

INTERCONTINENTAL HOTELS GROUP PLC /NEW/

Form 20-F

May 03, 2005

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

(Mark One)

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

**or**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2004**

**or**

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

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

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
American Depositary Shares	New York Stock Exchange
Ordinary Shares of 112 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 112 pence each** **622,068,047**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past

90 days: Yes  No

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

Item 17  Item 18

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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 Six Continents PLC;

**Britvic** refers to Britannia Soft Drinks Limited;

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

**Group** refers to InterContinental Hotels Group PLC and its subsidiaries or Six Continents PLC and its subsidiaries as the context requires;

**Hotels** or **IHG Hotels** refers to the hotels business of Six Continents or InterContinental Hotels Group PLC as the context requires;

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

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

**ordinary share** or **share** refers to the ordinary shares of 28 pence each of Six Continents PLC or the ordinary shares of £1 and after December 10, 2004, 112 pence each of InterContinental Hotels Group PLC;

**Separation transaction** or **Separation** refers to the transaction that separated Six Continents PLC's hotels and soft drinks businesses from its retail business, completed on April 15, 2003. The Separation resulted in two separately listed holding companies: (i) Mitchells & Butlers plc, which is the holding company of the retail business and Standard Commercial Property Developments Limited; and (ii) InterContinental Hotels Group PLC, which is the holding company for the hotels and soft drinks businesses;

**Six Continents** refers to Six Continents PLC;

**Soft Drinks** and **Britvic business** refer to the soft drinks business of InterContinental Hotels Group PLC, which the Company has through its controlling interest in Britvic; and

**VAT** refers to UK value added tax levied by HM Customs & Excise 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 and references to **pounds sterling**, **sterling**, **£**, **pence** or **p** are to UK 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 = \$1.93, 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, 2004. On April 25, 2005 the Noon Buying Rate was £1.00 = \$1.91. For information regarding rates of exchange between

pounds sterling and US dollars from fiscal 2000 to the present, see Item 3. Key Information Exchange Rates .

The Company's fiscal year ends on December 31. This reflects a change from September 30, implemented following Separation. 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

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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, 2004 are shown as 2004 and references to the fiscal period ended December 31, 2003 are shown as 2003 and represent the 15 months from October 1, 2002 to December 31, 2003, unless otherwise specified, references to the fiscal year ended September 30, 2002 are shown as 2002 and references to other fiscal years are shown in a similar manner.

The Company's Consolidated Financial Statements are prepared on the basis of accounting principles generally accepted in the United Kingdom ( UK GAAP ) which differ from those generally accepted in the United States ( US GAAP ). The significant differences applicable to the Group are explained in Note 35 of Notes to the Financial Statements.

During 2003, the Company changed its fiscal year end to December 31 and thus its financial statements for the 2003 fiscal period are presented for the 15 months ended December 31, 2003 as permitted by the Companies Act 1985. In accordance with the transition period reporting requirements of the US Securities and Exchange Commission ( SEC ), an unaudited analysis of the financial statements and notes thereto for the 15 month period showing the three month period ended December 31, 2002 and the 12 month period ended December 31, 2003 is presented in Note 34 of Notes to the Financial Statements.

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. For this purpose, exceptional items comprises operating exceptional items, exceptional tax and exceptional interest credits and charges, in addition to those non-operating exceptional items disclosed below operating profit as required by UK GAAP. Throughout this document earnings per share is also calculated excluding the effect of all exceptional items and the related tax effect and is referred to as adjusted earnings per share.

The Company furnishes The Bank of New York, 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 UK GAAP. The annual reports contain reconciliations to US GAAP of net income and shareholders' equity. The Company also furnishes the Depositary with semi-annual reports prepared in conformity with UK GAAP, which contain unaudited interim consolidated financial information. Upon receipt thereof, the Depositary mails all such reports to recorded holders of American Depositary Receipts ( ADRs ) evidencing American Depositary Shares ( ADSs ). 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 recorded holders of ADRs and mails to all recorded holders of ADRs notices of shareholders' meetings received by the Depositary. The Company is not required to report quarterly financial information. However, during 2004, the Company reported interim financial information at June 30, 2004 in accordance with the Listing Rules of the UK Listing Authority. In addition, it provided a trading update at March 31, 2004 and at September 30, 2004 and intends to continue to provide quarterly financial information during fiscal 2005, although it has not made any decision with respect to reporting quarterly financial information after 2005.

### **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 the Group and certain of the 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 such words as anticipate , target , expect , estimate , intend , plan , goal , other words of similar meanings. 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 ;





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(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 involve risk and uncertainty, and the factors described in the context of such forward-looking statements in this Form 20-F could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements. These factors include, among others, the effect of political and economic developments, the risks involved with the Group s reliance on brands and protection of intellectual property rights and the reliance on consumer perception of its brands, the ability to recruit and retain key personnel, the risks involved with developing and employing new technologies and systems, the Group s ability to purchase adequate insurance, risks associated with funding the defined benefits under its pension schemes, the future balance between supply and demand for the Group s hotels, the risks relating to identifying, securing and retaining management and franchise agreements, events that adversely impact domestic or international travel, including terrorist incidents and epidemics such as Severe Acute Respiratory Syndrome ( SARS ), increased use of intermediary reservation channels, the lack of selected acquisition opportunities or the effects of being unable to make disposals of hotel assets, the risks of litigation, the risks of possible product contamination, reliance on suppliers in the soft drinks business, competition, and the effect of adverse weather conditions on the demand in the soft drinks business.

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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 year ended December 31, 2004, the 15 months ended December 31, 2003 including unaudited information for the three months ended December 31, 2002 and 12 months ended December 31, 2003, and the years ended September 30, 2002, 2001 and 2000 are derived from Consolidated Financial Statements of the Group, which have been audited by its independent registered public accounting firm, Ernst & Young LLP, restated where appropriate to accord with the Group's current accounting policies and presentation. The selected consolidated financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report.

**Table of Contents****Consolidated Profit and Loss Account Data**

	Year ended December 31,		Three months ended December 31,	12 months ended December 31,	15 months ended December 31,	Year ended September 30,		
	2004(1)(2)	2004(1)	2002	2003	2003(1)	2002(1)	2001(1)	2000(1)
	\$	£	£	£	£	£	£	£
(in millions, except per share and ADS amounts)								
<b>Amounts in accordance with UK GAAP</b>								
Turnover:								
Continuing operations	4,011	2,204	529	2,161	2,690	2,134	2,473	2,092
Discontinued operations			342	451	793	1,481	1,560	3,066
	4,011	2,204	871	2,612	3,483	3,615	4,033	5,158
Total operating profit before operating exceptional items:								
Continuing operations	603	331	60	286	346	329	486	428
Discontinued operations			52	85	137	289	306	477
	603	331	112	371	483	618	792	905
Operating exceptional items:								
Continuing operations	(35)	(19)		(51)	(51)	(77)	(43)	
	(35)	(19)		(51)	(51)	(77)	(43)	
Total operating profit:								
Continuing operations	568	312	60	235	295	252	443	428
Discontinued operations			52	85	137	289	306	477
	568	312	112	320	432	541	749	905
Non-operating exceptional items:								
	(126)	(69)	(3)	(167)	(170)	(2)	(2)	2

Continuing operations								
Discontinued operations				(43)	(43)	55	2	1,294
	(126)	(69)	(3)	(210)	(213)	53		1,296
Profit on ordinary activities before interest	442	243	109	110	219	594	749	2,201
Interest receivable	128	70	27	77	104	116	165	57
Interest payable and similar charges	(157)	(86)	(39)	(112)	(151)	(176)	(224)	(209)
Premium on early settlement of debt	(31)	(17)		(136)	(136)			
Profit before taxation	382	210	97	(61)	36	534	690	2,049
Taxation	213	117	(29)	46	17	(52)	(223)	(342)
Minority equity interests	(51)	(28)	(4)	(30)	(34)	(25)	(24)	(16)
Earnings	544	299	64	(45)	19	457	443	1,691
Per ordinary share:								
Basic	76.6p	42.1p	8.7p	(6.1)p	2.6p	62.5p	60.6p	228.5p
Diluted	75.7p	41.6p	8.7p	(6.1)p	2.6p	62.3p	60.2p	227.0p
Adjusted(3)	59.2p	32.5p	9.1p	30.0p	39.1p	49.5p	66.6p	68.8p
Dividends	157.1p	86.3p		21.2p	21.2p	41.7p	40.5p	39.3p

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	Year ended December 31,		Three months ended December 31,	12 months ended December 31,	15 months ended December 31,	Year ended September 30,		
	2004(1)(2)(4)	2004(1)(4)	2002(4)	2003(4)	2003(1)(4)	2002(1)	2001(1)	2000(1)
	\$	£	£	£	£	£	£	£
(in millions, except per share and ADS amounts)								
<b>Amounts in accordance with US GAAP</b>								
Income/(loss) before cumulative effect on prior years of change in accounting principle:								
Continuing operations	580	318	29	(5)	24	163	185	135
Discontinued operations:								
Income from discontinued operations	2	1	31	34	65	165	466	462
Surplus on disposal	38	21				171	25	1,242
Total discontinued operations	40	22	31	34	65	336	491	1,704
Cumulative effect on prior years of adoption of FAS 142								
			(712)		(712)			
Net income/(loss)	620	340	(652)	29	(623)	499	676	1,839
<b>Per ordinary share and American Depositary Share(5)</b>								
<b>Basic</b>								
Income/(loss) before cumulative effect on prior years of change in accounting principle:								
Continuing operations	81.8¢	44.8p	4.0p	(0.6)p	3.3p	22.3p	25.3p	18.2p
Discontinued operations	5.6¢	3.1p	4.2p	4.6p	8.9p	46.0p	67.1p	230.3p

Cumulative effect on prior years of adoption of FAS 142			(97.1)p		(97.1)p			
Net income/(loss)	87.4¢	47.9p	(88.9)p	4.0p	(84.9)p	68.3p	92.4p	248.5p
<b>Diluted</b>								
Income/(loss) before cumulative effect on prior years of change in accounting principle:								
Continuing operations	77.8¢	42.6p	4.0p	(0.6)p	3.3p	22.2p	25.2p	18.1p
Discontinued operations	5.5¢	3.1p	4.2p	4.6p	8.9p	45.8p	66.7p	228.8p
Cumulative effect on prior years of adoption of FAS 142			(97.1)p		(97.1)p			
Net income/(loss)	83.3¢	45.7p	(88.9)p	4.0p	(84.9)p	68.0p	91.9p	246.9p

*Footnotes on page 10.*

**Table of Contents****Consolidated Balance Sheet Data**

	December 31,			September 30,		
	2004(2)	2004	2003	2002	2001	2000
	\$	£	£	£	£	£
<b>(in millions)</b>						
<b>Amounts in accordance with UK GAAP</b>						
Intangible assets	274	142	158	173	174	189
Tangible assets	7,288	3,776	3,951	7,641	7,558	6,683
Investments	191	99	172	218	234	217
Current assets	1,461	757	999	1,022	1,107	1,684
Total assets	9,214	4,774	5,280	9,054	9,073	8,773
Current liabilities(6)	1,955	1,013	1,085	2,273	2,009	1,604
Long-term debt(6)	2,231	1,156	988	631	1,019	1,213
Share capital	1,345	697	739	734	734	745
Shareholders funds	3,816	1,977	2,554	5,335	5,153	5,099
<b>Amounts in accordance with US GAAP</b>						
Intangible assets	2,644	1,370	1,587	2,702	2,902	2,960
Tangible assets	6,666	3,454	3,916	6,552	6,343	5,130
Investments	197	102	174	189	205	254
Current assets	2,017	1,045	978	983	1,209	1,796
Total assets	11,524	5,971	6,655	10,426	10,659	10,140
Current liabilities(6)	3,926	2,034	1,496	2,109	2,033	1,461
Long-term debt(6)	100	52	523	622	779	1,152
Share capital	1,345	697	739	243	242	246
Shareholders equity	5,398	2,797	3,380	6,221	6,381	6,147

- (1) The results for 2002, 2001 and 2000 include 52 weeks (Hotels 12 months). Fiscal 2003 reflects 15 months trading for Hotels, Soft Drinks 64 weeks ended December 20, 2003 and Mitchells and Butlers plc which reflects 28 weeks ended April 12, 2003. For the year 2004, Hotels include 12 months and Soft drinks 53 weeks ended December 25, 2004.
- (2) US dollar amounts have been translated at the Noon Buying Rate on December 31, 2004 of £1.00 = \$1.93 solely for convenience.
- (3) Adjusted earnings per share are disclosed in order to show performance undistorted by exceptional items.
- (4) Subsequent to the publication of the Group's UK Annual Report and Financial Statements, the net income in accordance with US GAAP for the year ended December 31, 2004, reported therein, was determined to be understated in that document by £8 million. Also, the split of net income between continuing operations and discontinued operations as reported therein, has been revised. There was no impact on the UK GAAP results.



