value of future cash flows is calculated based on a perpetual growth rate of approximately 3% (2005 3%, 2004 3%). The rate used to discount the forecast cash flow is 10.5% (2005 10.5%, 2004 10.5%).

Asia Pacific managed and franchised operations

The Company prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolates cash flows for the following four years based on an estimated growth rate of 15% (2005 15%, 2004 7%). After this period, the terminal value of future cash flows is calculated based on a

perpetual growth rate of approximately 4% (2005 4%, 2004 4%). The rate used to discount the forecast cash flows is 11.0% (2005 11.0%, 2004 11.0%).

With regard to the assessment of value in use, management believe that the carrying values of the CGUs would only exceed their recoverable amounts in the event of highly unlikely changes in the key assumptions.

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Note 13 Intangible assets

	Software	Management contracts	Other intangibles	Total
	(£ million)			
Year ended December 31, 2005				
Cost:				
At January 1, 2005	52		22	74
Additions	14	82	5	101
Disposals	(32)		(1)	(33)
Exchange and other adjustments	4	2	2	8
At December 31, 2005	38	84	28	150
Amortization:				
At January 1, 2005	(13)		(7)	(20)
Provided	(9)	(3)	(2)	(14)
On disposals	7			7
Exchange and other adjustments	(2)		(1)	(3)
At December 31, 2005	(17)	(3)	(10)	(30)
Net book value at December 31, 2005	21	81	18	120
Year ended December 31, 2006				
Cost:				
At January 1, 2006	38	84	28	150
Additions	10	30	13	53
Acquisition of subsidiary (note 32)	1	7		8
Disposals			(2)	(2)
Exchange and other adjustments	(6)	(4)	(3)	(13)
At December 31, 2006	43	117	36	196
Amortization:				
At January 1, 2006	(17)	(3)	(10)	(30)
Provided	(9)	(4)	(3)	(16)
Exchange and other adjustments	3		1	4
At December 31, 2006	(23)	(7)	(12)	(42)
Net book value at December 31, 2006	20	110	24	154

Note 14 Investments in associates

The Company holds six (2005 eight) investments accounted for as associates. The following table summarizes the financial information of the associates.

	At December 31, 2006	At December 31, 2005
	(£ million)	
Share of associates balance sheet		
Current assets	2	4
Non-current assets	50	93
Current liabilities	(5)	(9)
Non-current liabilities	(15)	(46)
Net assets	32	42
Share of associates revenue and profit		
Revenue	22	18
Net profit	2	1
Related party transactions		
Revenue from related parties	4	3
Amounts owed by related parties	1	2

Note 15 Other Financial Assets

	At December 31, 2006	At December 31, 2005
	(£ million)	
Non-current		
Equity securities available-for-sale	48	41
Other	48	72
	96	113
Current		
Equity securities available-for-sale	9	104
Derivatives	4	2
	13	106

Available-for-sale financial assets, which are held on the balance sheet at fair value, consist of equity investments in listed and unlisted shares. 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.

Other financial assets consist mainly of trade deposits made in the normal course of business. The deposits have been designated as loans and receivables and are held at amortized cost. Derivatives, including those within trade and other payables, are held on the balance sheet at fair value. The fair value is the estimated amount that the Company could expect to receive on the termination of the agreement, taking into consideration interest and exchange rates prevailing at the balance sheet date.

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Note 16 Inventories

	At December 31, 2006	At December 31, 2005
	(£ million)	
Finished goods	1	2
Consumable stores	2	1
	3	3

Note 17 Trade and other receivables

	At December 31, 2006	At December 31, 2005
	(£ million)	
Trade receivables	163	160
Other receivables	51	66
Other prepayments	23	26
	237	252

An allowance has been made for doubtful amounts of £39 million (2005 £38 million) in respect of trade receivables and £4 million (2005 £9 million) in respect of other receivables.

Note 18 Cash and cash equivalents

	At December 31, 2006	At December 31, 2005
	(£ million)	
Cash at bank and in hand	30	34
Short-term deposits	149	290
	179	324

Short-term deposits are highly liquid investments with an original maturity of three months or less, in various currencies.

Note 19 Trade and other payables

	At December 31, 2006	At December 31, 2005
	(£ million)	
Current		
Trade payables	47	84
Other tax and social security payable	26	12
Other payables	190	174
Accruals	139	186
Derivatives		6
Provisions (Note 24)		6
	402	468
Non-current		
Other payables	109	107
Provisions (Note 24)		
	109	107

Other payables includes £180 million (2005 £162 million) relating to the future redemption liability of the Company's loyalty program, of which £83 million (2005 £71 million) is classified as current and £97 million (2005 £91 million) as non-current.

Note 20 Loans and other borrowings

	At December 31, 2006			At December 31, 2005		
	Current	Non-current	Total	Current	Non-current	Total
	(£ million)					
Secured bank loans	4	3	7	2	36	38
Finance leases	3	94	97			
Unsecured bank loans	3	206	209		374	374
Other unsecured borrowings						
Total borrowings	10	303	313	2	410	412

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 £nil (2005 £15 million) repayable by instalment. Amounts shown as current are the mortgage repayments falling due within one year.

Finance leases

Finance lease liabilities, which relate to the 99 year lease on the InterContinental Boston, are payable as follows:

	At December 31, 2006	
	Minimum lease payments	Present value of payments
	(£ million)	
Less than one year	3	3
Between one and five years	33	24
More than five years	1,745	70
	1,781	97
Less amount representing finance charges	(1,684)	
	97	97

The Company 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.

Unsecured bank loans

Unsecured bank loans are borrowings under the Company's 2009 £1.1 billion Syndicated Facility and its short-term bilateral loan facilities. Amounts are classified as current where the loan facility expires within one year. These facilities contain financial covenants and as at the balance sheet date the Company was not in breach of the covenants.

Facilities provided by banks

	At December 31, 2006			At December 31, 2005		
	Utilized	Unutilized	Total	Utilized	Unutilized	Total
	(£ million)					
Committed	213	944	1,157	412	751	1,163
Uncommitted	3	36	39		14	14
	216	980	1,196	412	765	1,177

**At December
31,
2006 2005**

(£ million)

Unutilized facilities expire:		
within one year	86	39
after one year but before two years		
after two years	894	726
	980	765

Note 21 Financial risk management policies***Financial instruments***

The Company'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 center.

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The treasury function seeks to reduce the financial risk of the Company 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 Company's treasury risk management policy is to mitigate the adverse impact of movements in interest rates and foreign exchange rates.

The US dollar is the predominant currency of the Company's revenue and cash flows and movements in foreign exchange rates, particularly the US dollar and euro can affect the Company's reported profit, net assets and interest cover. To hedge this translation exposure the Company 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.

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 Company are in currencies that are freely convertible.

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 achieved through the use of interest rate swaps and options and forward rate agreements.

The treasury function ensures that the Company has access to sufficient funds to allow the implementation of the strategy set by the Board. At the year end, the Company had access to £944 million of undrawn committed facilities. Medium and long-term borrowing requirements are met through the £1.1 billion Syndicated Facility and short-term borrowing requirements are met from drawings under bilateral bank facilities. The Company 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 or investment policy in the near future. In addition, the Company had surplus cash of £179 million which is held in short-term deposits and cash funds which allow daily withdrawals of cash. Most of the Company's surplus funds are held in the United Kingdom or United States and there are no material funds where repatriation is restricted as a result of foreign exchange regulations. 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.

Sensitivities

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 £1 million (2005 £1 million, 2004 £2 million).

A general weakening of the US dollar (specifically a one cent rise in the sterling : US dollar rate) would have reduced the Company's profit before tax by an estimated £1 million (2005 £1 million).

Hedging

Interest rate risk

The Company hedges its interest rate risk by taking out interest rate swaps to fix the interest flows on between 25% and 75% of its borrowings in major currencies. At December 31, 2006 the Company held interest rate swaps with notional principals of US \$100 million and 80 million (2005 US \$200 million, 160 million). The interest rate swaps are designated as cash flow hedges of borrowings under the syndicated loan facility and they are held on the balance sheet at fair value in other financial assets and other payables.

Changes in cash flow hedge fair values are recognized in the unrealized gains and losses reserve to the extent that the hedges are effective. When the hedged item is recognized, the cumulative gains and losses on the hedging instrument are recycled to the income statement.

Foreign currency risk

The Company is exposed to foreign currency risk on income streams denominated in foreign currencies. When appropriate, the Company hedges a portion of forecast foreign currency income and asset disposal proceeds by taking out forward exchange contracts. When hedge accounting is applied, the spot foreign exchange rate is designated as the hedged risk and so the Company takes the forward points on these contracts through financial income or expense.

Forward contracts are held at fair value on the balance sheet as other financial assets and other payables.

