INTERCONTINENTAL HOTELS GROUP PLC /NEW/
Form 20-F
March 28, 2008

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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, 2007

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 1329/47 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 1329/47 pence each	**294,623,308**

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

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP o	International Reporting Standards as issued by the International Standards Accounting Board	Other o

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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;

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; following that date until June 4, 2007 to the ordinary shares of 113/7 pence each in IHG; and following June 4, 2007 to the ordinary shares of 1329/47 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 = $2.01, 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, 2007. On March 14, 2008 the Noon Buying Rate was £1.00 = $2.03. For information regarding rates of exchange between pounds sterling and US dollars from fiscal 2003 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

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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, 2007 are shown as 2007 and references to the year ended December 31, 2006 are shown as 2006, unless otherwise specified, 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 issued by the International Accounting Standards Board (IASB) and in accordance with IFRS as adopted by the European Union (EU). IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB, however, the differences have no impact on the Company s Consolidated Financial Statements for the years presented.

IHG believes that the reporting of profit and earnings measures before exceptional items 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 exceptional items. Throughout this document earnings per share is also calculated excluding the effect of all exceptional operating items, exceptional interest, exceptional 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 2007, the Company reported interim financial information at June 30, 2007 in accordance with the Listing Rules of the UK Listing Authority. In addition, it provided quarterly financial information at March 31, 2007 and at September 30, 2007 and intends to continue to provide quarterly financial information during fiscal 2008. 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 PLC with respect thereto. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate , target , expect , estimate , intend , plan , 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 11.

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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; the risks involved in the Group s reliance upon its proprietary reservation system and increased competition in reservation infrastructure; the risks involved with the Group s reliance on technologies and systems; the risks of the hotel industry supply and demand cycle; the possible lack of selected development opportunities; risks related to corporate responsibility; 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.

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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, 2007, 2006, 2005 and 2004 has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in accordance with IFRS as adopted by the European Union (EU), 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. IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB, however, the differences have no impact on the Company s Consolidated Financial Statements for the years presented. 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 Income Statement Data

	Years ended December 31,				
	2007[1]	2007	2006	2005[2]	2004[2]
	$	£	£	£	£
	(in millions, except per share and ADS amounts)				
Revenue:					
Continuing operations	1,771	883	786	697	607
Discontinued operations	79	40	174	1,213	1,597
	1,850	923	960	1,910	2,204
Total operating profit before exceptional operating items:					
Continuing operations	474	237	200	175	125
Discontinued operations	17	8	31	164	221
	491	245	231	339	346
Exceptional operating items:					
Continuing operations	60	30	27	(15)	(24)
Discontinued operations				(7)	(25)
	60	30	27	(22)	(49)
Total operating profit:					
Continuing operations	534	267	227	160	101
Discontinued operations	17	8	31	157	196
	551	275	258	317	297
Financial income	18	9	26	30	70
Financial expenses	(108)	(54)	(37)	(63)	(103)
Profit before tax	461	230	247	284	264
Tax:					
On profit before exceptional items	(90)	(45)	(53)	(88)	(56)
On exceptional items			(6)		22
Exceptional tax	60	30	100	8	161
	(30)	(15)	41	(80)	127
Profit after tax	431	215	288	204	391
Gain on disposal of assets, net of tax	32	16	117	311	19
Profit for the year	463	231	405	515	410

Attributable to:					
Equity holders of the parent	463	231	405	496	383
Minority equity interest				19	27
Profit for the year	463	231	405	515	410
Earnings per ordinary share:					
Continuing operations:					
Basic	131.3¢	65.6p	69.1p	21.9p	36.3p
Diluted	127.7¢	63.8p	67.4p	21.4p	35.9p
Total operations:					
Basic	144.7¢	72.2p	104.1p	95.2p	53.9p
Diluted	140.7¢	70.2p	101.5p	93.1p	53.3p

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Consolidated Balance Sheet Data

	December 31,				
	2007(3)	2007	2006	2005	2004
	$	£	£	£	£
			(in millions)		
Goodwill and intangible assets	556	277	263	238	206
Property, plant and equipment	1,934	962	997	1,356	1,926
Investments and other financial assets	253	126	128	155	122
Retirement benefit assets	65	32			
Current assets	710	353	455	707	598
Non-current assets classified as held for sale	115	57	50	279	1,826
Total assets	3,633	1,807	1,893	2,735	4,678
Current liabilities	1,226	610	643	794	926
Long-term debt	1,748	869	303	410	1,156
Net assets	98	49	686	1,104	1,938
Share capital	163	81	66	49	723
IHG shareholders equity	92	46	678	1,084	1,821
Number of Shares in issue at period end (millions)		295	356	433	622

(1) US dollar amounts have been translated at the weighted average rate for the year of £1.00 = $2.01.
(2) 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.
(3) US dollar amounts have been translated at the Noon Buying Rate on December 31, 2007 of £1.00 = $2.01 solely for convenience.