- (5) Each American Depositary Share represents one ordinary share.
- (6) Long-term debt under UK GAAP 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 4.3p per share on October 18, 2004 and a special interim dividend of 72.0p per ordinary share on December 17, 2004. The IHG board has proposed a final dividend of 10.0p per share, payable on June 3, 2005, if approved by shareholders at the Annual General

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Meeting to be held on June 1, 2005, bringing the total IHG dividend for the year ended December 31, 2004 to 14.3p per share excluding the special interim dividend.

IHG intends to pursue a progressive dividend policy that is appropriate to the strategies of the Group.

On May 3, 2005, the Board of IHG announced details of the proposed return of approximately £1 billion to shareholders. In order to implement the proposals, the board is seeking shareholder approval at an Extraordinary General Meeting convened for June 1, 2005 and the sanction of the High Court of England and Wales to introduce a new listed parent company of the Group, New InterContinental Hotels Group PLC ( New IHG ) and to return funds to shareholders by way of a scheme of arrangement (the Scheme ). Shortly after the Scheme becomes effective, it is proposed to seek a further sanction of the Court to reduce the capital of New IHG. It is intended that, subject to the Scheme becoming effective, New IHG will, with effect from the date of admission to the Official List of the UK Listing Authority, adopt the name InterContinental Hotels Group PLC .

If the Scheme is implemented, Shareholders will receive 11 New Ordinary Shares and £1.65 in cash in exchange for every 15 Existing Ordinary Share they currently hold.

After the reduction of capital, the share capital of New IHG will be reduced, in order to create new distributable reserves of approximately £2.7 billion, by decreasing the nominal amount of each New Ordinary Share issued pursuant to the Scheme from 625 pence to 10 pence.

Shareholders will still own the same proportion of New IHG, subject to fractional entitlements, after the implementation of the proposals as they held in IHG before the implementation of the proposals. As all ordinary shareholdings in the Company will be consolidated, shareholders' percentage holdings in the issued share capital of the Company will (save in respect of fractional entitlements) remain unchanged.

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 and Six Continents PLC, 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. However, dividends paid in US dollars by the Depository may be based on a market exchange rate other than the Noon Buying Rate.

*Ordinary dividend*

	Pence per ordinary share			\$ per ADS		
	Interim	Final	Total	Interim	Final	Total
<b>Year ended September 30</b>						
2000(1)	11.92	27.37	39.29	0.178	0.402	0.580
2001(1)	12.27	28.20	40.47	0.177	0.406	0.583
2002(1)	12.58	29.14	41.72	0.205	0.474	0.679
<b>Period ended December 31, 2003</b>						
Six Continents(1)	7.65		7.65	0.119		0.119
IHG	4.05	9.45	13.50	0.068	0.174	0.242
<b>Year ended December 31, 2004</b>						
IHG	4.30	10.00	14.30	0.077	0.191(2)	0.268

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

(2) The 2004 final dividend has been translated at the Noon Buying Rate on April 25, 2005 of £1.00 = \$1.91.

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	<b>Pence per ordinary share</b>	<b>\$ per ADS</b>
December 2004	72.00	1.39

Dividends will be paid in pounds sterling and exchange rate fluctuations will affect the US dollar amount received by holders of ADRs on conversion of such dividends. Moreover, fluctuations in the exchange rates between pounds sterling and the US dollar will affect the dollar equivalent of the pounds sterling price of the ordinary shares on the London Stock Exchange and, as a result, are likely to affect the market price of ADSs which are evidenced by ADRs in the United States.

*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 April 25, 2005 was £1.00 = \$1.91.

<b>Month</b>	<b>Month s highest exchange rate</b>	<b>Month s lowest exchange rate</b>
October 2004	1.84	1.78
November 2004	1.91	1.83
December 2004	1.95	1.91
January 2005	1.91	1.86
February 2005	1.93	1.86
March 2005	1.93	1.87
April 2005 (through April 25, 2005)	1.92	1.87

	<b>Period end</b>	<b>Average rate(1)</b>	<b>High</b>	<b>Low</b>
<b>Year ended September 30</b>				
2000	1.48	1.55	1.68	1.40
2001	1.47	1.44	1.50	1.37
2002	1.56	1.48	1.58	1.41
<b>Period ended December 31</b>				
2003	1.78	1.63	1.78	1.54
<b>Year ended December 31</b>				
2004	1.93	1.84	1.95	1.75

(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.



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**RISK FACTORS**

This section describes some of the risks that could materially affect the Group's businesses. The factors below should be considered in connection with any financial and forward-looking information in this Form 20-F and the cautionary 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 businesses, turnover, operating profit, earnings, net assets and liquidity and/or capital resources.

**General Risks**

***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 fluctuation, 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 affecting 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 from selling its investments in, certain countries, or otherwise adversely affect operations. In addition, fluctuations in currency exchange rates between the UK pound 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 the last two years with the significant strengthening of the pound against the dollar.

***The Group is reliant on the reputation of its brands, the steps it takes to define and enforce brand standards and the protection of its intellectual property rights***

An event that was to materially damage 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 including consumer preference and perception, commoditisation (whereby the price/ quality becomes relatively more important than brand identifications), failure by the Hotels business or its franchisees to ensure compliance with the significant regulations applicable to hotel operations, or other factors affecting consumers' willingness to purchase goods and services, including any factor which adversely affects the reputation of those brands.

In particular, the extent to which the Hotels business is able to adequately define and enforce adherence to its operating, quality and fire life safety standards, or the significant regulations applicable to hotel operations, pursuant to its management and franchise contracts, may further impact brand reputation or customer perception, and therefore the value of the hotel brands.

Given the importance of brand recognition to the Group's businesses, the Group has invested considerable effort in protecting its intellectual property, including by registration of trademarks and domain names. If the Group is unable to protect its intellectual property, any infringement or misappropriation could materially harm its future financial results and ability to develop its businesses.

***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 a 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

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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 certain risks in relation to technology and systems***

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 Information Technology systems) for the running of its business, particularly those which are highly integrated with business processes, and disruption to those technologies or systems could adversely effect 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 in order 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 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, 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.

Further details in relation to the Hotels business are set out below.

***The Group may face difficulties insuring its businesses***

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 businesses in which it operates. Following the effects of the September 11, 2001 terrorist attacks and subsequent events, many companies faced increased premiums for reduced cover as the insurance market hardened. A repeat of incidents of this nature may result in the Group experiencing significant increases in the cost of insuring its business at an acceptable level, or in the Group being unable to obtain cover for certain risks at a realistic price.

***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 the 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: (i) poor investment performance of pension fund investments; (ii) long life expectancy (which will make pensions payable for longer and therefore more expensive to provide); (iii) 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 (iv) 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 benefit 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, 2004. As at April 25, 2005 (being the latest practicable date prior to the publication of this document), the Directors are

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not aware of any circumstances that would cause the trustees to deem it necessary to unilaterally increase the contribution rates.

**Risks relating to the Hotels business**

***The Hotels business is exposed to the risks of the hotel industry supply and demand cycle***

The future operating results of the Hotels business could be adversely affected by industry overcapacity (by number of rooms) and weak demand or other differences between planning assumptions and actual operating conditions. Reductions in room rates and occupancy levels would adversely impact the results of operations of the Hotels business.

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

The Hotels business competes with other hotel companies for management and franchise agreements. Competition may generally reduce the number of suitable management, franchise and investment opportunities offered to the Hotels business, and increase the bargaining power of property owners seeking to engage a manager or become a franchisee. There can be no assurance that the Hotels business will be able to identify, retain or add franchisees to the Hotels business 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 Hotels business. 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 Hotels business is exposed to the risk of events that adversely impact domestic or international travel***

The room rates and occupancy levels of the Hotels business 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), 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.

Terrorist incidents such as the events of September 11, 2001 and the war in Iraq in 2003 significantly affected international travel and consequently global demand for hotel rooms. Further incidents or uncertainties of this type 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 Hotels business.

***The Hotels business 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 Hotels business 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 Hotels business 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



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preference to proprietary channels may impact the Hotels business ability to control the supply, presentation and price of its room inventory.

***The Hotels business may experience a lack of selected acquisition opportunities***

While the strategy of the Hotels business is to extend the hotel network through activities that do not involve significant capital, in some cases the Hotels business 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 Hotels business may be unable to make disposals of hotel assets***

The Hotels business has embarked upon a strategy of asset disposals and, although it has made significant progress, there can be no assurance that the Hotels business will be able to complete any such further selected disposals on commercially reasonable terms, within optimal timescales, or at all.

***The Hotels business is exposed to the risk of litigation***

The Hotels business 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 may affect the reputation of the Hotels business even though the monetary consequences are not significant.

**Risks relating to the Britvic business**

***The Britvic business is exposed to risks related to possible product contamination***

The Britvic business, like all beverage producers, has been and will continue to be vulnerable to accidental or malicious contamination of its products or base raw materials. Any such contamination could result in recall of the products of the Britvic business, the Britvic business being unable to sell its products, damage to brand image and/or civil or criminal liability, which could have a material adverse effect on the operations and financial performance of the Britvic business.

***The Britvic business is reliant upon certain suppliers***

Britvic is reliant upon fruit juice concentrates, sugar and other fruit juice raw materials as necessary ingredients for many of its products, as well as packaging and containers such as cans and Polyethylene Terephthalate (PET) bottles. In the event that the Britvic business is unable to obtain an adequate supply of appropriate raw materials or packaging or fails to negotiate the purchase of these materials on a reasonable commercial basis, this could have a significant adverse impact on the financial operations of the Britvic business.

***The Britvic business is exposed to significant competition***

The Britvic business operates in a highly competitive market sector in which large competitors are active.

A change in the level of marketing undertaken by competitors or in their pricing policies, the growth or strengthening of existing retailers of beverage products, the introduction of new competing brands or products or increased purchasing power pressure from customers could have a material adverse effect on the operations and financial performance of the Britvic business. Conversely, competition law may regulate the ability of the Britvic business to participate in industry consolidation at a strategic level.

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***Adverse weather conditions could reduce demand for Britvic's products***

Demand for the Britvic business products may be affected by weather conditions, especially in the summer months, when unseasonably cool or wet weather can affect sales volumes and therefore the results of the Britvic business operations for the year.

**ITEM 4. INFORMATION ON THE COMPANY**

**SUMMARY**

***Group Overview***

The principal activities of the Group are in hotels and resorts, with worldwide interests through franchising, management, ownership and leasing, and in the manufacture and distribution of soft drinks in the United Kingdom.

On April 25, 2005, InterContinental Hotels Group PLC had a market capitalization of £3.9 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 the Separation in April 2003, InterContinental Hotels Group PLC became the holding company for the Group of which Six Continents PLC is the principal subsidiary company. Six Continents PLC was formed in 1967.

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 410100

Internet address: [www.ihgplc.com](http://www.ihgplc.com)

InterContinental Hotels Group PLC was incorporated in Great Britain on October 2, 2002 and registered in, and operates under, the laws of England and Wales. Operations undertaken in countries other than England and Wales are under 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 underwent a major transformation in its operations and organization, as a result of the Separation and a number of significant disposals during this period, narrowing the scope of its business.

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

***Acquisitions and Dispositions***

Since the Separation, the Group has sold or announced the sale of 121 hotels with proceeds of approximately £1.75 billion and as of April 25, 2004 the Group had on the market a further 25 hotels including 10 hotels in Australia, New Zealand and Fiji announced on April 4, 2005. The following are the more significant portfolio transactions:

On July 1, 2003, the Group completed the sale of a 16 property Staybridge Suites portfolio to Hospitality Properties Trust ( HPT ) for \$185 million. The Group entered into a contract with HPT for the ongoing management of these hotels. In September 2003, HPT converted 14 other suite hotels to the Staybridge Suites brand under IHG management.

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In October 2003, the Group announced the acquisition of the Candlewood Suites brand in the United States from Candlewood Hotel Corporation for a consideration of \$15 million and an agreement to enter into a management contract with HPT to manage 76 Candlewood Suites properties. The transaction completed on December 31, 2003.

On December 17, 2004, the Group announced the sale of 13 hotels, in the United States, Puerto Rico and Canada, to HPT. The total consideration payable by HPT for the sales amounted to \$425 million, before transaction costs, equivalent to net book value, of which \$395 million was received upon the main completion of the sale on February 16, 2005, with the remaining \$30 million to be received upon the completion of the sale of the InterContinental hotel in Austin, expected to be on or around June 1, 2005. The Group will continue to manage the hotels (other than the InterContinental in Puerto Rico) under a 25 year management contract with HPT. The Group has two consecutive options to extend the contracts for 15 years each, giving a total potential contract length of up to 55 years. The InterContinental in Puerto Rico has been leased back to the Group under a 25 year lease with two consecutive options to extend the lease for 15 years each, giving a total potential lease length of up to 55 years.