During the year, a £3 million (2005 £nil, 2004 £nil) foreign exchange gain was recognized in finance income, relating to gains on forward contracts that were not classified as hedging instruments under IAS 39. During 2005, gains of £6 million were recycled to the income statement from the unrealized gains and losses reserve in respect of effective hedges.

Hedge of net investment in a foreign operation

The Company 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; the interest on these financial instruments is taken through financial income or expense and the derivatives are held on the balance sheet at fair value in other financial assets and other payables. Variations in fair value due to changes in the underlying exchange rates are taken to the currency translation reserve until an operation is sold, at which point the cumulative currency gains and losses are recycled against the gain or loss on sale.

Note 22 Financial Instruments*Interest rate risk*

For each class of interest bearing financial asset and financial liability, the following table indicates the range of interest rates effective at the balance sheet date, the carrying amount on the balance sheet and the periods in which they reprice, if earlier than the maturity date.

As at December 31, 2006	Effective interest rate	Total carrying amount	Repricing analysis			
			Less than 6 months	6 months -1 year	1-2 years	More than 5 years
	(%)					
Cash and cash equivalents	0.0-5.2	(179)	(179)			
Secured bank loans (floating)	8.5	7	7			
Obligations under finance leases	9.7	97				97
Unsecured bank loans:						
Euro floating rate	4.0	54	54			
effect of euro interest rate swaps*	(1.0)		(54)		54	
US dollar floating rate	5.7	53	53			
effect of US dollar interest rate swaps*	(1.2)		(51)		51	
Sterling floating rate	5.6	102	102			
Net debt		134	(68)		105	97
Foreign exchange contracts		(4)	(4)			
		130	(72)		105	97

* These items bear interest at a fixed rate.

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As at December 31, 2005	Effective interest rate	Total carrying amount	Less than 6 months	Repricing analysis		
				6 months 1 year	1 2 years	More than 5 years
	%			(£ million)		
Cash and cash equivalents	0.0	4.5	(324)	(324)		
Secured bank loans (fixed)*	6.5	7.8	28		28	
Secured bank loans (floating)	2.9	8.5	10	10		
Unsecured bank loans:						
Euro floating rate	2.9		141	141		
effect of euro interest rate swaps*	(0.4)			(55)	55	
US dollar floating rate	4.7		162	162		
effect of US dollar interest rate swaps*	0.2			(87)	87	
Hong Kong dollar floating rate	4.7		71	71		
Net debt			88	(82)	87	83
Effect of currency swaps:						
Receive and pay fixed*	(1.5)		3	3		
Receive and pay floating	(2.0)		2	2		
			93	(77)	87	83

* These items bear interest at a fixed rate.

Interest rate swaps are included in the above tables to the extent that they effect the Company's interest rate repricing risk. The swaps hedge the floating rate debt by fixing the interest rate, shown above as the effect on the debt's floating rate, on an amount equal to their notional principal, for a period of time represented by the figures in each column. The fair values of derivatives are recorded in other financial assets and other payables.

No currency swaps were held at December 31, 2006.

The future redemption liability relating to the Company's loyalty program incurs interest at US dollar LIBOR.

Fair values

The table below compares carrying amounts and fair values of the Company's financial instruments.

	At December 31, 2006		At December 31, 2005	
	Carrying value	Fair value	Carrying value	Fair value
(£ million)				
Financial assets				
Cash and cash equivalents (note 18)	179	179	324	324
Equity securities available-for-sale (note 15)	57	57	145	145
Derivatives (note 15)	4	4	2	2
Other financial assets (note 15)	48	48	72	72
Financial liabilities				
Borrowings, excluding finance lease liabilities (note 20)	(216)	(216)	(412)	(412)
Liabilities under finance leases (note 20)	(97)	(97)		
Derivatives (note 19)			(6)	(6)

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 on the balance sheet at fair value as set out in note 15. The fair value of other financial assets approximates book value based on prevailing market rates. The fair value of borrowings, excluding finance lease liabilities, approximates book value as interest rates reset to market rates on a frequent basis. The fair value of the finance lease liability is deemed to be its carrying value as the inception of the lease was shortly before December 31, 2006.

Trade and other receivables and trade and other payables are not included in the above tables as their carrying value approximates to their fair value, including the future redemption liability of the Company's loyalty program.

Note 23 Share-based payments**Short Term Deferred Incentive Plan**

The IHG Short Term Deferred Incentive Plan (STDIP) 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 up to half the deferred amount. The bonus and matching shares in the 2004 and 2005 plans are deferred and released in three equal tranches on the first, second and third anniversaries of the award date. The bonus and matching shares in the 2006 plan are released on the third anniversary of the award date. Under the 2006 plan a percentage of the award (Board members 80%; other eligible employees 50%) must be taken in shares and deferred. Participants may defer the remaining amount on the same terms or take it in cash. The cash portion is accrued for in liabilities. The awards in all of the plans are conditional on the participants remaining in the employment of a participating company. Participation in the STDIP 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 and conditional rights over 569,293⁽ⁱ⁾ (2005 624,508) shares were awarded to participants.

Performance Restricted Share Plan

The Performance Restricted Share Plan (PRSP) allows Executive Directors and eligible employees to receive share awards, subject to the satisfaction of a performance condition, set by the Remuneration Committee, which is normally measured over a three year period. Awards are normally made annually and,

(i) Adjusted for the share capital consolidation on June 12, 2006.

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except in exceptional circumstances, will not exceed three times salary for Executive Directors and four times salary in the case of other eligible employees. In determining the level of awards within this maximum limit, the Remuneration Committee takes into account the level of Executive Share Options granted to the same person. During the year, conditional rights over 4,277,550 (2005 5,173,633) 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 and is normally measured over a three year period. The performance condition is set by the Remuneration Committee. The plan was not operated in 2006 and no options were granted in the year under the plan. The latest date that any options may be exercised is 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 United Kingdom 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 2005 or 2006 and no options were granted in the year under the plan. The latest date that any options may be exercised under the three-year plan is February 29, 2008 and under the five-year plan is February 28, 2010.

US Employee Stock Purchase Plan

The US Employee Stock Purchase Plan will allow eligible employees resident in the United States an opportunity to acquire Company American Depositary Shares (ADSs) on advantageous terms. The plan, when operational, will comply with Section 423 of the US Internal Revenue Code of 1986. 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 2005 or 2006 and at December 31, 2006 no options had been granted under the plan.

Former Six Continents Share Schemes

Under the terms of the Separation 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 308.48 pence to 593.29 pence. The exchanged options were immediately exercisable and are not subject to performance conditions. During 2006, 3,678,239 (2005 4,138,482,) such options were exercised, leaving a total of 4,055,674 (2005 7,909,002; 2004 12,568,562) such options outstanding at prices ranging from 308.48 pence to 593.29 pence for 2005 and 2006. The latest date that any options may be exercised is October 2012.

Under IFRS the Company recognized a cost of £18 million (2005 £17 million, 2004 £12 million) related to equity settled share-based payment transactions during the year. Under US GAAP, the Company recognized a cost of £57 million (2005 £17 million, 2004 £12 million).

The aggregate consideration in respect of ordinary shares issued under option schemes during the year was £20 million (2005 £10 million, 2004 £16 million).

The Company has a policy of repurchasing shares on the open market to satisfy share option exercises. The aim of the policy is to maintain a shareholding of approximately three million shares. All share option exercises are issued from the employee share trust.

The following table sets forth awards and options granted during 2006. No awards were granted under the Executive Share Option Plan, Sharesave Plan or US Employee Stock Purchase Plan during the year.

	Short Term Deferred Incentive Plan	Performance Restricted Share Plan
Number of shares awarded in 2006	569,293	4,277,550

In 2006, 2005 and 2004, the Company used separate option pricing models and assumptions for each plan. The following tables set forth information about how the fair value of each option is calculated:

2006	Short Term Deferred Incentive Plan⁽ⁱⁱⁱ⁾	Performance Restricted Share Plan
Valuation model	Binomial	Monte Carlo Simulation and Binomial
Weighted average share price	831.0p	946.0p
Expected dividend yield		2.32%
Risk-free interest rate		4.9%
Volatility ⁽ⁱ⁾		20%
Term (years) ⁽ⁱⁱ⁾	2.0	3.0

2005	Short Term Deferred Incentive Plan⁽ⁱⁱⁱ⁾	Performance Restricted Share Plan	Executive Share Option Plan
Valuation model	Binomial	Monte Carlo Simulation and Binomial	Binomial
Weighted average share price	652.8p	702.0p	627.0p
Exercise price			620.0p
Expected dividend yield	2.73%	3.18%	3.62%
Risk-free interest rate		4.10%	4.69%
Volatility ⁽ⁱ⁾		23%	28%
Term (years) ⁽ⁱⁱ⁾	2.0	3.0	6.5

2004	Short Term Deferred Incentive Plan⁽ⁱⁱⁱ⁾	Performance Restricted Share Plan	Executive Share Option Plan
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Valuation model	Binomial	Monte Carlo Simulation and Binomial	Binomial
Weighted average share price	498.0p	550.0p	494.0p
Exercise price			494.0p
Expected dividend yield	3.74%	3.49%	3.81%
Risk-free interest rate			4.73%
Volatility ⁽ⁱ⁾			31.33%
Term (years) ⁽ⁱⁱ⁾	2.8	3.0	6.5

- (i) The expected volatility was determined by calculating the historical volatility of the Company's share price corresponding to the expected life of the option or share award.
- (ii) The expected term of the options is taken to be the mid point between vesting and lapse, as historical exercise patterns have shown this to be appropriate.