Dividends

InterContinental Hotels Group PLC paid an interim dividend of 5.7 pence per share on October 5, 2007. The IHG board has proposed a final dividend of 14.9 pence per share, payable on June 6, 2008, if approved by shareholders at the Annual General Meeting to be held on May 30, 2008, bringing the total IHG dividend for the year ended December 31, 2007 to 20.6 pence per share.

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 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**
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	0.355
2007	5.70	14.90	20.60	0.115	0.292(2)	0.407

(1) Restated to reflect an equivalent number of shares in InterContinental Hotels Group PLC.
(2) The 2007 final dividend payable to ADS holders will be paid in USD and was set using the closing USD/GBP spot rate of £1.00:$1.96 on February 15, 2008.

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Special Dividend

	Pence per ordinary share	$ per ADS
December 2004	72.00	1.39
June 2006	118.00	2.17
June 2007	200.00	4.00

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 14, 2008 was £1.00 = $2.03.

Month	Month s highest exchange rate	Month s lowest exchange rate
September 2007	2.04	1.99
October 2007	2.08	2.03
November 2007	2.11	2.05
December 2007	2.07	1.98
January 2008	1.99	1.95
February 2008	1.99	1.94
March 2008 (through March 14, 2008)	2.03	1.99

	Period end	Average rate(1)	High	Low
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	2.01	2.01	2.11	1.92
2008 (through March 14, 2008)	2.03	2.00	2.03	1.94

(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 intellectual property 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 and affordability 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 favoring franchisees relative to brand owners.

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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 in one country or more widely tends to reduce leisure and business travel to and from affected countries and 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. The owners or potential owners of hotels managed or franchised by one group face similar risks which could adversely affect IHG s ability to secure management or franchise agreements. More specifically, the Group is highly exposed to the US market and, accordingly, is particularly susceptible to adverse changes in the US economy.

Further political or economic factors or regulatory action could effectively prevent the Group from receiving profits from, or selling its investments in, certain countries, or otherwise adversely affect operations. For example, changes to tax rates or legislation in the jurisdictions in which the Group operates could decrease the proportion of profits the Group is entitled to retain, or the Group s interpretation of various tax laws and regulations may prove to be incorrect, resulting in higher than expected tax charges. 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 majority of the Group s profits are generated in the United States, such fluctuations may have a significant 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. Some of the markets in which the Group operates are experiencing rapid economic growth and the Group must compete against a number of companies inside and outside the hospitality industry for suitably qualified or experienced employees. Failure to attract and retain these employees may threaten the success of the Group s operations in these markets. Additionally, unless skills are supported by a sufficient infrastructure to enable knowledge and skills to be passed on, the Group risks losing accumulated knowledge if key employees leave the Group.

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

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

The Group is reliant upon its proprietary 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 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 risks related to corporate responsibility

The reputation of the Group and the value of its brands are influenced by a wide variety of factors, including the perception of key stakeholders and the communities in which the Group operates. The social and environmental impacts of business are under increasing scrutiny, and the Group is exposed to the risk of damage to its reputation if it fails to demonstrate sufficiently responsible practices in a number of areas such as sustainability, responsible tourism, environmental management, human rights and support for the local community.

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.

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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 favorable. 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 the UK Plan of the Group is wound-up or a participating employer ceases to have contributing members, 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;

longer life expectancy than assumed in the plans actuarial valuations (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 plan can demand increases to the contribution rates relating to the funding of this pension plan, which would oblige the relevant members of the Group to contribute extra amounts to such pension funds. The trustees must consult the plan s actuary and principal employer before exercising this power. In practice, contribution rates are agreed between the Group and the trustees on actuarial advice, and are set for three-year terms. The last such review was as at March 31, 2006.

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 hotels and guest rooms in nearly 100 countries around the world, as at December 31, 2007. 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.

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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 14, 2008, InterContinental Hotels Group PLC had a market capitalization of approximately £2.3 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).

The Group disposed of its interests in the soft drinks business by way of an initial public offering (IPO) of Britvic, a manufacturer and distributor of soft drinks in the United Kingdom, in December 2005.