On February 28, 2005, the Group announced the acquisition by Strategic Hotel Capital, Inc. ( SHC ) of 85% interests in two hotels in the United States. IHG received approximately \$287 million in cash before transaction costs, based upon a total value for both hotels of \$303.5 million, \$12 million in excess of net book value. This transaction completed on April 1, 2005. IHG will continue to manage these hotels under a 20 year management contract with three options to extend for a further 10 years each.

On March 10, 2005, the Group announced the sale of 73 hotels in the United Kingdom to LGR Acquisition, a consortium comprising Lehman Brothers Real Estate Partners, GIC Real Estate and Realstar Asset Management. The agreed sale price was £1 billion, £22 million below net book value, and a provision for loss on disposal of operations has been included in the financial statements. Receipt of £40 million of the total proceeds will be deferred, contingent upon certain pre-agreed performance targets being reached. This transaction is expected to complete in the second quarter of 2005 and is conditional upon obtaining European Commission clearance. The Group will continue to manage 63 of these hotels under a 20 year management contract with two consecutive options to extend the contract for a further five years each. The remaining ten hotels will be under a temporary management agreement with the Group.

***Return of Funds***

In March 2004 IHG announced an on-market share repurchase program for £250 million. By December 20, 2004 the program was completed with, in total, 45.6 million shares repurchased at an average price of 548 pence per share.

In September 2004 IHG announced a further £750 million return of funds to shareholders. This comprised a proposed special dividend of approximately £500 million and a further £250 million share repurchase program. On December 17, 2004 £501 million was returned to shareholders by way of a special dividend of 72.0 pence per share. This special dividend was accompanied by a consolidation of the Company's ordinary share capital on the basis of 25 new ordinary shares for every 28 existing ordinary shares effective from December 13, 2004. The further £250 million share repurchase program commenced on December 20, 2004 and by December 31, 2004 a further 0.8 million shares had been repurchased at an average price per share of 651 pence (total £5 million). By April 25, 2005, a total of 20,259,275 shares had been repurchased under the second repurchase program at an average price per share of 632 pence per share (approximately £128 million). This program is planned for completion in 2005.

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

Following the announcement in March 2005 of the sale of 73 hotels in the United Kingdom, and subject (among other things) to the completion of the sale of the 73 hotels, IHG intends to return a further £1 billion to shareholders. This will require a capital restructuring to enable the release of funds arising from the receipt of disposal proceeds. Subject to receipt of shareholder approval, completion of disposal transactions and there

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being no material adverse change in market conditions, it is planned to complete the restructuring by the end of June 2005 and to return funds to shareholders as soon as practicable thereafter.

**Hotels**

Hotels owns a number of hotel brands including InterContinental, Crowne Plaza, Holiday Inn, Holiday Inn Express (or Express by Holiday Inn outside of the Americas) ( Express ), Staybridge Suites and Candlewood Suites, which at December 31, 2004 comprised 3,540 franchised, managed, owned or leased hotels with approximately 534,000 guest rooms in nearly 100 countries and territories.

**Soft Drinks**

IHG retains an interest in, manages and controls Britvic, one of the two leading manufacturers of soft drinks by value and volume in Great Britain. Britvic owns an extensive portfolio of soft drinks brands that include Tango and Robinsons. It also has the exclusive right to bottle and distribute the Pepsi and 7 UP brands in Great Britain until 2018. The Group, and other shareholders in the Britvic business (Allied Domecq, Whitbread and PepsiCo) have agreed, subject to market and other conditions being satisfied, to consider an initial public offering of Britvic between January 1, 2005 and December 31, 2008.

**SEGMENTAL INFORMATION****Geographic Segmentation**

The following table shows turnover and operating profit in pounds sterling by geographical area and the percentage of each geographical area, for the following periods: year ended December 31, 2004, 15 months ended December 31, 2003 including unaudited information for the three months ended December 31, 2002 and 12 months ended December 31, 2003, and the year ended September 30, 2002.

	Year ended December 31, 2004	Three months ended December 31, 2002	12 months ended December 31, 2003	15 months ended December 31, 2003	Year ended September 30, 2002
(£ million)					
Turnover(1)(3)					
United Kingdom	1,126	598	1,533	2,131	2,491
Rest of Europe, the Middle East and Africa	419	95	411	506	411
United States	423	117	454	571	476
Rest of Americas	102	27	100	127	108
Asia Pacific	134	34	114	148	129
<b>Total</b>	<b>2,204</b>	<b>871</b>	<b>2,612</b>	<b>3,483</b>	<b>3,615</b>
Operating profit before exceptional items(1)(2)					
United Kingdom	118	70	197	267	397
Rest of Europe, the Middle East and Africa	57	8	30	38	60
United States	105	17	107	124	114
Rest of Americas	30	7	26	33	26
Asia Pacific	21	10	11	21	21

Total	331	112	371	483	618
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	<b>Year ended December 31, 2004</b>	<b>Three months ended December 31, 2002</b>	<b>12 months ended December 31, 2003</b>	<b>15 months ended December 31, 2003</b>	<b>Year ended September 30, 2002</b>
	%				
Turnover					
United Kingdom	51.1	68.7	58.7	61.2	68.9
Rest of Europe, the Middle East and Africa	19.0	10.9	15.7	14.6	11.4
United States	19.2	13.4	17.4	16.4	13.2
Rest of Americas	4.6	3.1	3.8	3.6	3.0
Asia Pacific	6.1	3.9	4.4	4.2	3.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Operating profit before exceptional items					
United Kingdom	35.7	62.5	53.1	55.3	64.2
Rest of Europe, the Middle East and Africa	17.2	7.1	8.1	7.9	9.7
United States	31.7	15.2	28.8	25.7	18.5
Rest of Americas	9.1	6.3	7.0	6.8	4.2
Asia Pacific	6.3	8.9	3.0	4.3	3.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

- (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 rates are 2004: £1 = \$1.82; (2003: £1 = \$1.62 and 2002: £1 = \$1.48).
- (2) Operating profit before exceptional items does not include operating and non-operating exceptional items for all periods presented. Operating exceptional items (charge unless otherwise noted) by region are United Kingdom (2004: £10 million; 2003: 15 months £17 million, 12 months £17 million, three months £nil million; 2002: £24 million), Rest of Europe, the Middle East and Africa (2004: £11 million; 2003 15 months £24 million, 12 months £24 million, three months £nil million; 2002: £nil million), the United States (2004: credit of £6 million; 2003 15 months £9 million, 12 months £9 million, three months £nil million; 2002: £39 million) and Asia Pacific (2004: £4 million; 2003: 15 months £1 million, 12 months £1 million, three months £nil million; 2002: £14 million).
- (3) Amounts are reported by origin. See Note 2 of Notes to the Financial Statements for details by destination, for which the amounts are not significantly different.

**Table of Contents****Activity Segmentation**

The following table shows turnover and operating profit by activity and the percentage contribution of each activity for the following periods: year ended December 31, 2004, 15 months ended December 31, 2003 including unaudited information for the three months ended December 31, 2002 and 12 months ended December 31, 2003, and the year ended September 30, 2002.

	<b>Year ended December 31, 2004</b>	<b>Three months ended December 31, 2002</b>	<b>12 months ended December 31, 2003</b>	<b>15 months ended December 31, 2003</b>	<b>Year ended September 30, 2002</b>
<b>(£ million)</b>					
<b>Turnover(1)</b>					
Americas	495	136	525	661	570
EMEA	829	203	807	1,010	794
Asia Pacific	134	34	114	148	128
Central(3)	40	10	41	51	40
Hotels	1,498	383	1,487	1,870	1,532
Soft Drinks	706	146	674	820	602
Continuing operations	2,204	529	2,161	2,690	2,134
Discontinued operations		342	451	793	1,481
<b>Total</b>	<b>2,204</b>	<b>871</b>	<b>2,612</b>	<b>3,483</b>	<b>3,615</b>
<b>Operating profit before exceptional items(1)(2)</b>					
Americas	163	34	161	195	173
EMEA	119	22	92	114	125
Asia Pacific	21	10	12	22	23
Central (3)	(52)	(18)	(62)	(80)	(55)
Hotels	251	48	203	251	266
Soft Drinks	80	12	83	95	63
Continuing operations	331	60	286	346	329
Discontinued operations		52	85	137	289
<b>Total</b>	<b>331</b>	<b>112</b>	<b>371</b>	<b>483</b>	<b>618</b>

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	Year ended December 31, 2004	Three months ended December 31, 2002	12 months ended December 31, 2003	15 months ended December 31, 2003	Year ended September 30, 2002
	(%)				
<b>Turnover</b>					
Americas	22.5	25.7	24.3	24.6	26.7
EMEA	37.6	38.4	37.3	37.5	37.2
Asia Pacific	6.1	6.4	5.3	5.5	6.0
Central (3)	1.8	1.9	1.9	1.9	1.9
Hotels	68.0	72.4	68.8	69.5	71.8
Soft Drinks	32.0	27.6	31.2	30.5	28.2
Continuing operations	100.0	100.0	100.0	100.0	100.0
<b>Operating profit before exceptional items</b>					
<b>Hotels</b>					
Americas	49.2	56.6	56.3	56.3	52.6
EMEA	36.0	36.7	32.2	32.9	38.0
Asia Pacific	6.3	16.7	4.2	6.4	7.0
Central (3)	(15.7)	(30.0)	(21.7)	(23.1)	(16.7)
Hotels	75.8	80.0	71.0	72.5	80.9
Soft Drinks	24.2	20.0	29.0	27.5	19.1
Continuing operations	100.0	100.0	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 rates are 2004: £1 = \$1.82; (2003: £1 = \$1.62 and 2002: £1 = \$1.48).
- (2) Operating profit before exceptional items does not include operating and non-operating exceptional items for all periods presented. Operating exceptional items by business segment are the Americas (2004: £14 million; 2003: 15 months £9 million, 12 months £9 million, three months £nil million; 2002: £39 million), EMEA (2004: £19 million; 2003: 15 months £41 million, 12 months £41 million, three months £nil million; 2002: £24 million), and Asia Pacific (2004: £4 million; 2003: 15 months £1 million, 12 months £1 million, three months £nil million; 2002: £14 million).
- (3) Central relates to global functions. Turnover relates to Holidex fee income.





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**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 (Express by Holiday Inn outside the Americas), Staybridge Suites and Candlewood Suites, with 3,540 franchised, managed, owned and leased hotels and approximately 534,000 guest rooms across nearly 100 countries and territories as at December 31, 2004. Approximately 93% of the Group's rooms are operated under managed and franchised models.

***Strategy***

The Group's objective under its strategy is to become the world's leading hotel brand owner, using its proven track record in hotel management and franchising to grow its portfolio of hospitality brands predominantly under a managed and franchised model. This has involved the disposal to date of a large part of the owned and leased estate (by net book value), a process which is currently ongoing. Key to the implementation of this strategy are the following priorities:

- to strengthen the core business through focus on brand differentiation and system delivery;
- to grow the managed and franchised fee income business in key markets;
- to develop the organisation and its people;
- to continue the asset disposal program; and
- to return funds to shareholders.

**Table of Contents****Segmental Results**

The following table shows turnover and operating profit in pounds sterling of IHG Hotels business by activity and the percentage contribution of each activity for the following periods: year ended December 31, 2004, 15 months ended December 31, 2003 including unaudited information for the three months ended December 31, 2002 and 12 months ended December 31, 2003, and the year ended September 30, 2002. The proportions of turnover and operating profit attributable to owned and leased, managed and franchised hotels will change in 2005 to reflect the pending completion of hotel sales.