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(iii) Awards made under the STDIP are structured as nil cost share awards and expected volatility and risk free rate do not impact the fair value calculation of these awards. The employees are entitled to receive dividend equivalents over the vesting period and, therefore, the expected dividend yield assumption is not required.

Movements in the awards and options outstanding under the schemes for the years ended December 31, 2006, December 31, 2005 and December 31, 2004 are as follows:

	Short Term Deferred Incentive Plan	Performance Restricted Share Plan
	Number of shares	Number of shares
	(thousands)	
Outstanding at January 1, 2004	107	5,445
Granted	231	2,665
Vested	(47)	
Lapsed or canceled	(50)	(375)
Outstanding at December 31, 2004	241	7,735
Granted	625	5,174
Vested	(32)	(1,278)
Lapsed or canceled	(5)	(997)
Outstanding at December 31, 2005	829	10,634
Granted	569	4,277
Vested	(328)	(1,395)
Lapsed or canceled	(69)	(2,191)
Outstanding at December 31, 2006	1,001	11,325
Fair value of awards granted during the period		
At December 31, 2006	894.5p	287.0p
At December 31, 2005	649.1p	117.0p
At December 31, 2004	448.3p	125.1p
Weighted average remaining contract life (years)		
At December 31, 2006	1.0	1.3
At December 31, 2005	1.1	1.2
At December 31, 2004	1.7	1.0

The above awards do not vest until the performance conditions have been met.

	Sharesave Plan				Executive Share Option Plan			
	Number of shares	Range of option prices	Weighted Aggregate		Number of shares	Range of option prices	Weighted Aggregate	
			average option price	intrinsic value			average option price	intrinsic value
	thousands	pence	pence	£ million	thousands	pence	pence	£ million
Options outstanding at January 1, 2004	1,373	420.5	420.5		27,220	295.3-593.3	424.9	
Granted					6,951	494.2	494.2	
Exercised					(7,430)	295.3-593.3	408.2	
Lapsed or canceled	(111)	420.5	420.5					
Options outstanding at December 31, 2004	1,262	420.5	420.5	0.3	26,741	308.5-593.3	447.6	5.3
Granted					2,105	619.8	619.8	
Exercised	(118)	420.5	420.5		(4,138)	308.5-593.3	429.1	
Lapsed or canceled	(280)	420.5	420.5		(2,089)	345.6-619.8	465.3	
Options outstanding at December 31, 2005	864	420.5	420.5	0.4	22,619	308.5-619.8	465.4	8.5
Exercised	(389)	420.5	420.5		(8,365)	308.5-619.8	438.7	
Lapsed or canceled	(310)	420.5	420.5		(175)	345.6-619.8	404.6	
Options outstanding at December 31, 2006	165	420.5	420.5	0.1	14,079	308.5-619.8	482.2	11.0
Options exercisable								
At December 31, 2006					6,002	308.5-619.8	430.2	5.0
At December 31, 2005					8,710	308.5-619.8	434.3	3.5
At December 31, 2004					12,569	308.5-593.3	426.4	1.7
Fair value of options granted during the period								
At December 31, 2005					164.0p			
At December 31, 2004					136.0p			
Weighted average remaining contract life (years)								

	Sharesave Plan		Executive Share Option Plan	
	Outstanding	Exercisable	Outstanding	Exercisable
At December 31, 2006	0.8		6.4	5.1
At December 31, 2005	1.9		6.9	5.2
At December 31, 2004	2.8		7.3	4.6

Included within the options outstanding of the Executive Share Option Plan are options over 4,055,674 (2005 7,909,002; 2004 12,568,562) shares that have not been recognized in accordance with IFRS 2 as the options were granted on or before November 7, 2002. These options 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 969.4 pence. The closing share price on December 29, 2006 was 1,262.0 pence and the range during the year was 806.7 pence to 1,265.0 pence per share.

Summarized information about options outstanding at December 31, 2006 under the share option schemes is as follows:

Range of exercise prices (pence)	Options outstanding			Options exercisable	
	Number	Weighted average remaining	Weighted average	Number	Weighted average
	outstanding	contract life	option price	exercisable	option price
	thousands	years	pence	thousands	pence
Sharesave Plan					
420.5	165	0.8	420.5		
Executive Share Option Plan					
308.5 to 353.8	735	3.5	343.3	734	343.3
353.9 to 498.0	11,396	6.5	468.1	5,033	436.2
498.1 to 619.8	1,948	7.5	616.8	235	595.0
	14,079	6.4	482.2	6,002	430.2

	For the year ended December 31,	
	2006	2005
	(£ million)	
Intrinsic value of options exercised in the year		
Short term deferred incentive plan	5.6	0.2
Performance restricted share plan	7.2	4.8
Sharesave plan	1.9	0.3
Executive share option plan	17.8	8.0
	32.5	13.3
Fair value of shares vested during the year		
Short term deferred incentive plan	1.7	0.2
Performance restricted share plan	6.2	
Sharesave plan		
Executive share option plan	9.3	
	17.2	0.2

As of December 31, 2006, there was £29.8 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2 years.

Cash received from option exercises under all share-based payment arrangements for the years ended December 31, 2006, 2005 and 2004, was £18.9 million, £11.7 million, and £15.2 million respectively. The actual tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled £12.6 million, £20.7 million and £50.0 million respectively, for the years ended December 31, 2006, 2005 and 2004.

Note 24 Provisions

	Hotels reorganization^(a)	Onerous contracts^(b)	Total
(£ million)			
At January 1, 2005			
Current	4	1	5
Non-current	4	2	6
	8	3	11
Income statement		(1)	(1)
Expenditure	(4)		(4)
At December 31, 2005 all current			
Income statement	(2)		(2)
Expenditure	(2)	(2)	(4)

At December 31, 2006

(a) Relates to the Hotels reorganization charged to the non-operating special item in 2003.

(b) Primarily relates to onerous fixed lease contracts acquired with the InterContinental hotels business.

Note 25 Deferred tax payable

	Property, plant and equipment	Deferred gains on loan notes	Losses	Employee benefits	Intangible assets	Other short-term temporary differences*	Total
(£ million)							
At January 1, 2004							
Disposals	(5)						(5)
Income statement	(17)		(77)	17	5	(5)	(77)
Statement of recognized income and expense				(14)			(14)
Exchange and other adjustments	(5)	(1)	1		2	4	1
At December 31, 2004							
Disposals	(150)		(113)	(39)	(30)	(50)	(382)
Income statement	(87)		(11)	(5)	32	56	(15)
Statement of recognized income and expense				(5)		(2)	(7)
Exchange and other adjustments	1		1	(1)	(3)	(1)	(3)

At December 31, 2005	256	122	(123)	(16)	(1)	6	244
Disposals	(126)		2			7	(117)
Income statement	(2)	(26)	31	(1)	16	(32)	(14)
Statement of recognized income and expense				1		(27)	(26)
Acquisition of subsidiary (note 31)					1		1
Exchange and other adjustments	(9)	(4)	1	2	1	2	(7)
At December 31, 2006	119	92	(89)	(14)	17	(44)	81

* Other short-term temporary differences relate primarily to provisions and accruals and share-based payments.

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	At December 31,		
	2006	2005	2004
	(£ million)		
Analyzed as:			
Deferred tax payable	79	210	234
Liabilities classified as held for sale	2	34	148
At December 31	81	244	382

The deferred tax asset of £89 million (2005 £123 million; 2004 £113 million) recognized in respect of losses includes £64 million (2005 £89 million; 2004 £89 million) of capital losses available to be utilized against the realization of capital gains which are recognized as a deferred tax liability and £25 million (2005 £34 million; 2004 £24 million) in respect of revenue tax losses. Revenue losses include £1 million (2005 £nil; 2004 £nil) in respect of losses which arose during a period of hotel refurbishment and which are expected to be utilized against future operating profit.