Acquisitions and Dispositions

Since the Separation, 181 hotels with a net book value of £2.9 billion have been sold, generating aggregate proceeds of £3.0 billion. Of these 181 hotels, 162 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 14, 2008 the Group had on the market a further three hotels. The following are the more significant transactions which have occurred since January 1, 2007:

During 2007, the Group disposed of (i) the Crowne Plaza Santiago on May 16, 2007 for $21 million before transaction costs, approximately $9 million above the net book value, retaining a 10 year franchise contract; (ii) its 74.11% share of the InterContinental Montreal on July 12, 2007 for £17 million before transaction costs, approximately £5 million above book value, retaining a 30 year management contract on the hotel; and (iii) the

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Holiday Inn Disney, Paris on November 30, 2007 for £14 million before transaction costs, approximately £2 million above net book value, retaining a five year franchise contract.

The Group also divested a number of equity interests of which proceeds totaled £57 million, including a 33.3% interest in the Crowne Plaza London The City for £19 million and a 15% interest in the InterContinental Chicago for £11 million.

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 2007 totaled £93 million compared with £124 million in 2006 and £183 million in 2005. Capital expenditure in 2007 included the completion of the major refurbishment of the InterContinental London, Park Lane and renovation works at the InterContinental Hong Kong.

At December 31, 2007 capital committed, being contracts placed for expenditure on property, plant and equipment not provided for in the financial statements, totaled £10 million.

On October 24, 2007 the Group announced a worldwide relaunch of its Holiday Inn brand family. In support of this, the Group will make a non recurring revenue investment of up to £30 million which it is anticipated will be charged to the income statement as an exceptional item during 2008.

Following the completion of the hotel disposals in 2007, the Group owns 18 hotels.

FIGURE 1

Asset disposal program detail	**Number of hotels**	**Proceeds**	**Net book value**
		(£ billion)	
Disposed since April 2003	181	3.0	2.9
Remaining owned and leased hotels	18		0.9

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 and has returned £3.5 billion to shareholders as at March 14, 2008 (see Figure 2).

A third £250 million share repurchase program was completed in 2007 and the £150 million share repurchase program announced on February 20, 2007 was commenced. At December 31, 2007 £92 million of this share repurchase was outstanding. During the year 7.7 million shares were repurchased at an average price of 1046 pence per share (total £80.7 million). The precise timing of share purchases will be dependent upon, amongst other things, market conditions. By March 14, 2008, a total of 6.3 million shares had been repurchased under the £150 million repurchase program at an average price per share of 926 pence per share (approximately £58 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 special dividend of approximately £700 million with share consolidation. £709 million was returned to shareholders in June 2007 by way of a special dividend of 200 pence per ordinary share held on June 1, 2007.

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FIGURE 2

Return of funds program	Timing	Total return	Returned to date[i]	Still to be returned
£501 million special dividend	Paid in December 2004	£501m	£501m	Nil
First £250 million share buyback	Completed in 2004	£250m	£250m	Nil
£996 million capital return	Paid in July 2005	£996m	£996m	Nil
Second £250 million share buyback	Completed in 2006	£250m	£250m	Nil
£497 million special dividend	Paid in June 2006	£497m	£497m	Nil
Third £250 million share buyback	Completed in 2007	£250m	£250m	Nil
£709 million special dividend	Paid in June 2007	£709m	£709m	Nil
£150 million share buyback	Under way	£150m	£58m	£92m
Total		£3,603m	£3,511m	£92m

(i) As at March 14, 2008.

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, 2007, IHG s brands comprised 3,949 franchised, managed, owned or leased hotels and 585,094 rooms in nearly 100 countries.

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 exceptional operating items in pounds sterling and percentage by geographical area, for the following periods: years ended December 31, 2007, 2006 and 2005.

	Year ended December 31,		
	2007	2006	2005
		(£ million)	
Revenue[1]			
Americas	450	422	376
Europe, the Middle East and Africa	245	198	192
Asia Pacific	130	111	87
Central[4]	58	55	42
Continuing operations	883	786	697
Americas	31	41	69
Europe, the Middle East and Africa	9	133	1,090
Asia Pacific			54
Discontinued operations[3]	40	174	1,213
Total	923	960	1,910
Operating profit before exceptional operating items[1][2]			
Americas	220	215	186
Europe, the Middle East and Africa	67	37	33
Asia Pacific	31	29	21
Central[4]	(81)	(81)	(65)
Continuing operations	237	200	175
Americas	8	6	12
Europe, the Middle East and Africa		25	141
Asia Pacific			11
Discontinued operations[3]	8	31	164
Total	245	231	339