	Year ended December 31, 2004	Three months ended December 31, 2002	12 months ended December 31, 2003	15 months ended December 31, 2003	Year ended September 30, 2002
<b>(£ million)</b>					
<b>Turnover by activity(1)(2)</b>					
Americas					
Owned and leased	269	80	296	376	314
Managed	30	8	28	36	38
Franchised	196	48	201	249	218
	495	136	525	661	570
EMEA					
Owned and leased	759	187	746	933	736
Managed	43	10	38	48	36
Franchised	27	6	23	29	22
	829	203	807	1,010	794
Asia					
Owned and leased	110	28	95	123	103
Managed	21	5	15	20	20
Franchised	3	1	4	5	5
	134	34	114	148	128
Central(4)	40	10	41	51	40
<b>Total</b>	<b>1,498</b>	<b>383</b>	<b>1,487</b>	<b>1,870</b>	<b>1,532</b>
<b>Operating profit before exceptional items by activity(1)(3)</b>					
Americas					
Owned and leased	22	3	20	23	24
Managed	6	1	4	5	10
Franchised	167	41	172	213	177
Regional overheads	(32)	(11)	(35)	(46)	(38)
	163	34	161	195	173
EMEA					

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Owned and leased	97	20	77	97	124
Managed	24	5	19	24	20
Franchised	21	5	18	23	11
Regional overheads	(23)	(8)	(22)	(30)	(30)
	119	22	92	114	125
Asia Pacific					
Owned and leased	16	7	11	18	15
Managed	14	6	8	14	14
Franchised	2		4	4	5
Regional overheads	(11)	(3)	(11)	(14)	(11)
	21	10	12	22	23
Central(4)	(52)	(18)	(62)	(80)	(55)
Total	251	48	203	251	266

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	Year ended December 31, 2004	Three months ended December 31, 2002	12 months ended December 31, 2003	15 months ended December 31, 2003	Year ended September 30, 2002
(%)					
<b>Turnover</b>					
<b>Americas</b>					
Owned and leased	18.0	20.9	19.9	20.1	20.5
Managed	2.0	2.1	1.9	1.9	2.5
Franchised	13.1	12.5	13.5	13.3	14.2
	33.1	35.5	35.3	35.3	37.2
<b>EMEA</b>					
Owned and leased	50.7	48.8	50.1	49.8	48.2
Managed	2.9	2.6	2.6	2.6	2.3
Franchised	1.8	1.6	1.5	1.6	1.4
	55.4	53.0	54.2	54.0	51.9
<b>Asia Pacific</b>					
Owned and leased	7.3	7.3	6.4	6.6	6.7
Managed	1.4	1.3	1.0	1.1	1.3
Franchised	0.2	0.3	0.3	0.3	0.3
	8.9	8.9	7.7	8.0	8.3
Central (4)	2.6	2.6	2.8	2.7	2.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Operating profit before exceptional items</b>					
<b>Americas</b>					
Owned and leased	8.8	6.3	9.9	9.2	9.0
Managed	2.4	2.1	2.0	2.0	3.8
Franchised	66.5	85.4	84.5	84.8	66.6
Regional overheads	(12.7)	(22.9)	(17.2)	(18.3)	(14.3)
	65.0	70.9	79.2	77.7	65.1
<b>EMEA</b>					
Owned and leased	38.6	41.7	37.9	38.6	46.6
Managed	9.6	10.4	9.4	9.6	7.5
Franchised	8.4	10.4	8.9	9.2	4.1
Regional overheads	(9.2)	(16.7)	(10.8)	(12.0)	(11.3)
	47.4	45.8	45.4	45.4	46.9
<b>Asia Pacific</b>					

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Owned and leased	6.4	14.6	5.4	7.2	5.6
Managed	5.6	12.5	3.9	5.6	5.3
Franchised	0.8		2.0	1.6	1.9
Regional overheads	(4.4)	(6.3)	(5.4)	(5.6)	(4.1)
	8.4	20.8	5.9	8.8	8.7
Central (4)	(20.8)	(37.5)	(30.5)	(31.9)	(20.7)
Total	100.0	100.0	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 rates are 2004: £1 = \$1.82; (2003: £1 = \$1.62 and 2002: £1 = \$1.48).

(2) Amounts are reported by origin.

(3) Operating profit before exceptional items excludes profits/(losses) on sale of fixed assets and operations and other exceptional items.

(4) Central relates to global functions. Turnover relates to Holidex fee income.

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The following table shows turnover and operating profit in US dollars of the IHG Hotels business by activity and the percentage contribution of each activity for the following periods: year ended December 31, 2004, 15 months ended December 31, 2003 including unaudited information for the three months ended December 31, 2002 and 12 months ended December 31, 2003, and the year ended September 30, 2002.

	Year ended December 31, 2004	Three months ended December 31, 2002	12 months ended December 31, 2003	15 months ended December 31, 2003	Year ended September 30, 2002
(\$ million)					
<b>Turnover(1)</b>					
Americas					
Owned and leased	490	127	481	608	463
Managed	55	12	46	58	57
Franchised	357	75	327	402	322
	902	214	854	1,068	842
EMEA					
Owned and leased	1,383	290	1,213	1,503	1,088
Managed	78	15	62	77	53
Franchised	50	9	37	46	36
	1,511	314	1,312	1,626	1,177
Asia Pacific					
Owned and leased	201	44	154	198	152
Managed	38	8	26	34	29
Franchised	5	2	5	7	5
	244	54	185	239	186
Central(3)	74	16	66	82	57
Total	2,731	598	2,417	3,015	2,262
<b>Operating profit before exceptional items(2)</b>					
Americas					
Owned and leased	39	6	32	38	36
Managed	12	2	7	9	15
Franchised	304	63	279	342	262
Regional overheads	(59)	(18)	(56)	(74)	(56)
	296	53	262	315	257
EMEA					
Owned and leased	177	31	125	156	184
Managed	43	8	31	39	29
Franchised	38	7	29	36	17

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Regional overheads	(42)	(12)	(36)	(48)	(43)
	216	34	149	183	187
Asia Pacific					
Owned and leased	31	9	18	27	24
Managed	25	10	15	25	19
Franchised	3	1	4	5	5
Regional overheads	(20)	(4)	(18)	(22)	(16)
	39	16	19	35	32
Central(3)	(93)	(28)	(100)	(128)	(82)
Total	458	75	330	405	394

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	Year ended December 31, 2004	Three months ended December 31, 2002	12 months ended December 31, 2003	15 months ended December 31, 2003	Year ended September 30, 2002
(%)					
<b>Turnover</b>					
Americas					
Owned and leased	17.9	21.2	19.9	20.2	20.5
Managed	2.0	2.0	1.9	1.9	2.5
Franchised	13.1	12.5	13.5	13.3	14.2
	33.0	35.7	35.3	35.4	37.2
EMEA					
Owned and leased	50.6	48.6	50.2	49.9	48.1
Managed	2.9	2.5	2.6	2.6	2.3
Franchised	1.8	1.5	1.5	1.5	1.6
	55.3	52.6	54.3	54.0	52.0
Asia Pacific					
Owned and leased	7.4	7.4	6.4	6.6	6.7
Managed	1.4	1.3	1.1	1.1	1.3
Franchised	0.2	0.3	0.2	0.2	0.2
	9.0	9.0	7.7	7.9	8.2
Central (3)	2.7	2.7	2.7	2.7	2.6
Total	100.0	100.0	100.0	100.0	100.0
<b>Operating profit before exceptional items</b>					
Americas					
Owned and leased	8.5	8.0	9.7	9.4	9.1
Managed	2.6	2.7	2.1	2.2	3.8
Franchised	66.4	84.0	84.5	84.4	66.5
Regional overheads	(12.9)	(24.0)	(17.0)	(18.3)	(14.2)
	64.6	70.7	79.3	77.7	65.2
EMEA					
Owned and leased	38.6	41.3	37.9	38.5	46.7
Managed	9.4	10.7	9.4	9.6	7.4
Franchised	8.3	9.3	8.8	8.9	4.3
Regional overheads	(9.2)	(16.0)	(10.9)	(11.9)	(10.9)
	47.1	45.3	45.2	45.1	47.5
Asia					

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Owned and leased	6.7	12.0	5.5	6.7	6.1
Managed	5.5	13.3	4.6	6.2	4.8
Franchised	0.7	1.3	1.2	1.2	1.3
Regional overheads	(4.4)	(5.3)	(5.5)	(5.4)	(4.1)
	8.5	21.3	5.8	8.7	8.1
Central (3)	(20.2)	(37.3)	(30.3)	(31.5)	(20.8)
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

(1) Amounts are reported by origin.

(2) Operating profit before exceptional items excludes profits/ (losses) on sale of fixed assets and operations and other exceptional items.

(3) Central relates to global functions. Turnover relates to Holidex fee income.

**Table of Contents****Operations***Ownership/ Management Model*

The Group currently operates its hotels business through three distinct business models which offer different growth, return, risk and reward opportunities. 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 2004, 396,829 (74%) of the Group's rooms were franchised, with 86% 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 company's responsibilities under the management agreement typically include hiring, training and supervising the managers and employees that operate the hotels under the relevant brand standards. The Group company 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 allocated by the Group company. 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 2004, 98,953 (19%) of the Group's rooms were operated under management contracts.

**owned and leased**, 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 been selling a significant proportion of its owned and leased portfolio and in future expects to only own hotels where it is considered strategically important to do so. Rooms owned or leased by the Group at the end of 2004 totaled 38,420, representing 7% 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, managed or franchised by IHG at December 31, 2004, December 31, 2003 and September 30, 2002.

	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
2004	166	38,420	403	98,953	2,971	396,829	3,540	534,202
2003	171	39,459	423	103,440	2,926	393,419	3,520	536,318
2002	190	42,642	314	86,761	2,821	386,122	3,325	515,525

The Group sets quality and service standards for all of its hotel brands (including those operated under management contract 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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### ***Global System***

The Group uses a global revenue delivery system for reservations, e-commerce, IT, internet and its loyalty scheme (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 largest loyalty program in the hotel industry, with 23.7 million members at December 31, 2004, a growth of about 23% over the previous year. It has alliances with 35 airlines which enable members to collect frequent flyer miles. IHG also has alliances with external partners such as car hire companies and credit card companies, which provide exposure and access to IHG's system. In 2004, Priority Club Rewards launched a Japanese language website adding to the already available English, Chinese, French, German and Spanish website versions. Revenue generated from Priority Club Rewards members was 18% higher than in 2003 and represented 30% of total IHG system room revenue.

*Central Reservation System Technology:* The Group operates the HolidexPlus and Holidex central reservation systems. The HolidexPlus and Holidex systems receive 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 and the Holidex systems immediately confirm reservations or indicate 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 13 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 fiscal 2004, internet channel bookings represented \$1.4 billion of IHG system room revenue, an increased revenue growth of 44% over 2003. Approximately 13% of total IHG system room revenue is sold via the internet through various branded websites, such as [www.intercontinental.com](http://www.intercontinental.com) and [www.holiday-inn.com](http://www.holiday-inn.com), as well as certified third parties. IHG made progress in 2004 in establishing 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. By the end of 2004, IHG had certified over 200 third party distributors including Travelocity, Travelocity Business, and Priceline. About 80% of IHG system room revenue booked on the web is now booked directly through the Group's own brand sites.

The Group estimates that, during 2004, these reservation systems (which include company reservation centers, global distribution systems and internet reservations) delivered around 38% of IHG system room revenue.

### ***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 and totaled over \$400 million in 2004.

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.

**Table of Contents****Global Brands***Brands Overview*

The Group's portfolio includes six established and diverse brands and one new brand (Hotel Indigo). 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 has recently been launched in the United Kingdom. Candlewood Suites operates exclusively in the United States.

<b>December 31, 2004</b>		
<b>Brands</b>	<b>Room numbers</b>	<b>Hotels</b>
InterContinental	44,516	132
Crowne Plaza	61,627	215
Holiday Inn	278,787	1,484
Express	126,035	1,512
Staybridge Suites	9,189	79
Candlewood Suites	12,407	109
Other(1)	1,641	9
Total	534,202	3,540

(1) Other comprises one Hotel Indigo, seven other branded hotels under management and one under franchise.

*InterContinental*

	<b>Americas</b>	<b>Americas</b>	<b>EMEA</b>	<b>EMEA</b>	<b>Asia Pacific</b>
	<b>total</b>	<b>O &amp; L</b>	<b>total</b>	<b>O &amp; L</b>	
Average room rate \$(1)	129.83	168.66	154.12	211.21	137.63
Room numbers(2)	15,088	4,489	20,292	4,483	9,136

(1) For the year ended December 31, 2004; quoted at constant US\$ exchange rate. Owned and leased average room rate is for comparable hotels.

(2) As at December 31, 2004.

InterContinental is IHG's global premium hotel brand. The brand is targeted at both business and leisure guests. InterContinental hotels are generally situated in prime locations in major cities and key resorts around the world. There were 132 InterContinental hotels in more than 60 countries and territories which represented 8% of all of IHG hotel rooms as at December 31, 2004.

InterContinental hotels are principally owned, leased or managed by the Group. The brand is one of the top international premium hotel brands based on room numbers and has more than 50 years of heritage in the segment. 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 2004, four new InterContinental hotels were added to the portfolio, Buckhead, Atlanta (United States), Cairo (Egypt), Makkah (Saudi Arabia) and Kigali (Rwanda). After dispositions there was a net loss of three in the

total number of InterContinental hotels. The Group expects to open an InterContinental hotel in Boston in 2006, along with other properties in Beijing and Seattle.