Tax losses with a value of £192 million (2005 £282 million; 2004 £305 million), including capital losses with a value of £87 million (2005 £93 million; 2004 £98 million), have not been recognized as the realization of a benefit from use of these losses is uncertain or not currently anticipated. These losses may be carried forward indefinitely with the exception of £1 million (2005 £nil; 2004 £nil) which expires after seven years and £1 million (2005 £nil; 2004 £nil) which expires after 15 years.

Deferred tax assets of £6 million (2005 £19 million; 2004 £4 million) in respect of share-based payments, £7 million (2005 £7 million; 2004 £10 million) in respect of employee benefits and £17 million (2005 £11 million; 2004 £nil) in respect of other items have not been recognized as the timing of their realization and consequent use is uncertain or not currently anticipated and, in part, is dependent upon the outcome of European Union (EU) case law. Other items include £7 million (2005 £nil; 2004 £nil) which expire after nine years.

At December 31, 2006 the Company has not provided deferred tax in relation to temporary differences associated with undistributed earnings of subsidiaries. Quantifying the temporary differences is not practical. However, based on current enacted law and on the basis that the Company is in a position to control the timing and manner of realization of these temporary differences, no material additional tax liabilities are expected to arise.

Note 26 Minority equity interest

	Year ended December 31,		
	2006	2005	2004
	(£ million)		
At January, 1	20	117	139
Total recognized income and expense in the year		15	17
Dividends paid to minority interests	(1)	(177)	(26)
Disposal of hotels (Note 11)	(13)		(11)
Disposal of Soft Drinks business (Note 11)		66	
Acquisition of subsidiary (Note 31)	3		
Exchange and other adjustments	(1)	(1)	(2)
At December, 31	8	20	117

Note 27 Operating leases

During the year ended December 31, 2006, £39 million (2005 £62 million; 2004 £67 million) was recognized as an expense in the income statement in respect of operating leases.

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Total commitments under non-cancelable operating leases are as follows:

	At December 31, 2006	At December 31, 2005	At December 31, 2004
	(£ million)		
Due within one year	27	36	55
One to two years	21	31	51
Two to three years	19	25	47
Three to four years	14	19	38
Four to five years	9	14	31
More than five years	100	149	884
	190	274	1,106

The average remaining term of these leases, which generally contain renewal options, is approximately 18 years. No material restrictions or guarantees exist in the Company's lease obligations.

Note 28 Capital commitments

	At December 31, 2006	At December 31, 2005	At December 31, 2004
	(£ million)		
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	24	76	53

Note 29 Contingencies

Contingent liabilities not provided for in the financial statements relate to:

	At December 31, 2006	At December 31, 2005	At December 31, 2004
	(£ million)		
Guarantees	11	20	9

In limited cases, the Company may provide performance guarantees to third-party owners to secure management contracts. The maximum exposure under such guarantees is £142 million (2005 £134 million; 2004 £115 million). It is the view of the Directors that, other than to the extent that liabilities have been provided for in these financial statements, such guarantees are not expected to result in financial loss to the Company.

As of December 31, 2006, the Company had outstanding letters of credit of £31 million (2005 £18 million) mainly relating to self-insurance programs.

The Company may guarantee loans made to facilitate third-party ownership of hotels in which the Company has an equity interest and also a management contract. As of December 31, 2006, the Company was a guarantor of loans which could amount to a maximum of £13 million (2005 £15 million).

The Company has given warranties in respect of the disposal of certain of its former subsidiaries and hotels. It is the view of the Directors that, other than to the extent that liabilities have been provided for in these financial statements, such warranties are not expected to result in financial loss to the Company.

Note 30 Related party disclosures

Key management personnel comprises the Board and Executive Committee.

	Year ended December 31,		
	2006	2005	2004
	(£ million)		
Total compensation of key management personnel			
Short-term employment benefits	9.5	6.5	5.5
Post-employment benefits	0.5	0.2	0.2
Termination benefits		0.8	0.8
Equity compensation benefits	7.9	6.9	4.1
	17.9	14.4	10.6

There were no transactions with key management personnel during the years ended December 31, 2006, 2005 or 2004.

Note 31 Acquisition of subsidiary

On December 1, 2006, the Company acquired a 75% interest in ANA Hotels & Resorts Co., Ltd (subsequently renamed IHG ANA Hotels Group Japan LLC), a hotel management company based in Japan.

	Carrying values pre-acquisition	Fair value
	(£ million)	
Intangible assets	1	8
Current assets (excluding cash and cash equivalents)	4	4
Cash and cash equivalents	4	4
Trade and other payables	(3)	(3)
Current tax payable	(1)	(1)
Deferred tax payable		(1)
	5	11
Minority interest		(3)
Net assets acquired		8
Goodwill on acquisition		2
Consideration, satisfied in cash (including costs of £2 million)		10
Cash and cash equivalents acquired		(4)
Net cash outflow		6

Management contracts acquired have been recognized as intangible assets at their fair value. The residual excess over the net assets acquired is recognized as goodwill.

The operating profit of the joint venture from the date of acquisition to the balance sheet date was not material to the Company's results. If the acquisition had occurred on January 1, 2006, Company revenue would have been £16 million higher and operating profit would have been £2 million higher.

Note 32 Differences between International Financial Reporting Standards and United States Generally Accepted Accounting Principles

From January 1, 2005, as required by the European Union's IAS Regulation, the Company has prepared its Annual Report and Form 20-F in accordance with IFRS as adopted by the European Union (EU), which differ in certain respects from US generally accepted accounting principles (US GAAP). These differences relate principally to the following items, and the effect of each of the adjustments to profit for the financial year and net equity that would be required to reconcile to US GAAP is set out below.

IFRS as adopted by the EU differs in certain respects from IFRS as issued by the International Accounting Standards Board (IASB). However, the consolidated financial statements for the periods presented would be no different had the Company applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

This US GAAP information provides a reconciliation between profit available for IHG equityholders under IFRS and net income under US GAAP and between IHG shareholders' equity under IFRS and IHG shareholders' equity under US GAAP, respectively.

Under US GAAP, the Company has adopted two new accounting standards during the year: FAS No. 158

Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106 and 132R and FAS No. 123(R) Share-Based Payment. The impact of adopting these standards is described below.

Classification of borrowings

Under US GAAP, the amounts shown as repayable after one year for unsecured bank loans drawn under or supported by bank facilities with maturities of up to five years and amounting to £206 million (2005 £374 million) would be classified as current liabilities since the drawings on the facilities are repayable within one year.

Pensions and other postretirement benefits

Under IFRS, the amount charged to the income statement comprises the current service cost, the interest cost of the plan liabilities and the expected return on assets for the period. Any amounts arising from changes in actuarial assumptions and differences between expected and actual return on plan assets are recognized in the Group statement of recognized income and expense. Under US GAAP, a corridor approach to the recognition of actuarial gains and losses is applied, such that only actuarial gains and losses in excess of 10% of the greater of plan assets or obligations is recognized in the income statement and spread over the maximum period of the employees' remaining service period.

Under IFRS, any surplus or deficit in the fair value of plan assets over the present value of the benefit obligation is recorded as an asset or liability in the Company's balance sheet. Under US GAAP, the Company has adopted FAS No. 158 Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132R (FAS 158) effective December 31, 2006. FAS 158 requires the recognition of the over-funded and under-funded status of a defined benefit postretirement plan as an asset or liability in the balance sheet and the recognition of changes in that funded status in the year in which the changes occur through other comprehensive income. The funded status of a benefit plan is measured as the difference between the fair value of the plan assets and the projected benefit obligation. FAS 158 also requires an employer to measure its defined benefit plan assets and obligations as of the date of the employers' fiscal year end. Further information on the impact of adopting FAS 158 is given on page F-83. Following the adoption of FAS 158, there is now no difference between the amounts recognized in the balance sheet under IFRS and US GAAP.

Prior to the adoption of FAS 158, the accumulated benefit obligations of the benefit plans exceeded the fair value of the plans' assets. Under these circumstances, US GAAP required the recognition of the difference as a balance sheet liability and the elimination of any amounts previously recognized as a prepaid pension cost. An equal amount, but not exceeding the amount of unrecognized past service cost, was

recognized as an intangible asset with the offsetting balance reported in other comprehensive income as a minimum pension liability adjustment.

Intangible assets

Under IFRS, goodwill arising on acquisitions prior to October 1, 1998 was eliminated against equity. From October 1, 1998 to December 31, 2003 acquired goodwill was capitalized and amortized over a period not exceeding 20 years. Since January 1, 2004 goodwill has continued to be capitalized but is no longer amortized; instead it is subject to annual impairment testing.

Under US GAAP, goodwill arising on acquisitions prior to July 1, 2001 was capitalized and amortized over its estimated useful life, not exceeding 40 years. From October 1, 2002 goodwill and indefinite life intangible assets are not amortized but are reviewed annually for impairment.

Under IFRS, development costs and software are included in intangible assets. Under US GAAP, these assets are included in property, plant and equipment.