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	Year ended December 31,		
	2007	**2006**	**2005**
		(%)	
Revenue			
Americas	48.8	44.0	19.7
Europe, the Middle East and Africa	26.5	20.6	10.0
Asia Pacific	14.1	11.6	4.6
Central	6.3	5.7	2.2
Continuing operations	95.7	81.9	36.5
Americas	3.3	4.3	3.6
Europe, the Middle East and Africa	1.0	13.8	57.1
Asia Pacific			2.8
Discontinued operations	4.3	18.1	63.5
Total	100.0	100.0	100.0
Operating profit before exceptional operating items			
Americas	89.8	93.1	54.9
Europe, the Middle East and Africa	27.3	16.0	9.7
Asia Pacific	12.7	12.6	6.2
Central	(33.1)	(35.1)	(19.2)
Continuing operations	96.7	86.6	51.6
Americas	3.3	2.6	3.5
Europe, the Middle East and Africa		10.8	41.6
Asia Pacific			3.3
Discontinued operations	3.3	13.4	48.4
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 £1 = $2.01 (2006 £1 = $1.84, 2005 £1 = $1.83) . In the case of the euro, the translation rate is £1 = 1.46 (2006 £1 = 1.47, 2005 £1 = 1.46).

(2) Operating profit before exceptional operating items does not include exceptional operating items for all periods presented. Exceptional operating items (credit unless otherwise noted) by region are the Americas £9 million (2006 £25 million, 2005 £5 million charge); Europe, the Middle East and Africa £10 million (2006 £2 million, 2005 £12 million charge); Asia Pacific £8 million (2006 £nil, 2005 £5 million charge); and Central £3 million (2006 £nil, 2005 £nil).

(3) Europe, the Middle East and Africa includes discontinued operations for Hotels £nil (2006 £25 million, 2005 £71 million) and Soft Drinks £nil (2006 £nil, 2005 £70 million). The Americas and Asia Pacific discontinued operations all relate to Hotels. Hotels discontinued operations were all owned and leased.

(4) 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.

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Activity Segmentation

The following table shows revenue and operating profit before exceptional operating items in pounds sterling by activity and the percentage contribution of each activity for the following periods: years ended December 31, 2007, 2006 and 2005.

	Year ended December 31,		
	2007	2006	2005
	(£ million)		
Revenue[1]			
Hotels			
Americas	450	422	376
Europe, the Middle East and Africa	245	198	192
Asia Pacific	130	111	87
Central[4]	58	55	42
Continuing operations	883	786	697
Hotels[3]			
Americas	31	41	69
Europe, the Middle East and Africa	9	133	419
Asia Pacific			54
Soft Drinks			671
Discontinued operations	40	174	1,213
Total	923	960	1,910
Operating profit before exceptional operating items[1][2]			
Hotels			
Americas	220	215	186
Europe, the Middle East and Africa	67	37	33
Asia Pacific	31	29	21
Central[4]	(81)	(81)	(65)
Continuing operations	237	200	175
Hotels[3]			
Americas	8	6	12
Europe, the Middle East and Africa		25	71
Asia Pacific			11
Soft Drinks			70
Discontinued operations	8	31	164
Total	245	231	339

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	Year ended December 31, 2007	2006	2005
		(%)	
Revenue			
Hotels			
Americas	48.8	44.0	19.7
Europe, the Middle East and Africa	26.5	20.6	10.0
Asia Pacific	14.1	11.6	4.6
Central	6.3	5.7	2.2
Continuing operations	95.7	81.9	36.5
Hotels			
Americas	3.3	4.3	3.6
Europe, the Middle East and Africa	1.0	13.8	22.0
Asia Pacific			2.8
Soft Drinks			35.1
Discontinued operations	4.3	18.1	63.5
Total	100.0	100.0	100.0
Operating profit before exceptional operating items			
Hotels			
Americas	89.8	93.1	54.9
Europe, the Middle East and Africa	27.3	16.0	9.7
Asia Pacific	12.7	12.6	6.2
Central	(33.1)	(35.1)	(19.2)
Continuing operations	96.7	86.6	51.6
Hotels			
Americas	3.3	2.6	3.5
Europe, the Middle East and Africa		10.8	20.9
Asia Pacific			3.3
Soft Drinks			20.7
Discontinued operations	3.3	13.4	48.4
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 £1=$2.01 (2006 £1 = $1.84, 2005 £1 = $1.83). In the case of the euro, the translation rate is £1 = 1.46 (2006 £1 = 1.47, 2005 £1 = 1.46).

(2) Operating profit before exceptional operating items does not include exceptional operating items for all periods presented. Exceptional operating items (credit unless otherwise noted) by region are the Americas £9 million (2006 £25 million, 2005 £5 million charge); Europe, the Middle East and Africa £10 million (2006 £2 million, 2005 £12 million charge); Asia Pacific £8 million (2006 £nil, 2005 £5 million charge); and Central £3 million (2006 £nil, 2005: £nil).

(3) Hotels discontinued operations were all owned and leased.

(4) 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.