*Crowne Plaza*

	<b>Americas total</b>	<b>Americas O &amp; L</b>	<b>EMEA total</b>	<b>EMEA O &amp; L</b>	<b>Asia Pacific</b>
Average room rate \$(1)	96.24	107.73	118.48	122.29	81.07
Room numbers(2)	33,645	2,284	15,747	3,879	12,235

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(1) For the year ended December 31, 2004; quoted at constant US\$ exchange rate. Owned and leased average room rate is for comparable hotels.

(2) As at December 31, 2004.

Crowne Plaza is IHG's global upscale hotel brand which had grown to 215 hotels worldwide by December 31, 2004. The brand is targeted at the business guest, with a particular focus on meetings and related services. The upscale Crowne Plaza hotels provide the high level of comfort, amenities, services, facilities and meeting space expected of a full service hotel. Crowne Plaza represented 12% of IHG Hotels' hotel rooms as at December 31, 2004.

Nearly 60% of the upscale Crowne Plaza hotels and resorts are franchised hotels. As at December 31, 2004, 54% 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 2004, 15 Crowne Plaza hotels were added to the portfolio while two left the portfolio, resulting in a net increase of 13 hotels.

*Holiday Inn*

	<b>Americas total</b>	<b>Americas O&amp;L</b>	<b>EMEA total</b>	<b>EMEA O&amp;L</b>	<b>Asia Pacific</b>
Average room rate \$(1)	79.85	78.56	95.49	111.89	63.22
Room numbers(2)	205,500	2,577	53,568	15,735	19,719

(1) For the year ended December 31, 2004; quoted at constant US\$ exchange rate. Owned and leased average room rate is for comparable hotels.

(2) As at December 31, 2004.

Holiday Inn is IHG's midscale full service brand. 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. IHG seeks to offer, through its Holiday Inn brand, good value for money with appropriate standards of products and services.

There were 1,484 Holiday Inn hotels located in more than 70 countries and territories which represented 52% of all IHG's hotel rooms as at December 31, 2004. The brand is predominantly franchised. As at December 31, 2004, 72% of the Holiday Inn branded hotels were located in the Americas.

During 2004, the Group sold the following hotels in individual transactions: in the United States, the Holiday Inn South Bend Indiana, in the United Kingdom, the Holiday Inn Sheffield West, the Holiday Inn Teesside, Holiday Inn Crawley and the Holiday Inn Preston and in Australia, the Holiday Inn Newcastle and the Holiday Inn Adelaide. These sales were part of the 86 hotels that left the portfolio, which also included a number of removals due to IHG initiated action against non-performing owners or poor quality hotels. With 41 hotels added to the portfolio, the net movement during 2004 was a decrease of 45 hotels.

*Express*

	<b>Americas total</b>	<b>EMEA total</b>	<b>EMEA O&amp;L</b>	<b>Asia Pacific</b>
Average room rate \$(1)	75.53	89.83	75.15	61.72



Room numbers(2)	109,882	15,921	1,473	232
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(1) For the year ended December 31, 2004; quoted at constant US\$ conversion rate. Owned and leased average room rate is for comparable hotels.

(2) As at December 31, 2004.

Express is the Group's midscale limited service hotel brand. IHG recognized the need for a brand in this category in the early 1990s and subsequently developed Express to extend the reach of the Holiday Inn brand

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and enter the midscale limited service market. The brand has grown rapidly and aims to provide the room quality of midscale hotels without the associated full range of facilities. The brand is targeted at the value-conscious guest.

There were 1,512 Express hotels worldwide, which represented 24% of IHG's hotel rooms as at December 31, 2004. Express is one of the largest brands in the US midscale limited service sector based on room numbers, and approximately 90% of the Express branded rooms are located in the Americas. Express hotels are almost entirely franchised. 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 2004, 114 new Holiday Inn Express hotels were added to the portfolio, while 57 hotels were removed from the portfolio, resulting in a net gain of 57 hotels. A further 200 franchise agreements were signed adding to the system pipeline.

*Staybridge Suites*

	<b>Americas total</b>
Average room rate \$(1)	87.20
Room numbers(2)	9,189

(1) For the year ended December 31, 2004; quoted at constant US\$ exchange rate.

(2) As at December 31, 2004.

Staybridge Suites is IHG's organically developed extended stay brand and offers self-catering services and amenities designed specifically for those on extended travel. The rooms offer more space than the typical hotel room, offering studios and one and two bedroom suites, with cooking facilities available in each suite. As at December 31, 2004, there were 79 Staybridge Suites hotels, all of which are presently located in the Americas, which represented 2% of all IHG's hotel rooms. The first Staybridge Suites hotel was opened in 1998, with the seventy fifth Staybridge Suites hotel following in June 2004, demonstrating the fastest roll out of 75 properties in the extended stay segment, and making Staybridge Suites one of the fastest growing brands in its segment. Staybridge Suites operations are divided approximately equally between franchised and managed models. The primary competitors include Residence Inn, Homewood, Summerfield and Hawthorne.

During 2004, eight hotels were added to the portfolio with no removals.

On April 6, 2005 the Group announced the launch of Staybridge Suites in the United Kingdom. The first two hotels are expected to open in late 2006.

*Candlewood Suites*

	<b>Total</b>
Average room rate \$(1)	58.06
Room numbers(2)	12,407

(1) For the year ended December 31, 2004; quoted at constant US\$ exchange rate.

(2) As at December 31, 2004.

The Candlewood Suites brand was acquired on December 31, 2003. Candlewood Suites is an extended stay brand which complements Staybridge Suites' positioning. Candlewood Suites is an established brand of purpose built hotels with 109 properties on average approximately five years old. The major owner of Candlewood Suites properties is

HPT and the Group manages all 76 of HPT's Candlewood properties under a 20 year agreement. At the end of 2004, 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 designed to appeal to aspirational midscale hotel guests who are wishing to trade up. The first Hotel Indigo opened in Atlanta, Georgia in the United States in October 2004.

**Table of Contents****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 overall hotel level operating profit before central overheads and exceptional items, the Americas represented 54%, EMEA represented 39% and the Asia Pacific region represented 7% in the 12 months ended December 2004.

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)	72	20	8
Hotel level operating profit (before central overheads and exceptional items)(2)	54	39	7

(1) As at December 31, 2004.

(2) For the year ended December 31, 2004.

The following table shows information concerning the geographical locations of IHG's hotels as at December 31, 2004.

	Owned or leased		Management contract and joint ventures		Franchised		Total	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
<b>United States</b>								
InterContinental	7	3,523	5	1,819	1	150	13	5,492
Crowne Plaza	5	1,991	16	5,942	73	20,643	94	28,576
Holiday Inn	6	1,453	50	15,446	882	165,860	938	182,759
Express			2	362	1,296	103,029	1,298	103,391
Staybridge	3	372	35	4,227	39	4,255	77	8,854
Candlewood			76	9,189	33	3,218	109	12,407
Other			4	616			4	616
<b>Total</b>	<b>21</b>	<b>7,339</b>	<b>188</b>	<b>37,601</b>	<b>2,324</b>	<b>297,155</b>	<b>2,533</b>	<b>342,095</b>
<b>Rest of Americas</b>								
InterContinental	3	966	11	3,556	17	5,074	31	9,596
Crowne Plaza	1	293	2	357	19	4,419	22	5,069
Holiday Inn	2	1,124	3	1,599	131	20,018	136	22,741
Express					59	6,491	59	6,491
Staybridge	1	120	1	215			2	335
Candlewood								
Other								

Total	7	2,503	17	5,727	226	36,002	250	44,232
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	Owned or leased		Management contract and joint ventures		Franchised		Total	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
<b>Total Americas</b>								
InterContinental	10	4,489	16	5,375	18	5,224	44	15,088
Crowne Plaza	6	2,284	18	6,299	92	25,062	116	33,645
Holiday Inn	8	2,577	53	17,045	1,013	185,878	1,074	205,500
Express			2	362	1,355	109,520	1,357	109,882
Staybridge	4	492	36	4,442	39	4,255	79	9,189
Candlewood			76	9,189	33	3,218	109	12,407
Other			4	616			4	616
<b>Total</b>	<b>28</b>	<b>9,842</b>	<b>205</b>	<b>43,328</b>	<b>2,550</b>	<b>333,157</b>	<b>2,783</b>	<b>386,327</b>
<b>United Kingdom</b>								
InterContinental	2	646					2	646
Crowne Plaza	5	1,413	2	399	4	879	11	2,691
Holiday Inn	72	12,109	3	431	22	2,881	97	15,421
Express	1	120			98	9,987	99	10,107
Staybridge								
Candlewood								
Other								
<b>Total</b>	<b>80</b>	<b>14,288</b>	<b>5</b>	<b>830</b>	<b>124</b>	<b>13,747</b>	<b>209</b>	<b>28,865</b>
<b>Europe</b>								
InterContinental	10	3,837	13	4,488	7	2,149	30	10,474
Crowne Plaza	10	2,466	6	1,665	21	4,669	37	8,800
Holiday Inn	16	3,626	8	1,595	186	28,941	210	34,162
Express	10	1,353	8	821	35	3,428	53	5,602
Staybridge								
Candlewood								
Other					1	222	1	222
<b>Total</b>	<b>46</b>	<b>11,282</b>	<b>35</b>	<b>8,569</b>	<b>250</b>	<b>39,409</b>	<b>331</b>	<b>59,260</b>
<b>The Middle East and Africa</b>								
InterContinental			30	9,172			30	9,172
Crowne Plaza			11	3,045	4	1,211	15	4,256
Holiday Inn			18	3,305	4	680	22	3,985
Express					1	212	1	212
Staybridge								

	Candlewood						
	Other						
Total		59	15,522	9	2,103	68	17,625
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	Owned or leased		Management contract and joint ventures		Franchised		Total	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
<b>Total EMEA</b>								
InterContinental	12	4,483	43	13,660	7	2,149	62	20,292
Crowne Plaza	15	3,879	19	5,109	29	6,759	63	15,747
Holiday Inn	88	15,735	29	5,331	212	32,502	329	53,568
Express	11	1,473	8	821	134	13,627	153	15,921
Staybridge								
Candlewood								
Other					1	222	1	222
<b>Total EMEA</b>	<b>126</b>	<b>25,570</b>	<b>99</b>	<b>24,921</b>	<b>383</b>	<b>55,259</b>	<b>608</b>	<b>105,750</b>
<b>Far East and Australasia (Asia Pacific)</b>								
InterContinental	2	729	17	6,090	7	2,317	26	9,136
Crowne Plaza	3	698	27	9,706	6	1,831	36	12,235
Holiday Inn	7	1,581	50	14,010	24	4,128	81	19,719
Express			1	95	1	137	2	232
Staybridge								
Candlewood								
Other			4	803			4	803
<b>Total</b>	<b>12</b>	<b>3,008</b>	<b>99</b>	<b>30,704</b>	<b>38</b>	<b>8,413</b>	<b>149</b>	<b>42,125</b>
<b>Total</b>								
InterContinental	24	9,701	76	25,125	32	9,690	132	44,516
Crowne Plaza	24	6,861	64	21,114	127	33,652	215	61,627
Holiday Inn	103	19,893	132	36,386	1,249	222,508	1,484	278,787
Express	11	1,473	11	1,278	1,490	123,284	1,512	126,035
Staybridge	4	492	36	4,442	39	4,255	79	9,189
Candlewood			76	9,189	33	3,218	109	12,407
Other			8	1,419	1	222	9	1,641
<b>Total</b>	<b>166</b>	<b>38,420</b>	<b>403</b>	<b>98,953</b>	<b>2,971</b>	<b>396,829</b>	<b>3,540</b>	<b>534,202</b>



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*Americas*

In the Americas, the largest proportion of rooms is operated under the franchise business model primarily in the midscale segment (Holiday Inn and Express). Similarly, in the upscale segment, Crowne Plaza is predominantly franchised, whereas the InterContinental brand currently has a bias toward ownership and management. With 2,783 hotels, the Americas represented the bulk of hotels and approximately 54% of Hotels operating profit before central costs and exceptional items during the year ended December 31, 2004. 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 608 hotels at the end of 2004, EMEA represented approximately 39% of Hotels operating profit before central costs and exceptional items during the year ended December 31, 2004. The key profit producing regions are the United Kingdom and the main continental European gateway cities such as Paris and Frankfurt.

*Asia Pacific*

Asia Pacific represented 8% of Hotels rooms and 7% of Hotels operating profit before central costs and exceptional items during the year ended December 31, 2004. IHG has a strong and growing presence in Asia Pacific, comprising 149 hotels in total. Currently Greater China is expected to generate significant growth in the hotel and tourism industry over the next decade. The Group believes that the region represents a good source of growth due to the current low penetration of brands offering the opportunity for IHG's brands to build strong positions in key markets.