Under IFRS, purchase consideration which is contingent on future events is included in the cost of acquisition when receipt is probable and an amount can be reliably measured. Under US GAAP, contingent consideration is recognized when the related contingencies are resolved.

Under IFRS, when assets are sold and a purchaser enters into a management or franchise contract with the Company, the Company capitalizes an intangible asset as part of the gain or loss on disposal at an estimate of the fair value of the contract entered into. This value is amortized over the life of the contract. Under US GAAP, an intangible asset is not recognized as there remains continuing involvement in the hotel operations.

Property, plant and equipment

Under IFRS, the deemed cost at transition from UK GAAP on January 1, 2004 included prior year revaluations. Under US GAAP, property, plant and equipment are carried at historic cost less accumulated depreciation and impairment losses.

Under IFRS, depreciation is based on the book value of assets, including revaluation where appropriate. Prior to October 1, 1999, freehold hotels were not depreciated, as any charge would have been immaterial given that such properties were maintained, as a matter of policy, by a program of repair and maintenance such that their residual values were at least equal to their book values. From October 1, 1999, all properties were depreciated. There is now no difference between IFRS and US GAAP with regard to depreciation policies.

Under IFRS, impairment is measured by comparing the carrying value of property, plant and equipment with the higher of fair value less cost 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 risks specific to the asset. Under US GAAP, impairments of long-lived assets are assessed on the basis of undiscounted cash flows. If an impairment charge is required it is measured on the basis of discounted cash flows.

Under IFRS the Company recognizes a profit on disposal of property, plant and equipment provided substantially all the risks and rewards of ownership have transferred. For the purposes of US GAAP, the Company accounts for sales of real estate in accordance with FAS 66 Accounting for Sales of Real Estate . If there is significant continuing involvement with the property, any gain on sale is deferred and is recognized over the life of the long-term management contract retained on the property.

Prior to the IFRS transition date, cumulative foreign currency exchange gains and losses relating to the disposal of foreign operations were recorded within equity. Since January 1, 2004, foreign currency gains and losses are included in determining the profit or loss on disposal of foreign operations. At that date, the Company opted to set the currency translation reserve to nil. Under US GAAP, such gains and losses are also

included in determining the profit or loss on disposal but are tracked from the date of acquisition of the foreign operation.

Staff costs

The Company provides certain compensation arrangements in the US through a Rabbi Trust. Under IFRS, the net deficit is recorded as a provision and the net change in the underlying value of the assets and liabilities is recorded as a charge (or credit) to the income statement. Under US GAAP, the marketable securities held by the Rabbi Trust are accounted for in accordance with FAS 115 *Accounting for certain investments in Debt and Equity Securities*. The trust is shown gross in the balance sheet. The marketable securities held by the trust are recorded at market value and unrealized gains and losses are reported in other comprehensive income except for other than temporary movements which are recognized in the income statement.

Share-based Compensation

Under IFRS, the Company's employee share-based awards are all equity settled and the Company does not recognize a liability within the balance sheet for such arrangements. The IFRS income statement charge is based upon the grant date fair value of the share awards.

Under US GAAP, prior to January 1, 2006, the Company applied FAS No. 123 *Accounting for Stock-Based Compensation* (FAS 123) when accounting for its share-based awards. As applied to the Company there was no difference in the treatment of employee share arrangements between IFRS 2 and FAS 123.

The Company has adopted FAS 123(R) *Share-Based Payment* (FAS 123(R)) effective January 1, 2006. FAS 123(R) revises FAS 123 in a number of respects. Upon adoption of FAS 123(R), for awards which are classified as liability awards (see below), the Company is required to reclassify the FAS 123 historical compensation cost from equity to a balance sheet liability and to recognize the difference between this and the fair value of the liability through the income statement. The resultant cumulative effect of change in accounting principle has reduced net income for 2006 by £19 million (net of a £9 million tax benefit).

As is common practice in the UK, certain of the Company's employee share option plans contain inflation indexed earnings growth performance conditions. FAS 123(R) requires such plans to be accounted for under the liability method; under IFRS 2, they are accounted for as equity settled share awards. Under the liability method, in addition to recognizing a balance sheet liability, the income statement charge is based on the remeasurement of the fair value of each award at each reporting date until vesting whereas under IFRS the charge is calculated by reference to the grant date fair value.

For awards which are classified as equity awards, the cost is recognized from the grant date under FAS 123(R) and from the date of the commencement of the period over which any performance conditions are fulfilled under IFRS 2. Under both FAS 123(R) and IFRS 2 the cost is recognized until the date on which the relevant employees become fully entitled to the award.

The adoption of FAS 123(R) in 2006 has resulted in the recognition of incremental share-based compensation costs in 2006 of £39 million, a reduction in net income of £26 million (net of tax benefits of £13 million) and a reduction of both basic and diluted earnings per share from continuing operations of 6.7 pence and 6.5 pence respectively.

Under IFRS, the National Insurance liability payable on gains made by employees on the exercise of share options is accrued during the performance period of the share scheme, calculated using the market price of the Company's Shares at the balance sheet date. Under US GAAP, an accrual is only be recorded when the shares options are exercised and a liability exists.

Deferred tax

Under IFRS, the Company provides for deferred tax 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 Company does not control remittance, gains rolled over into the replacement assets, gains on previously revalued properties and other short-term temporary differences. Under US GAAP, deferred tax is computed on temporary differences between the tax bases and book values of assets and liabilities which will result in taxable or tax deductible amounts arising in future years. Deferred tax assets under IFRS are recognized to the extent that it is regarded as probable that the deductible temporary differences can be realized. Under US GAAP deferred tax assets are recognized in full and a valuation allowance is made to the extent that it is not more likely than not that they will be realized.

Under IFRS, a deductible temporary difference arises in respect of estimated future tax deductions on share-based payments based upon the share price at the balance sheet date. Any excess of the asset recognized over the cumulative compensation expense recorded in the income statement multiplied by the statutory tax rate is recorded directly in equity. Under US GAAP, a deferred tax asset in respect of future deductible amounts is calculated only to the extent of the cumulative compensation expense recorded to date in the income statement in accordance with FAS 123(R). Where actual tax deductions received upon exercise exceed the amount of any deferred tax asset the excess is recorded in equity. Where actual tax deductions are less than the deferred tax asset, the write-down of the asset is recorded against equity to the extent of previous tax benefits recorded in this account with any remainder recorded in the income statement. The pool of tax benefits as at January 1, 2006 has been calculated using the short-cut method option available under FSP FAS 123(R)-3.

Derivative financial instruments and hedging

The Company enters into derivative instruments to limit its exposure to interest rate and foreign exchange risk. In 2004 under IFRS transitional provisions, these instruments were measured at cost and accounted for as hedges, whereby gains and losses were deferred until the underlying transaction occurred. Under US GAAP, all derivative instruments (including those embedded in other contracts) are recognized on the balance sheet at their fair values. Changes in fair value are recognized in net income unless specific hedge criteria are met. The Company adopted both IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement from January 1, 2005. There is now no difference between IFRS and US GAAP with regard to derivatives entered into after January 1, 2005.

Guarantees

The Company gives guarantees in connection with obtaining long-term management contracts. Under IFRS, a contingent liability is not recognized. For the purposes of US GAAP, under Financial Accounting Standards Board Interpretation (FIN) 45 Guarantors Accounting and Disclosure Requirements for Guarantees, Including Direct Guarantees of Indebtedness of Others in the Year , at the inception of guarantees issued after December 31, 2002, the Company records the fair value of such guarantees as an asset and liability, which are amortized over the life of the contract.

Assets and liabilities held for sale

Under IFRS, assets and liabilities are classified as held for sale when the criteria under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are met. Under US GAAP, similar criteria are applied to held for sale assets. However, FAS 66 Accounting for Sales of Real Estate excludes any assets from being included as held for sale where there will be a continuing involvement in the asset.

Discontinued operations

Under IFRS, the results of operations arising from assets classified as held for sale are classified as discontinued operations when the results relate to a separate line of business, or 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. Under US GAAP, operations are classified as discontinued when they are classified as held for sale and when the Company no longer believes it will have a significant continuing involvement.