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HOTELS

Overview

InterContinental Hotels Group is an international hotel business which owns a portfolio of established and diverse hotel brands, including InterContinental, Crowne Plaza, Holiday Inn, Holiday Inn Express, Staybridge Suites, Candlewood Suites and Hotel Indigo, with 3,949 franchised, managed, owned and leased hotels and 585,094 guest rooms in nearly 100 countries as at December 31, 2007. Approximately 580,000 rooms or 99% of the Group s rooms are operated under managed and franchised models.

The Group operates in the global hotel market, which has an estimated total room capacity of 18 million rooms. Room capacity has been growing at approximately 3% per annum over the last five years. Competitors in the market include other large hotel companies and independently owned hotels.

The market remains fragmented, with an estimated seven million branded hotel rooms (approximately 40% of the total market). The Group has an estimated 8% share of the branded market (approximately 3% of the total market). The top six major companies, including IHG, together control approximately 38% of the branded rooms, only 15% of total hotel rooms.

Geographically, the market is more concentrated with the top 20 countries accounting for 80% of global hotel rooms. Within this, the United States is dominant (more than 25% of global hotel rooms) with China, Japan and Italy being the next largest markets. The Group s brands have a leadership position (top three by room numbers) in each of the six largest geographic markets, a greater representation than any other major hotel company.

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. Hotel revenue growth in the United States and other key markets has been impacted by a number of underlying trends, including:

- 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;
- globalization 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.

FIGURE 3

Branded hotel rooms by region as a percentage of the total market	**2006**
United States	67%
Europe, Middle East and Africa (EMEA)	35%
Asia Pacific	28%

Source: IHG Analysis, Northstar Travel Management

Within the global market, a relatively low proportion of hotel rooms are branded, however, there has been an increasing trend towards branded rooms. Branded companies are therefore gaining market share at the expense of unbranded companies. The Group 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, together with effective revenue delivery through global reservation channels. 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.

Potential negative trends impacting hotel industry growth include increased terrorism, environmental considerations and economic factors such as high oil prices, risk of recession and global credit restrictions.

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Supply growth in the industry is cyclical, averaging between zero and 5% per annum historically. The Group s fee-based profit is partly protected from changes in supply 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 2007, 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 2007, 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 2007 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, 2007, 2006 and 2005.

Owned or leased		Management contracts and joint ventures		Franchised		Total	
No. of	No. of	No. of	No. of	No. of	No. of	No. of	No. of

	hotels	rooms	hotels	rooms	hotels	rooms	hotels	rooms
2007	18	6,396	539	134,883	3,392	443,815	3,949	585,094
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

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.

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Strategy

IHG seeks to deliver enduring top quartile shareholder returns, when measured against a broad global hotel peer group. The Group s underlying strategy is that by putting the guest first, it will grow a portfolio of differentiated hospitality brands in core strategic countries and global key cities to maximise scale advantage. With a clear target for room growth and a number of brands with market premiums offering excellent returns for owners, the Group is well placed to execute the following strategic priorities:

brand performance to operate a portfolio of brands attractive to both owners and guests that have clear market positions and differentiation in the eyes of the guest;

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 organization to create a more efficient organization with strong core capabilities.

IHG has set an organic growth target of at least 50,000 to 60,000 net rooms to be added by the end of 2008, with specific growth targets for the InterContinental brand (15-25 net InterContinental hotel additions) and within the Chinese market (125 hotels in China). As at December 31, 2007, IHG had achieved organic growth of 47,419 net rooms against the target set in June 2005, together with 13 net InterContinental hotel additions and 81 hotels in China.

IHG s future growth will be achieved predominantly by managing and franchising rather than owning hotels. Approximately 580,000 rooms operating under Group brands are managed and franchised. The managed and franchised fee-based model is attractive because it enables the Group to achieve its goals with limited capital investment at an accelerated pace. 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 as well as targeted investment in the business.

A key characteristic of the managed and franchised business 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, 2007, 86% of continuing earnings before interest, tax, exceptional operating items 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, where IHG s brands achieved revenue per available room (RevPAR) growth premiums within respective key market segments during 2007;

market coverage a presence in nearly 100 countries;

scale 3,949 hotels, 585,094 rooms and 137 million room nights per annum;

IHG global reservation channels delivering $6.8 billion of global system room revenue in 2007, including $2.6 billion from the internet;

a loyalty program, Priority Club Rewards, contributing $5.2 billion of global system room revenue in 2007; and a strong web presence holidayinn.com is one of the industry s most visited sites, 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.

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Segmental Results

The following table shows revenue and operating profit before exceptional operating items 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, 2007, 2006 and 2005.