***System Pipeline***

At December 31, 2004, IHG had formally approved franchise applications for 587 hotels with 59,809 rooms, though the hotels had yet to enter the system. In addition, IHG had signed management contracts on a further 84 hotels (22,418 rooms), and these are expected to enter the system over the next two years. In addition, two owned and leased hotels, with 670 rooms, are also due to enter the system. Approximately 20% of the rooms at December 31, 2004 in the pipeline were in the InterContinental and Crowne Plaza brands.

There are no assurances that all of these hotels 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.

***Seasonality***

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

***Competition***

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

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Worldwide, Inc., Choice Hotel International, Best Western International, Hilton Hotels Corporation, Hilton Group plc, Cendant Corporation, Four Seasons Hotels Inc. and Accor SA.

The Group considers Revenue per Available Room ( RevPAR ) to be a meaningful indicator of performance because it measures the period-over-period change in room revenues for comparable properties. RevPAR is calculated by dividing room revenue by total room nights available for a given period. RevPAR may not be comparable to similarly titled measures, such as revenues.

	Owned & leased comparable		Managed		Franchised	
	2004	Change vs 2003	2004	Change vs 2003	2004	Change vs 2003
<b>Americas</b>						
InterContinental						
Occupancy	69.5%	2.0%	56.3%	7.8%	58.0%	5.7%
Average daily rate	\$ 168.66	5.1%	\$ 119.77	3.2%	\$ 101.97	5.1%
RevPAR	\$ 117.15	8.1%	\$ 67.40	19.7%	\$ 59.15	5.3%
Crowne Plaza						
Occupancy	74.4%	1.1%	67.4%	7.5%	62.3%	1.8%
Average daily rate	\$ 107.73	5.3%	\$ 107.77	5.3%	\$ 91.28	1.5%
RevPAR	\$ 80.19	6.9%	\$ 72.63	18.6%	\$ 56.90	4.5%
Holiday Inn						
Occupancy	67.6%	(0.3%)	63.3%	0.6%	60.2%	1.5%
Average daily rate	\$ 78.56	6.0%	\$ 76.57	0.9%	\$ 80.21	2.4%
RevPAR	\$ 53.12	5.6%	\$ 48.43	1.8%	\$ 48.25	5.0%
Express						
Occupancy			63.9%	7.0%	64.5%	2.0%
Average daily rate			\$ 87.95	4.8%	\$ 75.48	3.8%
RevPAR			\$ 56.22	17.7%	\$ 48.67	7.1%
Staybridge Suites						
Occupancy	72.0%	1.1%	73.4%	6.7%	70.6%	4.6%
Average daily rate	\$ 89.73	4.6%	\$ 87.17	2.7%	\$ 86.90	4.1%
RevPAR	\$ 64.64	6.3%	\$ 63.95	13.0%	\$ 61.36	11.3%
Candlewood						
Occupancy			71.4%		68.5%	
Average daily rate			\$ 55.87		\$ 63.92	
RevPAR			\$ 39.86		\$ 43.80	
Indigo						
Occupancy			16.7%			
Average daily rate			\$ 103.81			
RevPAR			\$ 17.38			

Owned and leased statistics are for comparable hotels, and include only those hotels in our system as of December 31, 2004 and owned and leased by the Group since January 1, 2003.

The comparison with 2003 is at constant US\$ exchange rates.

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	Owned & leased comparable		Managed		Franchised	
	2004	Change vs 2003	2004	Change vs 2003	2004	Change vs 2003
<b>EMEA</b>						
InterContinental						
Occupancy	66.8%	2.3%	60.5%	3.9%	58.2%	(2.8%)
Average daily rate	\$ 211.21	(2.4%)	\$ 128.00	(2.7%)	\$ 127.92	8.7%
RevPAR	\$ 141.14	1.0%	\$ 77.41	4.0%	\$ 74.50	3.8%
Crown Plaza						
Occupancy	73.1%	2.9%	70.9%	3.9%	61.5%	2.2%
Average daily rate	\$ 122.29	0.6%	\$ 111.18	4.3%	\$ 121.40	(0.1%)
RevPAR	\$ 89.41	4.9%	\$ 78.88	10.4%	\$ 74.62	3.6%
Holiday Inn						
Occupancy	70.3%	1.4%	60.9%	5.2%	64.3%	1.2%
Average daily rate	\$ 111.89	4.1%	\$ 66.31	(1.2%)	\$ 92.23	3.6%
RevPAR	\$ 78.68	6.2%	\$ 40.42	7.9%	\$ 59.30	5.6%
Express						
Occupancy	63.2%	2.3%	42.7%	(1.0%)	68.1%	5.3%
Average daily rate	\$ 75.15	2.4%	\$ 74.01	0.8%	\$ 91.54	0.8%
RevPAR	\$ 47.47	6.3%	\$ 31.62	(1.6%)	\$ 62.31	9.3%

Owned and leased statistics are for comparable hotels, and include only those hotels in our system as of December 31, 2004 and owned and leased by the Group since January 1, 2003.

The comparison with 2003 is at constant US\$ exchange rates.

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	Owned & leased comparable		Managed		Franchised	
	2004	Change vs 2003	2004	Change vs 2003	2004	Change vs 2003
<b>Asia Pacific</b>						
InterContinental						
Occupancy	73.8%	19.2%	71.2%	11.6%	62.1%	(5.8%)
Average daily rate	\$ 198.49	8.6%	\$ 134.39	(1.3%)	\$ 123.65	(5.2%)
RevPAR	\$ 146.57	46.7%	\$ 95.64	18.0%	\$ 76.77	(13.2%)
Crowne Plaza						
Occupancy	85.1%	5.0%	70.5%	10.2%	73.9%	1.4%
Average daily rate	\$ 112.75	2.4%	\$ 74.88	5.5%	\$ 92.67	(1.0%)
RevPAR	\$ 95.91	8.9%	\$ 52.82	23.3%	\$ 68.46	0.9%
Holiday Inn						
Occupancy	81.1%	1.8%	75.0%	10.0%	69.7%	4.8%
Average daily rate	\$ 86.87	0.9%	\$ 61.22	7.7%	\$ 59.99	1.0%
RevPAR	\$ 70.48	3.2%	\$ 45.89	24.3%	\$ 41.81	8.5%
Express						
Occupancy			57.5%	(1.9%)	65.7%	2.5%
Average daily rate			\$ 69.72	0.6%	\$ 56.87	(0.2%)
RevPAR			\$ 40.10	(2.6%)	\$ 37.39	3.7%
Other						
Occupancy			70.3%	5.8%	78.8%	3.8%
Average daily rate			\$ 69.71	2.4%	\$ 58.46	3.5%
RevPAR			\$ 49.03	11.6%	\$ 46.07	8.7%

Owned and leased statistics are for comparable hotels, and include only those hotels in our system as of December 31, 2004 and owned and leased by the Group since January 1, 2003.

The comparison with 2003 is at constant US\$ exchange rates.

**Regulation**

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

**SOFT DRINKS****Overview**

The Group holds an interest in, manages and controls Britvic, which is one of the two leading manufacturers of soft drinks, by value and volume, in Great Britain. Following the signing of the Exclusive Bottling Agreement (EBA) on March 10, 2004 on broadly similar terms as the original agreement, the ownership of Britvic is now split between the Group (47.5%), Allied Domecq PLC and Whitbread PLC (each with 23.75%) and PepsiCo Inc. (5%). The Group continues to consolidate the results of Britvic as it continues to exercise dominant influence on the management of the company. Under the EBA, Britvic holds the exclusive right to distribute the Pepsi and 7UP brands in Great Britain until 2018 with a five year extension if Britvic becomes a listed company.

IHG and Britvic's other shareholders have agreed, subject to market and other conditions being satisfied, to consider an initial public offering of Britvic, between 2005 and 2008.



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***Britvic's Business and Brands***

Britvic operates primarily in the United Kingdom (approximately 3.3% of revenues are from exports). Britvic distributes its products via a variety of outlets in the United Kingdom, including grocery stores and gas stations, (together the Take-Home Channel) and restaurants, pubs, clubs and other licensed premises (known as the On-Premise Channel). Britvic has an extensive and balanced portfolio of soft drink brands including Robinsons, Tango, Fruit Shoot, Pepsi, 7 UP, Britvic juices, R Whites, Amé, J<sub>2</sub>O, Purdey's and Aqua Libra.

Soft Drinks continued to invest in its key brands and in new product innovation. During 2004, Britvic acquired the Ben Shaw's water business, further increasing Britvic's presence in the UK's expanding water market and providing additional capacity.

Britvic generated operating profits before exceptional items of £80 million on revenues of £706 million in the year ended December 2004. This compares to operating profits before exceptional items of £83 million on revenues of £674 million in the 12 months ended December 2003.

***Strategy***

Britvic's objective is to deliver continued revenue and profit growth by increasing its market share in both the stills and carbonated categories of the soft drinks market through developing both existing and new product and packaging formats, whilst continuing to drive further efficiencies and enhance employee performance.

***Competition***

Britvic's brands compete with many multi-national, national and regional producers and private label suppliers. Britvic's main competitor in the United Kingdom is Coca-Cola Enterprises (whose brands include Coca-Cola, Fanta, Sprite, Dr Pepper, Schweppes and Lilt), which is the overall soft drinks market leader (in terms of market share). Britvic also faces significant competition from GlaxoSmithKline (Lucozade and Ribena), AG Barr (Irn-Bru and Orangina), Proctor & Gamble (Sunny Delight) and Tropicana UK Limited (fruit juices), which are each strong within specific sectors of the market. A number of smaller manufacturers dominate their individual sector and their combined influence is becoming more important. A significant example of this would be Red Bull (a leading energy drink).

***Production and Distribution***

At December 31, 2004, Britvic had six production plants which produced over 1.4 billion liters of soft drinks during fiscal 2004 and operated 12 retail distribution depots as well as a national distribution center for supplying the Take-Home and On-Premise channels.

***Marketing***

The success of Britvic's brands depends upon their quality and value for money and on brand marketing. Over the past three fiscal periods, Britvic spent an average of approximately 20% of gross revenues on brand advertising, promotional and other related expenditure.

Britvic's products are available in a wide variety of outlets in the United Kingdom, including grocery stores, supermarkets, gas stations, other non-licensed premises, off-licenses and restaurants, pubs, clubs and other licensed premises.

Britvic has approximately 47,000 dispense units installed in pubs and other trade outlets, including catering establishments. These installations produce mainly carbonated soft drinks from concentrates supplied by Britvic. It also supplies over 20,000 vending machines which dispense a range of soft drinks in both cans and plastic bottles. Britvic also has approximately 33,000 chiller cabinets installed in retail outlets.

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***Reliance on Suppliers***

Fruit juice concentrates and other fruit raw materials, which are important ingredients for many of Britvic's products, are obtained from various sources worldwide. One of the principal raw materials used by Britvic is sugar. Adequate supplies of bulk sugar are available for the foreseeable future, although Britvic is obliged to purchase its sugar requirements in the EU market, where prices are considerably higher than in other markets.

***Reliance on Customers***

Due to the nature of the markets in which Britvic operates, a high proportion of sales are accounted for by major customers in both the Take-Home and Licensed On-Premise sectors. Consumer demand for Britvic's brands supports trading relationships with the Take-Home sector, while major On-Premise customers usually contract for soft drinks on an exclusive basis for periods of between two and five years. Britvic is well represented within both sectors, without over-reliance of any one, or group of, customers.

***Seasonality***

The volume of sales in the soft drinks business may be affected by weather and is seasonal, peaking in the summer months and at the time of holiday occasions, such as Christmas.

***Regulation***

The Food Safety Act 1990 effectively raised the quality standards demanded in the soft drinks industry. The Britvic Group has actively participated in the industry discussion processes which, it is believed, will ultimately result in legislation governing soft drinks products sold in the EU market.

**TRADEMARKS**

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

**ORGANIZATIONAL STRUCTURE**

***Principal operating subsidiary undertakings***

As of December 31, 2004 InterContinental Hotels Group PLC was the beneficial owner of all (unless specified) of the equity share capital, either itself or through subsidiary undertakings, of the following companies. Unless stated otherwise, companies are incorporated in Great Britain, registered in England and Wales and operate principally within the United Kingdom.

***Corporate activities***

Six Continents PLC (note a)

***Hotels***

InterContinental Hotels Limited

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

InterContinental Hotels Group Services Company

InterContinental Hotels Group (UK) Limited

Holiday Inn Limited

**Table of Contents***Soft Drinks*

Britannia Soft Drinks Limited (47.5% Six Continents Investments Limited, 23.75% Whitbread PLC, 23.75% Allied Domecq PLC, 5% PepsiCo Inc.) (note b)

Britvic Soft Drinks Limited (100% Britannia Soft Drinks Limited)

Robinsons Soft Drinks Limited (100% Britannia Soft Drinks Limited)

a Shares held directly by InterContinental Hotels Group PLC.

b Under UK GAAP and US GAAP the Group exercises control over Britannia Soft Drinks Limited, which is, accordingly, treated as a subsidiary undertaking.

c A list of subsidiary companies as of December 31, 2004 is filed as Exhibit 8 to this Annual Report.

