INTERCONTINENTAL HOTELS GROUP PLC /NEW/
Form 20-F
March 30, 2007

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

(Mark One)

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

or

þ **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

o **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 11^{3}/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 þ No o

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 o No þ

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 þ No o

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 þ Accelerated filer o Non-accelerated filer o

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

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 o No þ

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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 $11^{3}/7$ 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 a 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 , p 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 1. ***IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS***

Not applicable.

ITEM 2. ***OFFER STATISTICS AND EXPECTED TIMETABLE***

Not applicable.

ITEM 3. ***KEY INFORMATION***

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**

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 4. *INFORMATION ON THE COMPANY*

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.

	December 31, 2006	
Brands	**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.

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

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

	Hotels			**Rooms**		
Global hotel and room count at December 31, 2006	**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

	Hotels			Rooms		
Global pipeline at December 31, 2006	**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