	Year ended December 31,		
	2007	2006	2005
		(£ million)	
Continuing revenue[1]			
Americas			
Owned and leased	128	104	98
Managed	78	77	65
Franchised	244	241	213
	450	422	376
EMEA			
Owned and leased	121	92	102
Managed	84	71	55
Franchised	40	35	35
	245	198	192
Asia			
Owned and leased	73	71	59
Managed	49	36	25
Franchised	8	4	3
	130	111	87
Central[3]	58	55	42
Total	883	786	697
Continuing operating profit before exceptional operating items[1][2]			
Americas			
Owned and leased	20	12	14
Managed	21	27	20
Franchised	212	208	186
Regional overheads	(33)	(32)	(34)
	220	215	186
EMEA			
Owned and leased	17	(4)	(3)
Managed	43	37	31
Franchised	29	24	26
Regional overheads	(22)	(20)	(21)
	67	37	33

Asia Pacific			
Owned and leased	18	17	11
Managed	23	21	16
Franchised	3	3	2
Regional overheads	(13)	(12)	(8)
	31	29	21
Central[3]	(81)	(81)	(65)
Total	237	200	175

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	Year ended December 31,		
	2007	2006	2005
		(%)	
Continuing revenue			
Americas			
Owned and leased	14.5	13.2	14.1
Managed	8.8	9.8	9.3
Franchised	27.6	30.7	30.6
	50.9	53.7	54.0
EMEA			
Owned and leased	13.7	11.7	14.6
Managed	9.5	9.0	7.9
Franchised	4.5	4.5	5.0
	27.7	25.2	27.5
Asia Pacific			
Owned and leased	8.3	9.0	8.5
Managed	5.6	4.6	3.6
Franchised	0.9	0.5	0.4
	14.8	14.1	12.5
Central	6.6	7.0	6.0
Total	100.0	100.0	100.0
Continuing operating profit before exceptional operating items			
Americas			
Owned and leased	8.4	6.0	8.0
Managed	8.9	13.5	11.4
Franchised	89.5	104.0	106.3
Regional overheads	(13.9)	(16.0)	(19.4)
	92.9	107.5	106.3
EMEA			
Owned and leased	7.2	(2.0)	(1.7)
Managed	18.1	18.5	17.7
Franchised	12.2	12.0	14.8
Regional overheads	(9.3)	(10.0)	(12.0)
	28.2	18.5	18.8
Asia Pacific			
Owned and leased	7.6	8.5	6.3
Managed	9.7	10.5	9.1
Franchised	1.3	1.5	1.1
Regional overheads	(5.5)	(6.0)	(4.5)

	13.1	14.5	12.0
Central	(34.2)	(40.5)	(37.1)
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 £1 = $2.01 (2006 £1 = $1.84, 2005 £1 = $1.83). In the case of the euro, the translation rate is £1 = 1.46 (2006 £1 = 1.47, 2005 £1 = 1.46).

(2) Operating profit before exceptional operating items does not include exceptional operating items for all periods presented. Exceptional operating items (credit unless otherwise noted) by region are the Americas £9 million (2006 £25 million, 2005 £5 million charge); Europe, the Middle East and Africa £10 million (2006 £2 million, 2005 £12 million charge); Asia Pacific £8 million (2006 £nil, 2005 £5 million charge); and Central £3 million (2006 £nil, 2005 £nil).

(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.

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The following table shows revenue and operating profit before exceptional operating items 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, 2007, 2006 and 2005.

	Year ended December 31,		
	2007	**2006**	**2005**
		($ million)	
Continuing revenue[1]			
Americas			
Owned and leased	257	192	180
Managed	156	143	118
Franchised	489	443	389
	902	778	687
EMEA			
Owned and leased	244	169	187
Managed	167	131	100
Franchised	81	63	64
	492	363	351
Asia Pacific			
Owned and leased	145	131	108
Managed	99	65	45
Franchised	16	8	6
	260	204	159
Central[3]	117	101	77
Total	1,771	1,446	1,274
Continuing operating profit before exceptional operating items[1][2]			
Americas			
Owned and leased	40	22	26
Managed	41	50	36
Franchised	425	382	340
Regional overheads	(66)	(59)	(62)
	440	395	340
EMEA			
Owned and leased	33	(7)	(5)
Managed	87	68	56
Franchised	58	44	48
Regional overheads	(44)	(36)	(39)
	134	69	60
Asia Pacific			
Owned and leased	36	31	20

Managed	46	39	29
Franchised	6	5	5
Regional overheads	(25)	(23)	(15)
	63	52	39
Central[3]	(163)	(149)	(118)
Total	474	367	321