Net income in accordance with US GAAP

The significant adjustments required to convert profit available for IHG equity holders in accordance with IFRS to net income in accordance with US GAAP are:

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(£ million)		
Profit available for IHG equity holders in accordance with IFRS	405	496	383
Adjustments:			
Amortization of intangible assets	1	(1)	(3)
Impairment of property, plant and equipment	3	(17)	30
Disposal of property, plant and equipment	35	(107)	5
Depreciation of property, plant and equipment	(20)	(31)	(20)
Deferred revenue	14	15	5
Gain on held for sale equity investment	27		(28)
Pension costs	(6)	(20)	(9)
Staff costs	(30)	(1)	2
Change in fair value of derivatives ⁽ⁱ⁾	(2)	6	52
Provisions	(2)	(3)	(5)
Impairment of investment in associates	(2)		
Current and deferred tax:			
on above adjustments	13	16	4
methodology	69	(2)	(79)
	100	(145)	(46)
Minority share of above adjustments		4	3
	100	(141)	(43)
Net income in accordance with US GAAP before cumulative effect of change in accounting principle	505	355	340
Cumulative effect of change in accounting principle, net of tax	(19)		
Net income in accordance with US GAAP	486	355	340

See page F-75 for footnotes.

The condensed consolidated income statement presented below reflects the adjustments to attributable profit for the year.

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
(£ million, except per ADS amounts)			
Net sales	1,362	1,521	1,606
Operating and administrative expenses	(1,124)	(1,323)	(1,374)
Financial income and financial expenses	(11)	(24)	(33)
Income before income tax expense and minority interest	227	174	199
Income tax credit/(expense)	111	(56)	79
Gain/(loss) on disposal of assets, net of tax ^(iv)	167	(14)	3
Minority interest			(24)
Income from continuing operations before cumulative effect of change in accounting principle	505	104	257
Cumulative effect of change in accounting principle, net of tax ^(v)	(19)		
Discontinued operations:			
Result for period, net of tax ^(vi)		41	62
Surplus on disposal, net of tax ^(vii)		210	21
Net income	486	355	340
Per ordinary share and American Depositary Share			
Basic⁽ⁱⁱ⁾			
Continuing operations	129.8p	20.0p	36.2p
Cumulative effect of change in accounting principle	(4.9)p		
Discontinued operations		48.2p	11.7p
Net income	124.9p	68.2p	47.9p
Diluted⁽ⁱⁱⁱ⁾			
Continuing operations	127.2p	19.5p	35.7p
Cumulative effect of change in accounting principle	(4.8)p		
Discontinued operations		47.1p	11.5p
Net income	122.4p	66.6p	47.2p

- (i) Comprises net gains in the fair value of derivatives that do not qualify for hedge accounting of £nil (2005 £6 million, 2004 £50 million) and net losses reclassified from other comprehensive income of £2 million (2005 £nil, 2004 £2 million gain).

- (ii) Calculated by dividing net income in accordance with US GAAP by 389 million (2005 521 million, 2004 710 million) shares, being the weighted average number of ordinary shares in issue during the period. Each American Depositary Share represents one ordinary share.
- (iii) Calculated by adjusting basic net income in accordance with US GAAP to reflect both the future compensation on share-based payments and the notional exercise of the weighted average number of dilutive ordinary share options outstanding during the period. The resulting weighted average number of ordinary shares is 397 million (2005 533 million, 2004 720 million).
- (iv) Tax credit for the year ended December 31, 2006 of £6 million (2005 £3 million charge, 2004 £2 million credit).
- (v) Arises on the adoption of FAS 123(R) Share-Based Payment . Charge of £28 million, net of £9 million tax credit.
- (vi) Tax charge for the year ended December 31, 2006 of £nil (2005 £17 million, 2004 £29 million). Financial expenses for the year ended December 31, 2006 of £nil (2005 £9 million, 2004 £1 million).
- (vii) Tax charge for the year ended December 31, 2006 of £nil (2005 £28 million charge, 2004 £3 million credit).

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Comprehensive Income

Comprehensive Income under US GAAP is as follows:

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(£ million)		
Net income in accordance with US GAAP	486	355	340
Other comprehensive income:			
Transfer to Britvic of minimum pension liability on December 14, 2005, net of tax of £21 million		49	
Minimum pension liability, net of tax charge of £1 million (2005 £20 million credit, 2004 £1 million charge)	6	(48)	8
Change in valuation of marketable securities, net of tax credit of £7 million (2005 £6 million charge, 2004 £3 million charge)	(32)	9	29
Change in fair value of derivatives, net of tax credit of £nil (2005 £2 million credit, 2004 £nil)	3	(4)	(2)
Currency translation differences	(157)	(132)	83
	(180)	(126)	118
Comprehensive income in accordance with US GAAP	306	229	458

Movements in Accumulated Other Comprehensive Income amounts (net of related tax) are as follows:

	Defined benefit pension plans		Change in valuation of marketable securities	Derivative financial instruments gains/(losses)	Currency translation differences	Total
	Minimum pension liability	FAS 158 adoption				
	(£ million)					
At January 1, 2004	(72)		2	4	10	(56)
Movement in the year	8		29	(2)	83	118
At December 31, 2004	(64)		31	2	93	62
Movement in the year	1		9	(4)	(149)	(143)
At December 31, 2005	(63)		40	(2)	(56)	(81)
Movement in the year	6		(32)	3	(164)	(187)
Adjustment to initially apply FAS 158, net of tax	57	(79)			5	(17)

At December 31, 2006	(79)	8	1	(215)	(285)
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Of the £164 million (2005 £149 million) currency translation movement in the year ended December 31, 2006, £7 million (2005 £17 million) has been recorded in net income in accordance with US GAAP.

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Shareholders' equity in accordance with US GAAP

The significant adjustments required to convert IHG shareholders' equity in accordance with IFRS to IHG shareholders' equity in accordance with US GAAP are:

	At December 31, 2006	At December 31, 2005
	(£ million)	
IHG shareholders' equity in accordance with IFRS	678	1,084
Adjustments:		
Intangible assets:		
Cost: goodwill	703	761
other intangible assets	502	655
Accumulated amortization	(244)	(260)
	961	1,156
Intangible asset - minimum pension liability		1
	961	1,157
Property, plant and equipment:		
Cost	354	327
Assets classified as held for sale		21
Accumulated depreciation	(23)	(19)
	331	329
Investment in associates	9	
Other financial assets	(28)	(14)
Non-current assets classified as held for sale	(7)	(21)
Current assets:		
Other receivables	44	31
Current liabilities:		
Deferred income on property transactions	(13)	(15)
Other payables	16	8
Non-current liabilities:		
Deferred income on property transactions	(260)	(309)
Other payables	(98)	(41)
Provisions		4
Accrued pension liability		15
Deferred tax payable:		
on above adjustments	(133)	(204)
methodology	(4)	(10)
Liabilities held for sale		1
	818	931
Minority share of above adjustments	2	

	820	931
IHG shareholders equity in accordance with US GAAP	1,498	2,015

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Additional information required by US GAAP in respect of earnings per share

The following table sets forth the computation of basic and diluted earnings per share from continuing operations under US GAAP:

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
(£ million, except per ADS amounts)			
Numerator:			
For basic and diluted earnings per ordinary share and ADS			
Before cumulative effect of change in accounting principle	505	104	257
Cumulative effect of change in accounting principle, net of tax	(19)		
After cumulative effect of change in accounting principle	486	104	257
Denominator:			
Denominator for basic earnings per ordinary share and ADS	389	521	710
Effect of dilutive securities:			
Employee options and restricted stock awards	8	12	10
Denominator for diluted earnings per ordinary share and ADS	397	533	720
Basic earnings per ordinary share and ADS from continuing operations:			
Before cumulative effect of change in accounting principle	129.8p	20.0p	36.2p
Cumulative effect of change in accounting principle	(4.9)p		
After cumulative effect of change in accounting principle	124.9p	20.0p	36.2p
Diluted earnings per ordinary share and ADS from continuing operations:			
Before cumulative effect of change in accounting principle	127.2p	19.5p	35.7p
Cumulative effect of change in accounting principle	(4.8)p		
After cumulative effect in change in accounting principle	122.4p	19.5p	35.7p

Consolidated statement of cash flows

The consolidated statement of cash flows prepared under IFRS presents substantially the same information as that required under US GAAP but may differ with regard to classification of items within the statements.

Under IFRS, interest or dividends paid or received are classified as part of operating cash flows unless they are linked directly to specific items and they are then classified as part of either investing or financing

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cash flows to coincide with the specific item. Under US GAAP, all interest or dividends paid or received must be classified as operating activities. Under IFRS, income tax should be classified as operating cash flow unless the tax paid can be specifically identified with financing or investing activities. Under US GAAP, income tax must be classified as an operating cash flow.