**PROPERTY, PLANTS AND EQUIPMENT**

Group companies own and lease properties throughout the world. The table below analyzes the net book value of land and buildings at December 31, 2004 by division and geographic segment. Approximately 71% of the properties by value were directly owned, with 22% held under leases having a term of 50 years or longer. These numbers will significantly change in 2005 to reflect upcoming hotel sales as well as those currently in progress.

Net book value of land and buildings as at December 31, 2004	United	Rest of Europe, the Middle East	United	Rest of	Total
	Kingdom	and Africa	States	World	
	(£ million)				
Hotels	945	901	529	257	2,632
Soft Drinks	67				67
<b>Total</b>	<b>1,012</b>	<b>901</b>	<b>529</b>	<b>257</b>	<b>2,699</b>

Group properties include hotels and soft drinks production facilities. Approximately 69% of Hotels property values relate to the top 20 owned and leased hotels (in terms of value) of a total of 168 hotels, with an individual net book value range of £39 million to £204 million.

Property has been written down in the year ended December 31, 2004 by £48 million following an impairment review of the hotel estate. The impairment has been measured by reference to the value of income-generating units, using either the higher of value in use or estimated recoverable amount. The discount rate used for value in use calculations was 8.0% to 10.5%.

**ENVIRONMENT**

IHG is committed to all its operating companies having a responsibility to act in a way that respects the environment in which they operate. The Group's hotels operate in nearly 100 countries and territories and its strong presence in the US and EU markets mean that it is affected by and is familiar with highly developed environmental laws and controls. IHG regularly considers environmental matters and seeks to embed good practice into its business strategies and operations. IHG was awarded membership of both the FTSE4Good Index Series and the Dow Jones Sustainability Indices in 2004.

Group companies incur expenditure on technical advice, services and equipment in addressing the environmental laws and regulations enacted in the countries in which they operate. In 2004, such expenditure was not material in the context of their financial results.



It is not possible to forecast the overall Group expenditure to comply with environmental laws and regulations; this reflects the difficulty in assessing the risk of environmental accidents and the changing nature of laws and regulations. IHG expects, however, that it should be in a position to control such expenditure so that, although it may be considerable, it will be unlikely to have a material adverse effect on the Group's financial position or results of operations.

**Table of Contents****ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS****INTRODUCTION*****Business and Overview***

As at December 31, 2004 the Group operated hotels in nearly 100 countries and territories and operated, managed and franchised seven separate brand names and had 3,540 hotels with approximately 534,000 rooms. The Group owns a significant interest in Britvic, one of the two leading manufacturers of soft drinks in Great Britain (measured by value and volume) which over the past five years has built a portfolio of brands addressing all sectors of the soft drinks market. The Group continued to follow the clear strategy established on Separation. The key priorities of this strategy are: 1) to strengthen the core business through focus on brand differentiation and system delivery; 2) to grow the managed and franchised fee-income business in key markets; 3) to develop the organization and its people; 4) to continue the asset disposal program; and 5) to return funds to shareholders.

***Asset Disposals and Capital Return***

During 2004, IHG continued the asset disposal program commenced in 2003. Including transactions that have been announced post year end, IHG has sold or announced the sale of 121 hotels with proceeds of approximately £1.75 billion and has on the market a further 25 hotels.

IHG engaged in a program to return funds to shareholders. During 2004 IHG completed an on-market share repurchase program for £250 million and announced a further £250 million repurchase program commencing in December 2004. On December 17, 2004 a special dividend of £501 million was paid to shareholders. Following the announcement in March 2005 of the sale of 73 hotels in the United Kingdom, and subject (among other things) to completion of the sale of the 73 hotels, IHG intends to return a further £1 billion to shareholders.

***Operational Performance***

In the Hotels business all regions reported revenue and profit growth in US dollar terms as the hotel industry showed some recovery from the impact of global insecurity, SARS and depressed travel experienced in 2003 and, with respect to operations in the United Kingdom and Europe, as the US dollar continued to depreciate significantly in relation to the sterling and the euro. The relative strength of sterling against the US dollar (weighted average US dollar exchange rate to sterling for the year was \$1.82 against \$1.62 for 2003) converted a 13.0% growth in Hotels turnover expressed in US dollars to a 0.7% growth when expressed in sterling. Soft Drinks turnover increased by 4.7% despite the summer of 2004 experiencing poorer weather than the very favorable summer conditions of 2003. This growth was boosted by 2004 including an extra week's trading.

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

The Group believes the period-over-period movement in revenue per available room ( RevPAR ) to be a meaningful indicator for the performance of the Hotels business. In the Soft Drinks business, the Group believes a meaningful indicator for performance to be the movement in on-premise and take-home volumes.

There has been no material change in the broad trend of current trading since March 10, 2005 and the outlook for the full financial year remains in line with management's expectation.

The Group has seen encouraging performance in the US. The key midscale brands, Express and Holiday Inn, are showing rate growth. Crowne Plaza RevPAR is growing strongly, driven by strong performance in the meeting segment and the InterContinental brand is delivering strong results in key cities (e.g. New York).

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The UK, and particularly London, is showing strong RevPAR growth, driven by the corporate segment. The Group is seeing continued weakness in some Continental European markets (e.g. France and Benelux) but Germany is showing some positive signs. The Group's business in the Middle East continues to deliver positive results, while the InterContinental Hong Kong had a good start to the year with double-digit RevPAR growth and mainland China also performed strongly. The Soft Drinks business started positively with volume increases over the previous year, and several initiatives planned with the intention of increasing profit and tightly controlling costs.

**CRITICAL ACCOUNTING POLICIES UNDER UK GAAP AND US GAAP**

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

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

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

***Tangible and Intangible Assets******(i) Goodwill and other Intangible assets***

Purchased goodwill and intangible assets are capitalized as intangible assets and amortized over their anticipated life.

Under UK GAAP, prior to October 1, 1998, goodwill arising on acquisitions was written off directly to reserves. Since October 1, 1998, acquired goodwill has been capitalized and amortized over a period not exceeding 20 years. On disposal of a business, the profit or loss on disposal is determined after incorporating the attributable amount of any purchased goodwill, including any previously written off to reserves. Under US GAAP, goodwill arising on acquisitions prior to July 1, 2001 was capitalized and amortized over its estimated useful life, not exceeding 40 years. For the purposes of US GAAP, the Group adopted Financial Accounting Standard ( FAS ) 142 Goodwill and Other Intangible Assets on October 1, 2002 and from that date, goodwill including that which arose in the period from July 1, 2001 to October 1, 2002 is not amortized but reviewed annually for impairment.

Under US GAAP, separately identified intangible assets arising on acquisitions are capitalized and amortized over their useful lives. Under UK GAAP, these assets are included within goodwill.

The Company uses a discounted cash flow model to test indefinite life intangibles for impairment on an annual basis. The discounted cash flow model requires assumptions about the timing and amount of net cash inflows, economic projections, cost of capital and terminal values. Each of these can significantly affect the value of indefinite life intangibles.

The Company tests identified intangible assets with defined useful lives by comparing the carrying value to the sum of undiscounted cash flows expected to be generated by the asset.

***(ii) Impairment of fixed assets***

Under UK GAAP and US GAAP the carrying value of both tangible and finite lived intangible fixed assets are assessed for indicators of impairment. The Company evaluates the carrying value of its long-lived

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assets based on its plans, at the time, for such assets and such qualitative factors as future development in the surrounding area, status of expected local competition and projected capital expenditure plans. Changes to the Company's plans, including decisions to dispose of or change the intended use of an asset, can have a material impact on the carrying value of the asset.

In circumstances where indicators of impairment exist, under UK GAAP, the carrying value of an income-generating unit (IGU) is assessed by reference to the greater of value in use, which is defined as the present value of discounted cashflows, and net realizable value. The outcome of such an assessment is subjective, and the result sensitive to the assumed future cashflows to be generated by the assets and discount rates applied in calculating the value in use, both of which will be dependent on the type of asset and its location. Any impairment arising on an income-generating unit, other than an impairment which represents a consumption of economic benefits, is eliminated against any specific revaluation reserve relating to the impaired assets in that income-generating unit with any excess being charged to the profit and loss account. Under US GAAP, the assessment of an IGU's carrying value is by reference in the first instance to undiscounted cashflows. To the extent that undiscounted cashflows do not support carrying value, the fair value of assets must be calculated and the difference to the current carrying value charged to the profit and loss account.

During 2004, under UK GAAP, the Company recorded an impairment of its tangible fixed assets of £48 million, all of which relates to Hotels and represents 1% of the total carrying value of tangible fixed assets. This was recorded as a £28 million charge against operating profit and £20 million reversing previous revaluation gains. For the purposes of US GAAP, the Company recorded an impairment of its tangible fixed assets of £18 million.

Under UK GAAP and US GAAP the Group reviews its fixed asset investments on an annual basis by comparing the carrying value to current market value in cases where the investment is traded on a public exchange. During 2004, the Group recorded provisions against fixed asset investments reflecting the directors' view that the value of the investment is equivalent to market value at December 31, 2004.

***Sale of Real Estate***

Under UK GAAP, the Group recognizes a profit on disposal of fixed assets provided substantially all the risks and rewards of ownership have been transferred. For US GAAP, the Group accounts for sales of real estate in accordance with FAS 66 Accounting for Sales of Real Estate. If there is significant continuing involvement with the property, any gain on sale is deferred and is recognized over the life of the long-term management contract retained on the property. The deferral of pre-tax gains on such sales totaled £nil in 2004, £12 million in 2003 and £nil in 2002.

***Income Taxes***

Under UK GAAP, the Group provides for deferred taxation in respect of timing differences, subject to certain exceptions, between the recognition of gains and losses in the financial statements and for tax purposes. Under US GAAP, the Group provides for deferred taxation in accordance with FAS No. 109, Accounting for Income Taxes. For both UK and US GAAP the Group estimates deferred tax assets and liabilities based on current tax laws and rates, and in certain cases, business plans. Changes in these estimates may affect the amount of deferred tax liabilities or the valuation of deferred tax assets. Accruals for tax contingencies require judgements on the expected outcome of tax exposures. Deferred tax assets are not recognized unless their realization is considered more likely than not.

***Loyalty program***

Priority Club Rewards enables members to earn points, funded through hotel assessments, during each stay at an InterContinental Hotels Group hotel and redeem the points at a later date for free accommodation or other benefits. The future redemption liability is included in creditors less than, and greater than, one year in the consolidated balance sheets in the Consolidated Financial Statements and is estimated using actuarial

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methods based on statistical formulas that project timing of future point redemption based on historical levels to give eventual redemption rates and points values.

***Legal Contingencies***

The Group is subject to various legal proceedings and claims, the outcomes of which are subject to significant uncertainty. Under both UK and US GAAP accruals are recorded for loss contingencies when a loss is probable and the amount can be reasonably estimated.

**OPERATING RESULTS**

***Accounting Principles***

The following discussion and analysis is based on the Consolidated Financial Statements of the Group, which are prepared in accordance with UK GAAP. The principal differences between UK GAAP and US GAAP as they relate to the Group are discussed in Note 35 of Notes to the Financial Statements.

The financial statements have been prepared using accounting policies unchanged from the previous year.

The Group will be required to produce its first set of audited financial statements in line with International Financial Reporting Standards ( IFRS ) for the year ending December 31, 2005. This will require an opening balance sheet to be prepared under IFRS as at January 1, 2004, and a full profit and loss account, balance sheet and cash flow statement for the year ended December 31, 2004 for comparative purposes. The transition to IFRS reporting will result in a number of changes in presentation of reported financial statements, notes thereto and accounting principles. See International Financial Reporting Information below.

For the year ended December 31, 2004 the results include exceptional items totaling a net charge of £99 million see year ended December 31, 2004 compared to 15 months ended December 31, 2003 Exceptional Items . For the 15 months ended December 31, 2003 the results include exceptional items totaling a net charge of £400 million see 15 months ended December 31, 2003 Compared to fiscal 2002 Exceptional Items below. Fiscal 2002 results include exceptional items totaling a net charge of £24 million. For the comparability for the periods presented, some performance indicators in this Operating and Financial Review and Prospects discussion have been calculated after eliminating these exceptional items. Such indicators are prefixed with adjusted . A reconciliation to the amounts under UK GAAP including such exceptional items is included in Note 9 of Notes to the Financial Statements.