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	Year ended December 31,		
	2007	2006	2005
		(%)	
Continuing revenue			
Americas			
Owned and leased	14.5	13.3	14.1
Managed	8.8	9.9	9.3
Franchised	27.6	30.6	30.5
	50.9	53.8	53.9
EMEA			
Owned and leased	13.8	11.7	14.7
Managed	9.4	9.0	7.9
Franchised	4.6	4.4	5.0
	27.8	25.1	27.6
Asia Pacific			
Owned and leased	8.2	9.0	8.5
Managed	5.6	4.5	3.5
Franchised	0.9	0.6	0.5
	14.7	14.1	12.5
Central	6.6	7.0	6.0
Total	100.0	100.0	100.0
Continuing operating profit before exceptional operating items			
Americas			
Owned and leased	8.4	6.0	8.1
Managed	8.6	13.6	11.2
Franchised	89.7	104.0	105.9
Regional overheads	(13.9)	(16.0)	(19.3)
	92.8	107.6	105.9
EMEA			
Owned and leased	7.0	(1.9)	(1.6)
Managed	18.4	18.5	17.4
Franchised	12.2	12.0	15.0
Regional overheads	(9.3)	(9.8)	(12.1)
	28.3	18.8	18.7
Asia			
Owned and leased	7.6	8.5	6.2
Managed	9.7	10.6	9.0
Franchised	1.3	1.4	1.6
Regional overheads	(5.3)	(6.3)	(4.6)

	13.3	14.2	12.2
Central	(34.4)	(40.6)	(36.8)
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 £1 = $2.01 (2006 £1 = $1.84, 2005 £1 = $1.83). In the case of the euro, the translation rate is £1 = 1.46 (2006 £1 = 1.47, 2005 £1 = 1.46).

(2) Operating profit before exceptional operating items does not include exceptional operating items for all periods presented. Exceptional operating items (credit unless otherwise noted) by region are the Americas £9 million (2006 £25 million, 2005 £5 million charge); Europe, the Middle East and Africa £10 million (2006 £2 million, 2005 £12 million charge); Asia Pacific £8 million (2006 £nil, 2005 £5 million charge); and Central 2007 £3 million (2006 £nil, 2005 £nil).

(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.

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. Global system rooms sales generated from Priority Club Rewards members during 2007 were $5.2 billion and represented approximately 35% 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 2007, the internet channel continued to show strong growth, with global system rooms sales booked through the internet increasing by 27% to $2.6 billion. Approximately 17% of IHG global system rooms sales is via the internet through various branded websites, such as www.intercontinental.com and www.holidayinn.com, as well as certified third parties (up from 16% in 2006). 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 85% 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 2007, global system rooms sales booked through these reservation systems (which include company reservation centers, global distribution systems and internet reservations) rose by approximately 19% to $6.8 billion, and the proportion of IHG global system rooms sales booked through IHG s reservation channels increased from 44% to 45%.

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 their share of the total hotel spend;
- continuing to improve the direct channels; 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.

Brands	**December 31, 2007** Room numbers	Hotels
InterContinental	50,762	149
Crowne Plaza	83,170	299
Holiday Inn	256,699	1,381
Holiday Inn Express	156,531	1,808
Staybridge Suites	13,466	122
Candlewood Suites	16,825	158
Hotel Indigo	1,501	11
Other	6,140	21
Total	585,094	3,949

InterContinental

	Americas total	**Americas O & L**	**EMEA total**	**EMEA O & L**	**Asia Pacific total**
Average room rate $(1)	169.83	260.63	190.85	449.58	173.22
Room numbers(2)	16,624	1,914	20,012	1,288	14,126

(1) For the year ended December 31, 2007; quoted at constant US$ exchange rate. Average room rate is for comparable InterContinental hotels.

(2) As at December 31, 2007.

InterContinental hotels are located in major cities and leisure destinations in over 60 countries. Each hotel offers high-class facilities and services aimed at the discerning business and leisure traveller. The brand strives to provide guests with memorable experiences which also give a sense of each hotel s location. These hotels blend luxury with a celebration of local culture and heritage which is reflected in everything from décor to dining.

InterContinental hotels are principally managed by the Group. As at December 31, 2007, there were 149 InterContinental hotels which represented 9% of IHG s total hotel rooms. During 2007, five InterContinental hotels were added to the portfolio while four hotels were removed.

Crowne Plaza

	Americas total	EMEA total	EMEA O & L	Asia Pacific total
Average room rate $(1)	115.01	150.73	117.61	100.23
Room numbers(2)	47,893	17,326	233	17,951

(1) For the year ended December 31, 2007; quoted at constant US$ exchange rate. Average room rate is for comparable Crowne Plaza hotels.

(2) As at December 31, 2007.