The categories of cash flow activity under US GAAP can be summarized as follows:

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(£ million)		
Cash inflow from operating activities	230	302	444
Cash inflow/(outflow) on investing activities	620	1,863	(151)
Cash outflow from financing activities	(1,002)	(1,906)	(631)
(Decrease)/increase in cash and cash equivalents	(152)	259	(338)
Effect of foreign exchange rate changes	7	(7)	(1)
Cash and cash equivalents			
At start of the fiscal year	324	72	411
At end of the fiscal year	179	324	72

Additional information required by US GAAP in respect of the Group's principal pension plans

The pension cost for these plans computed in accordance with the requirements of US GAAP comprises:

	UK pension benefits			US pension benefits			US postretirement benefits		
	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(£ million)								
Service cost	5	20	17						
Interest cost	13	30	26	5	5	5	1	1	1
Expected return on plan assets	(14)	(33)	(25)	(4)	(4)	(4)			
Net amortization and deferral	4	5	7	2					
Recognized net actuarial gain					2	2			
Net periodic pension cost	8	22	25	3	3	3	1	1	1

The major assumptions used in computing the pension expense were:

	UK pension benefits			US pension benefits			US postretirement benefits		
	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended
	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,
	2006	2005	2004	2006	2005	2004	2006	2005	2004

Expected long-term rate of return on plan assets	6.10%	5.80%	6.90%	8.00%	8.00%	8.00%			
Discount rate	5.00%	4.70%	5.30%	5.80%	5.50%	5.75%	5.80%	5.50%	5.75%
Expected long-term rate of earnings increases	4.60%	4.30%	4.30%	3.50%	3.50%	3.50%	4.00%	4.00%	4.00%

The assumed discount rates were determined by reference to published long-term bond indices at a maturity appropriate to the anticipated timing of expected benefit payments.

The plans' expected return on assets is based on the Company's expectations of long-term average rates of return to be achieved by the underlying investment portfolios. In establishing this assumption, management

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considers historical and expected returns for the asset classes in which the plans are invested, as well as current economic and capital market conditions.

The assumed health care cost trends rates for medical and dental plans at December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
Health care cost trend rate assumed for next year	10.0%	9.0%	9.5%
Rate that the cost trend rate gradually declines to	5.0%	4.5%	4.5%
Year that rate reaches the assumed ultimate rate	2017	2015	2014

A one-percentage point increase/(decrease) in assumed health care costs trend rate would increase/ (decrease) the accumulated post employment benefit obligations as of December 31, 2006, 2005 and 2004, by £1 million, and would increase/(decrease) the total of the service and interest cost components of net post-employment health care cost for the period then ended by approximately £nil million.

The following table sets forth movements in the projected benefit obligation and fair value of plan assets.

	UK pensions benefits		US pensions benefits		US postretirement benefits	
	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005
Change in benefit obligation						
	(£ million)					
Benefit obligation at beginning of year	275	600	102	89	12	11
Service cost	5	20				
Members contributions	1	2				
Interest expense	13	30	5	5	1	1
Benefits paid	(7)	(11)	(6)	(6)	(1)	(1)
Curtailments		(7)				
Actuarial loss arising in the year	12	67		3	(1)	
Separation of Britvic		(426)				
Exchange and other	(1)		(12)	11	(1)	1
Benefit obligation at end of year	298	275	89	102	10	12
Accumulated benefit obligation (all vested)	284	264	88	100		

UK pensions benefits

US pensions benefits

US postretirement benefits

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005
Changes in plan assets						
	(£ million)					
Fair value of plan assets at beginning of year	251	472	61	55		
Contributions payable	4	46	2	2	1	1
Members contributions	1	2				
Benefits paid	(7)	(11)	(6)	(6)	(1)	(1)
Actual return on assets	21	77	6	3		
Separation of Britvic		(335)				
Exchange	(1)		(7)	7		
Fair value of plan assets at end of year	269	251	56	61		

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	UK pensions benefits		US pensions benefits		US postretirement benefits	
	Year ended	Year ended	Year ended	Year ended	Year ended	Year ended
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
Net amounts recognized						
	(£ million)					
Fair value of plan assets	269	251	56	61		
Projected benefit obligation	(298)	(275)	(89)	(102)	(10)	(12)
Funded status	(29)	(24)	(33)	(41)	(10)	(12)
Unrecognized prior service cost		1				
Unrecognized net actuarial loss		76		27		3
Net amount recognized		53		(14)		(9)
Amounts recognized in the balance sheet consist of:						
Accrued pension cost	(29)	(13)	(33)	(39)	(10)	(9)
Intangible asset		1				
Other Comprehensive Income (before tax)		65		25		
Net amount recognized		53		(14)		(9)
Amounts recognized in Accumulated Other Comprehensive Income consist of:						
Net actuarial loss	(77)		(20)		(2)	
Deferred tax	20					
	(57)		(20)		(2)	

The amount in Accumulated Other Comprehensive Income that is expected to be recognized as a component of the net periodic benefit cost for fiscal 2007 is £6 million, before tax, comprising £4 million in respect of the UK pension plans and £2 million in respect of the US pension plans.

The following table summarizes the impact of the initial adoption of FAS 158 as at December 31, 2006.

December 31, 2006

	Before FAS 158	FAS 158	After FAS 158
--	----------------	---------	---------------

	adjustments	adjustments	adjustments
	(£ million)		
Deferred tax liability	(217)	1	(218)
Accrued pension liability	(54)	(18)	(72)
Accumulated Other Comprehensive Income, net of tax	(62)	(17)	(79)
Total shareholders' equity	1,515	(17)	1,498

The following pension benefit payments are expected to be paid:

	UK pensions benefits	US pensions benefits	US postretirement benefits
	(£ million)		
2007	4.0	5.5	0.5
2008	4.1	5.6	0.5
2009	4.2	5.7	0.5
2010	4.3	5.8	0.6
2011	4.4	5.9	0.6
2012-2016	23.5	31.6	3.3

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Additional information required by US GAAP in respect of accounting for the impairment of property, plant and equipment and assets held for sale.

A summary of the impairment charges that have been recognized under US GAAP is as follows:

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(£ million)		
Assets to be disposed of			
Assets to be held and used		24	18
Total		24	18
Disclosed as:			
Impairment charges recognized under IFRS:			
(Credit)/charge for the year under IFRS	(3)	7	48
Adjustment to impairment recognized under US GAAP	3	17	(30)
		24	18
Charged against:			
Intangible assets goodwill			
Property, plant and equipment		24	18
		24	18

Under IFRS, in the year ended December 31, 2006, assets held for sale have been written down by £3 million to reflect a reduction in the carrying amount of a specific property to fair value less costs to sell as determined by an independent property valuation. Under US GAAP, the impairment was reversed as the book value of the property is lower under US GAAP.

Under US GAAP, the additional impairment charge of £17 million recognized in 2005 relates to a specific property that historically was not subject to an impairment charge under US GAAP. In 2004, with the exception of the impairment charge of £18 million in respect of short leasehold properties, the IFRS impairment charge was reversed.

Under US GAAP, the impairment test is first performed using undiscounted cash flows to assess whether an asset has been impaired. If it is determined that an impairment exists the charge is measured by comparing the value calculated using discounted cash flows and carrying value.

The adjustment to the impairment recognized under IFRS is therefore the difference between the charge under IFRS and US GAAP and is shown in the reconciliation to US GAAP accounting principles.

Additional information required by US GAAP in respect of accounting for deferred gains

For US GAAP, the Company accounts for sales of real estate in accordance with FAS 66 Accounting for Sales of Real Estate. If there is significant continuing involvement with the property, any gain on sale is deferred and is recognized over the life of the continuing involvement, normally a long-term management contract retained on the property. The deferral of gains on such sales totaled £nil in 2006, £5 million in 2005 and £nil in 2004.

Additional information required by US GAAP in respect of accounting for intangible assets subject to amortization

Intangible assets subject to amortization consist of:

	December 31, 2006			December 31, 2005		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	(£ million)					
Management & franchise contracts	88	(38)	50	96	(42)	54

The estimated aggregate amortization expense for each of the next five years is £7 million. The weighted average remaining life of intangible assets subject to amortization is 7 years.

Additional information required by US GAAP in respect of accounting for intangible assets not subject to amortization

	December 31, 2006	December 31, 2005
	(£ million)	
Goodwill by reporting unit:		
Americas managed	111	130
Americas franchised	600	645
EMEA managed	36	38
Asia Pacific	65	66
Goodwill	812	879
Trademarks	362	462
Total	1,174	1,341

Additional information required by US GAAP in respect of taxation*Analysis of tax (credit)/charge on continuing operations in accordance with US GAAP*

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
	(£ million)		
Current taxes	(25)	59	(60)
Deferred taxes	(101)		7
Total	(126)	59	(53)

Reconciliation of UK statutory tax rate to US GAAP tax charge on income from continuing operations

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
		(%)	
UK corporate tax standard rate	30.0	30.0	30.0
Permanent differences	2.2	11.1	3.8
Net effect of different rates of tax in overseas business	3.7	10.2	6.7
Adjustment to tax charge in respect of prior periods	(0.7)	(16.6)	(20.4)
Benefit of tax losses not previously recognized	(3.1)	(0.2)	(1.0)
Adjustments to valuation allowance	(22.0)	0.4	(1.7)
Other	(0.5)	(1.4)	(0.2)
Impact of disposals, provision releases and one-off items	(44.9)	3.0	(35.5)
Effective tax rate on continuing operations	(35.3)	36.5	(18.3)

The tax rate in 2005 compared with 2004 has been impacted primarily by an increased proportion of non UK profits within continuing operations and increases in the valuation allowance against deferred tax assets. The tax rate in 2006 was impacted primarily by releases of provisions, gains on disposal and reduction in valuation allowances.

The Company operates, manages and franchises hotels in a significant number of countries and consequently a wide range of matters of interpretation of tax law arise in the normal course of business. Although reliance is placed on generally available interpretations in these countries, there is no certainty that the relevant tax authorities will agree with the Company's interpretation or that the Company's interpretation will be upheld. Consequently it is possible that certain matters will be resolved adversely resulting in additional liabilities and cash tax settlements. The Company provides against all quantifiable tax exposures based upon best estimates and management's judgment and total tax provisions of £231 million were held at December 31, 2006 (2005 £328 million). The wide range of potential tax issues which may arise and the related provisions include, in particular, the application of transfer pricing regulations and the allocation of costs and revenues between countries £14 million (2005 £17 million), the deduction of intra-group charges £9 million (2005 £10 million), the scope of controlled foreign company regulations £109 million (2005 £160 million), and the scope and basis of application of tax laws of particular jurisdictions (including whether taxable permanent establishments exist) £32 million (2005 £37 million).

Deferred tax in accordance with US GAAP

	Deferred tax liability
	(£ million)
At January 1, 2004	721
Disposals	(5)
Exchange and other adjustments	(15)
Income statement	
Adjustment to other intangible assets ⁽ⁱ⁾	(110)
At December 31, 2004	591
Disposals	(132)
Exchange and other adjustments	27
Income statement	(29)
At December 31, 2005	457
Disposals	(92)
Exchange and other adjustments	(46)
Income statement	(101)
At December 31, 2006	218

(i) In 2004, the adjustment to other intangible assets relates to the recognition of pre-acquisition losses in respect of which a valuation allowance had previously been made.

The analysis of the deferred tax liability required by US GAAP is as follows:

	December 31, 2006	December 31, 2005
	(£ million)	
Deferred tax liabilities:		
Excess of book value over taxation value of property, plant and equipment	138	242
Taxation effect of deferred gains	92	122
Intangible assets	127	163
Investments in associates, joint ventures and partnerships	29	41
Other temporary differences	105	96
	491	664
Deferred tax assets:		
Taxation effect of losses carried forward	(167)	(123)
Taxation effect of employee benefits	(14)	(14)
Taxation effect of share based payments	(25)	(1)
Other temporary differences	(67)	(69)
		266

	(273)	(207)
	218	457
Of which:		
Current	(58)	(40)
Non-current	276	497
	218	457

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The taxation effect of losses carried forward is stated net of a valuation allowance of £114 million (2005 £282 million, 2004 £305 million). The tax effect of employee benefits and other temporary differences are stated net of valuation allowances of £7 million (2005 £3 million, 2004 £nil) and £22 million (2005 £nil, 2004 £nil), respectively.

On release, £7 million (2005 £18 million, 2004 £16 million) of the valuation allowances would be recognized in goodwill. A reduction of £91 million (2005 increase of £1 million, 2004 reduction of £88 million) has been made to the opening valuation allowances in respect of a change in judgment regarding the realizability of deferred tax assets. These losses may be carried forward indefinitely with the exception of £1 million (2005 £nil, 2004 £nil) which expires after seven years and £1 million (2005 £nil, 2004 £nil) which expires after 15 years.

No deferred tax is provided in respect of the unremitted earnings of overseas subsidiaries and joint ventures which the Company controls where the differences are permanent in nature. It is not practicable to determine the amounts unprovided. For those entities where unremitted earnings are not permanently reinvested, no material additional tax is expected to arise upon remittance.

Additional information required under US GAAP in respect of restructuring provisions

	Employee costs	Facilities costs	Other costs	IHG total
	(£ million)			
Balance at January 1, 2004	7	7	4	18
Expenditure	(7)	(3)	(4)	(14)
Balance at December 31, 2004		4		4
Expenditure		(1)		(1)
Balance at December 31, 2005		3		3
Expenditure		(3)		(3)
Balance at December 31, 2006				

Variable Interest Entities

FIN 46, Consolidation of Variable Interest Entities (the Interpretation), was effective for all enterprises with variable interest in variable interest entities created after January 31, 2003. FIN 46(R), which was revised in December 2003, was effective for all entities to which the provisions of FIN 46 were not applied as of December 24, 2003. The provisions of FIN 46(R) were applied to all entities subject to the Interpretation as of December 31, 2004. Under FIN 46(R), if an entity is determined to be a variable interest entity (VIE), it must be consolidated by the enterprise that absorbs the majority of the entity s expected losses, receives a majority of the entity s expected residual returns, or both, the primary beneficiary .

The Group s evaluation of the provisions of FIN 46 as it relates to its various forms of arrangements focuses primarily on a review of the key terms of its equity investment agreements, management contracts and franchise agreements against the criteria in FIN 46 to determine if any of these arrangements qualify as VIEs. In general, a VIE represents a structure used for business purposes that either does not have equity investors with voting rights or that has equity investors that do not provide sufficient financial resources for the entity to support its activities. However, other contractual arrangements could qualify an entity as a VIE and designate which party to the contract is the primary beneficiary.

The Group s evaluation of its equity investments, management contracts and franchise agreements has identified one management contract, due to the terms of performance guarantees, and one equity investment, in which it has

variable interests. For those entities in which the Group holds a variable interest, it is determined that it is not the primary beneficiary and as such is not required to consolidate the VIEs. The performance guarantee associated with the management contracts with HPT does not expose the Group to the majority of expected cash flow variability and therefore those hotels have not been consolidated. As of

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December 31, 2006, the maximum exposure to loss on these contracts, consisting of future management fees and the potential obligation to fund the performance guarantee, totaled an aggregate amount of approximately £64 million over the life of the contracts. The Group also has one significant equity interest in an entity that is a VIE. In November 2003, the Group purchased a one-third share of an equity venture that owns the InterContinental Warsaw which is managed by the Group. The equity investment in the VIE totaled £12 million at December 31, 2006 and £13 million at December 31, 2005.

New Accounting Standards

In December 2004, the FASB issued FAS No. 123(revised 2004), *Share-Based Payment* (FAS 123(R)), which is a revision of FAS No. 123, (FAS 123) *Accounting for Stock-Based Compensation* . The Group adopted FAS 123(R) using the modified prospective transition method at January 1, 2006. See Note 23, *Share-based payments* of Notes to the Consolidated Financial Statements for additional information.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48) which prescribes criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Upon adoption of FIN 48, from January 1, 2007, benefits resulting from uncertain tax positions that meet a more likely than not threshold at the effective date may be recognized, based on measurement as the largest benefit which has a greater than fifty per cent. likelihood of being sustained upon examination by the tax authorities. The cumulative effect of applying FIN 48, if any, is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The Group is evaluating the impact that FIN 48 will have on its financial statements.

In September 2006, the FASB issued FAS 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, provides a framework for measuring fair value, and expands the disclosures required for fair value measurements. FAS 157 applies to other accounting pronouncements that require fair value measurements; it does not require any new fair value measurements. FAS 157 is effective for financial statements for fiscal years beginning after November 15, 2007. We do not expect this statement will have a material impact on our results of operations or financial position.

In September 2006, the FASB issued FAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). FAS 158 requires an employer to recognize the over-funded or under-funded status of defined benefit postretirement plan as an asset or liability, respectively, in its balance sheet and to recognize changes in that funded status as unrealized gain or loss through accumulated Other Comprehensive Income when the changes occur. FAS 158 also requires an employer to measure its defined benefit plan assets and obligations as of the date of the employer's fiscal year end. FAS 158 is effective for our fiscal year ending December 31, 2006. See pages F-90 to F-91 for additional information.

In February 2007, the FASB issued FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). FAS 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Group does not currently plan to expand the use of fair values.

INTERCONTINENTAL HOTELS GROUP PLC
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

	Balance at beginning of period	Additions charged to costs and expenses	Exchange differences	Deductions	Balance at end of period
Year ended December 31, 2006					
Provisions for bad and doubtful debts	47	16	(5)	(15)	43
Year ended December 31, 2005					
Provisions for bad and doubtful debts	43	14	4	(14)	47
Year ended December 31, 2004					
Provisions for bad and doubtful debts	45	20	(3)	(19)	43

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

INTERCONTINENTAL HOTELS GROUP PLC
(Registrant)

By: /s/ Richard Solomons

Name: Richard Solomons

Title: Finance Director

Date: March 30, 2007