Crowne Plaza is one of the fastest growing upscale hotel brands in the world, located in more than 50 countries. Crowne Plaza offers simple elegance and full-service facilities for business and leisure travellers alike. Mainly sited in principal cities, these hotels offer high quality accommodation for leisure and business travellers who appreciate style, a sociable environment, excellent meeting facilities and state-of-the-art business technology.

The majority of Crowne Plaza hotels are operated under franchise agreements. As at December 31, 2007, there were 299 Crowne Plaza hotels which represented 14% of IHG s total hotel rooms. During 2007, 38 Crowne Plaza hotels were added to the portfolio while 14 hotels were removed.

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Holiday Inn

	Americas total	Americas O & L	EMEA total	Asia Pacific total
Average room rate $(1)	95.97	96.04	119.64	81.18
Room numbers(2)	177,999	1,882	52,842	25,858

(1) For the year ended December 31, 2007; quoted at constant US$ exchange rate. Average room rate is for comparable Holiday Inn hotels.

(2) As at December 31, 2007.

Friendly service and great value are the hallmarks of the Holiday Inn brand. One of the world s most recognized brands, Holiday Inn was relaunched in 2007 to improve our ability to meet guest needs for contemporary high-quality and consistent facilities. The relaunch includes a new identity and logo. Aimed at both business travellers and families on holiday, the brand continues to grow around the world.

Holiday Inn hotels are predominantly operated under franchise agreements. As at December 31, 2007, there were 1,381 Holiday Inn hotels which represented 44% of IHG s total hotel rooms and of which 69% were located in the Americas. During 2007, 69 new Holiday Inn hotels were added to the portfolio, while 83 hotels were removed.

Holiday Inn Express

	Americas total	EMEA total	Asia Pacific total
Average room rate $(1)	94.10	104.73	72.75
Room numbers(2)	134,551	19,380	2,600

(1) For the year ended December 31, 2007; quoted at constant US$ exchange rate. Average room rate is for comparable Holiday Inn Express hotels.

(2) As at December 31, 2007.

Convenience, comfort and value make Holiday Inn Express a popular choice with guests and hotel owners. Contemporary guest rooms and bathrooms, a complimentary breakfast and easily accessible locations make this limited service Holiday Inn an ideal choice for people on the road. Holiday Inn Express was also relaunched in 2007.

Holiday Inn Express hotels are almost entirely operated under franchise agreements. As at December 31, 2007, there were 1,808 Holiday Inn Express hotels worldwide which represented 27% of IHG s total hotel rooms and of which 86% were located in the Americas. During 2007, 177 new Holiday Inn Express hotels were added to the portfolio, while 55 hotels were removed.

Staybridge Suites

	Americas total
Average room rate $[1]	105.06
Room numbers[2]	13,466

(1) For the year ended December 31, 2007; quoted at constant US$ exchange rate. Average room rate is for comparable Staybridge Suite s hotels.

(2) As at December 31, 2007.

Staybridge Suites is a high-end brand offering guests a home from home for extended hotel stays. Residential in style, they provide studios and suites, kitchens, living rooms and work areas, and high-speed internet access for business and leisure guests. The Just Like Home theatre and new buffet kitchen are communal areas where guests can meet and relax. The brand will develop outside the United States during 2008.

The Staybridge Suites brand is principally operated under management contracts and franchise agreements. As at December 31, 2007, there were 122 Staybridge Suites hotels, all located in the Americas, which represented 2% of IHG s total hotel rooms. During 2007, 25 hotels were added to the portfolio.

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Candlewood Suites

	Americas total
Average room rate $(1)	70.14
Room numbers(2)	16,825

(1) For the year ended December 31, 2007; quoted at constant US$ exchange rate. Average room rate is for comparable Candlewood Suites hotels.

(2) As at December 31, 2007.

Created for guest stays of a week or longer, Candlewood Suites offer studios and one bedroom suites with well equipped kitchens, spacious work areas and an array of convenient amenities. This extended stay brand continues to grow rapidly in the Americas and recently launched a new bedding collection.

The Candlewood Suites brand is operated under management contracts and franchise agreements. Hospitality Properties Trust (HPT) is a major owner of Candlewood Suites properties and the Group manages all 76 of HPT s Candlewood Suites properties under a 20 year agreement. As at December 31, 2007, there were 158 Candlewood Suites hotels which represented 3% of IHG s total rooms. During 2007, 29 hotels were added to the portfolio and one was removed.

Hotel Indigo

Hotel Indigo is the industry s first branded boutique hotel. The brand is aimed at style-conscious guests who want peaceful and affordable luxury combined with all the knowledge, experience and operating systems that an international hotel company can offer. Inspired by lifestyle retailing, it features seasonal changes, inviting service, inspiring artwork, casual dining, 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, 2007, there were 11 Hotel Indigo hotels with five hotels added to the portfolio during the year.