**Table of Contents***Year ended December 2004 compared with 15 months ended December 2003  
Group*

	Year ended December 31, 2004	Three months ended December 31, 2002	12 months ended December 31, 2003	15 months ended December 31, 2003
(£ million)				
<b>GROUP RESULTS</b>				
Turnover:				
Hotels	1,498	383	1,487	1,870
Soft Drinks	706	146	674	820
Turnover from continuing operations	2,204	529	2,161	2,690
Discontinued operations		342	451	793
Total turnover	2,204	871	2,612	3,483
Operating profit before operating exceptional items from continuing operations:				
Hotels	251	48	203	251
Soft Drinks	80	12	83	95
Total operating profit before operating exceptional items from continuing operations	331	60	286	346
Operating exceptional item	(19)		(51)	(51)
Operating profit after operating exceptional items from continuing operations	312	60	235	295
Discontinued operations		52	85	137
Total operating profit after operating exceptional items	312	112	320	432
Exceptional items:				
Continuing operations:				
Cost of fundamental reorganization			(67)	(67)
Separation costs		(3)	(48)	(51)
Provision for loss on disposal of operations	(74)			
Profit on disposal of tangible fixed assets	15		4	4
Provision against fixed asset investments	(10)		(56)	(56)
Discontinued operations:				

Separation costs			(41)	(41)
Loss on disposal of tangible fixed assets			(2)	(2)
Profit on ordinary activities before interest	243	109	110	219

IHG turnover from continuing operations for the year ended December 31, 2004 was £2,204 million (£2,690 million for the 15 months ended December 31, 2003). Excluding the effect of the longer period ended December 31, 2003, the results reflected the strengthening in economic conditions within the Hotels division offset by the strength of the sterling against the US dollar.

Profit on ordinary activities before interest and exceptional items from continuing operations for the year ended December 31, 2004 was £331 million (£346 million for the 15 months ended December 31, 2003). Excluding the effect of the longer period ended December 31, 2003, the results reflect the hotel industry recovery from the impact of global insecurity, SARS and depressed travel experienced in 2003.

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Exceptional items for the year ended December 31, 2004 after tax totaled a net profit of £68 million and included an operating exceptional charge of £19 million and non-operating exceptional credits totaling £87 million. Details of the exceptional items are outlined under the heading *Exceptional Items* below.

Group net cash flow for the year ended December 31, 2004 was an outflow of £338 million (outflow of £22 million for the 15 months ended December 31, 2003) mainly driven by the payment of £600 million in dividends. Cash inflow from operations for the year ended December 31, 2004 was £515 million, compared with £795 million for the 15 months ended December 31, 2003. Non-operating outflows during the year ended December 31, 2004 included a £17 million premium on the early settlement of debt. These items were offset by a £230 million decrease in expenditure on tangible fixed assets.

Basic earnings per share for the year ended December 31, 2004 was 42.1p (2.6p for the 15 months ended December 31, 2003). Adjusted earnings per share, after eliminating the effect of exceptional items, was 32.5p for the year ended December 31, 2004 (39.1p for the 15 months ended December 31, 2003). Dividends for the year ended December 31, 2004 were 86.3p per share including a 72.0p per share special dividend paid in December 2004. A reconciliation of actual to adjusted earnings per share is set out in Note 9 of Notes to the Financial Statements.

The Group reorganized its debt financing in the last quarter of 2004. As a result, the Group's public debt was repaid and new bank facilities put in place.

In December 2004, the Group commenced a second £250 million on-market share repurchase program. See *Liquidity and Capital Resources* *Sources of Liquidity* below.

*Exceptional Items*

Following a review of the hotel estate, tangible fixed assets have been written down by £48 million; £28 million has been charged as an operating exceptional item and £20 million reverses previous revaluation gains.

Other operating exceptional items included a charge of £11 million related to the delivery of the further restructuring of the Hotels business in conjunction with the asset disposal program, and other operating income of £20 million relating to the adjustment to market valuation of the Group's investment in FelCor Lodging Trust Inc.

Non-operating exceptional items included a profit of £15 million realized on the sale of hotels, a £74 million provision for loss on disposal of assets in the Americas and the United Kingdom and a £10 million provision against the value of certain fixed asset investments.

Non-operating exceptional items also included a net exceptional interest charge of £11 million. This related mainly to refinancing costs, including the premium of £17 million paid on the repurchase of the Group's 2010 600 million Eurobonds, net of exceptional interest income which included £14 million received on tax refunds.

The release of provisions relating to tax matters which were settled during the year or in respect of which the relevant statutory limitation period has expired, principally relating to acquisitions (including provisions relating to pre-acquisition periods) and disposals, intra-group financing, and, in 2004, the recognition of a deferred tax asset of £83 million in respect of capital losses and the current year exceptional items has resulted in an exceptional tax credit of £167 million.

Operating and non-operating exceptional items, together with their related tax credits, have been excluded in the calculation of adjusted earnings per share.

Prior year exceptional items have been restated on a basis consistent with 2004. This comprises prior year adjustments which are exceptional by reason of size or incidence.



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*Net Interest*

In November 2004 the Group refinanced its existing bank facility with a new £1.6 billion facility. The new facility comprises a £1.1 billion five year tranche and a £0.5 billion 364 day tranche with an option to extend for one year. As part of this refinancing exercise the Group repurchased its euro and sterling denominated bonds.

The net interest charge for the year (pre-exceptionals) was £22 million compared to £47 million for the 15 months ended December 31, 2003. The reduction was principally due to lower average debt levels and the weaker US dollar.

*Taxation*

The tax charge on ordinary activities excluding exceptional items was 16% for 2004. The equivalent effective rate for the IHG Group excluding MAB was 24% for the 15 months ended December 31, 2003, following restatement in respect of exceptional tax credits on a basis consistent with 2004. Net tax paid in the year ended December 31, 2004 reflected tax repayments received during the period and the impact of exceptional costs.

Excluding the effect of exceptional items and prior year items, the Group's tax rate for the year ended December 31, 2004 was 36%. The equivalent for the Group was 37% for the 15 months ended December 31, 2003. The difference from the UK statutory rate of 30% arose primarily due to overseas profits being taxed at rates higher than the UK statutory rate.

The tax rate for 2005 is expected to be materially higher (around 30%) as the disposal program continues and a higher proportion of profits are earned in the United States.

*Earnings and Dividends*

Basic earnings per share for the year was 42.1p. Adjusted earnings per share, removing the distorting effect of exceptional items, was 32.5p compared with 39.1p for the 15 months ended December 31, 2003.

The board has proposed a final dividend per share of 10.0p; with the interim dividend of 4.3p, the normal dividend for the year totaled 14.3p. A special dividend of 72.0p was paid in December 2004.

*Cash flow and Capital Expenditure*

IHG's operating cash flow for 2004 was £364 million compared with £547 million for the 15 months ended December 31, 2003. Net capital expenditure was £151 million, comprising £257 million capital additions and £106 million disposal proceeds, principally from the sale of hotels. Major items of expenditure in 2004 included the InterContinental Buckhead, Atlanta, refurbishment expenditure on the Holiday Inn UK estate and refurbishment expenditure on the InterContinental hotels in London, Cannes and Frankfurt.

Net interest paid was £41 million, and tax payments totaled £35 million. Dividend payments totaled £626 million including the special dividend paid in December 2004. The repurchase of shares totaled £257 million.

***Highlights for the year ended December 31, 2004***

The following is a discussion of the year ended December 31, 2004 compared with the unaudited financial information for the period of 12 months ended December 2003.

The results for the 15 months ended December 31, 2003 include discontinued operations of MAB for the period up until Separation. Given the scale of the events surrounding the Separation, the audited consolidated financial statements do not readily facilitate an understanding of the continuing operations of IHG on a stand alone basis. The Company has, therefore, prepared unaudited financial information which shows the results for the Group as if IHG had been independent and operating under the financing and taxation structure put in place at the time of the Separation for the 12 months ended December 31, 2003. This financial information

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comprises the results of those businesses that form IHG following the Separation. Because of the nature of this financial information, it cannot give a complete picture of the financial position of the Group. The information is provided as guidance only and should not be viewed as a substitute for the audited consolidated financial statements; it is not audited. Significant changes were also made to the financing structure of the Group as part of the Separation, making the Group results difficult to compare year-on-year. The financial information therefore represents the Group results as reported but after excluding the results of MAB and after having been adjusted to reflect the changes made to the financing and taxation structure as part of the Separation, on the assumption that this structure had been in place since October 1, 2001. The financial information has been prepared using accounting policies consistent with those used in the Group financial statements.

*Hotels Results*

	<b>Year ended December 31, 2004</b>	<b>12 months ended December 31, 2003*</b>	<b>Change  %</b>
	<b>(£ million)</b>		
<b>Turnover:</b>			
Americas	495	525	(5.7)
EMEA	829	807	2.7
Asia Pacific	134	114	17.5
Central	40	41	(2.4)
	1,498	1,487	0.7
<b>Operating profit before exceptional items:</b>			
Americas	163	161	1.2
EMEA	119	92	29.3
Asia Pacific	21	12	75.0
Central	(52)	(65)	(20.0)
	251	200	25.5

\* Unaudited pro forma results.

*Turnover.* Hotels turnover increased £11 million (0.7%) from £1,487 million for the 12 months ended December 31, 2003, to £1,498 million for the year ended December 31, 2004. Hotels turnover increased by 0.7% in sterling terms but this was impacted by the strength of sterling against the US dollar. Expressed in US dollars, turnover grew by over 13.0% with particularly strong growth in the United Kingdom (where the appreciation of sterling relative to the dollar benefitted results in US dollars), the Middle East and Asia Pacific.

*Operating profit.* Hotels operating profit before exceptional items for the year ended December 31, 2004 was £251 million, up 25.5% (12 months ended December 31, 2003 £200 million). Again, there was significant overall growth in US dollar terms in Europe, Middle East and Africa (EMEA) (up by 45%, assisted by the strength of sterling and the euro) and Asia Pacific (up by 105%).



**Table of Contents***Americas*  
*Americas Results*

	Year ended December 31, 2004	12 months ended December 31, 2003	Change  %
	(\$ million)		
Turnover:			
Owned and leased	490	481	1.9
Managed	55	46	19.6
Franchised	357	327	9.2
	902	854	5.6
Operating profit before exceptional items:			
Owned and leased	39	32	21.9
Managed	12	7	71.4
Franchised	304	279	9.0
	355	318	11.6
Regional overheads	(59)	(56)	5.4
Total \$ million	296	262	13.0
Sterling equivalent £ million(i)	163	161	1.2

(i) The results have been translated into pounds sterling at weighted average rates of exchange for the year. The translation rates are fiscal 2004: £1 = \$1.82 (2003: £1 = \$1.62).

Total Americas operating profit was \$296 million, a 13.0% increase on the pro forma operating profit for the 12 months ended December 31, 2003 of \$262 million. The weakness of the US dollar to sterling meant that in sterling terms, Americas operating profit was £163 million, 1.2% up on 2003.

The largest profit generating stream in the Americas is the franchised business, with 2,550 hotels and 333,157 rooms. Operating profit increased from \$279 million in 2003 to \$304 million in 2004, a 9.0% increase. All brands posted strong revenue per available room (RevPAR) growth over 2003, with Holiday Inn 5.0% up, Holiday Inn Express 7.1% up, Crowne Plaza 4.5% up and Staybridge Suites 11.3% up.

In the owned and leased estate, strong growth in trading particularly at the InterContinental hotels in New York and Chicago, resulted in operating profit growth of \$7 million to \$39 million in 2004. Comparable owned and leased RevPAR saw strong growth on 2003; InterContinental was up by 8.1%, Crowne Plaza by 6.9% and Holiday Inn by 5.6%. In April 2004 the InterContinental Central Park (New York) was sold, and in November 2004 the InterContinental Buckhead, Atlanta, a newly built hotel, was opened.

Managed operating profit increased from \$7 million in 2003 to \$12 million in 2004 with all brands experiencing strong RevPAR growth on 2003. The manager-owner relationship with HPT strengthened during the year as

agreement was reached for HPT to purchase a further 13 hotels from IHG with long-term contracts for IHG to manage the hotels under IHG brands. Following completion of this transaction, 119 hotels owned by HPT are managed by IHG.

Americas regional overheads increased marginally, principally as a result of specific strategic initiatives and bonus payments.

**Table of Contents***Europe, Middle East and Africa*  
*EMEA Results*

	<b>Year ended December 31, 2004</b>	<b>12 months ended December 31, 2003</b>	<b>Change  %</b>
	( <b>£ million</b> )		
<b>Turnover:</b>			
Owned and leased	759	746	1.7
Managed	43	38	13.2
Franchised	27	23	17.4
	829	807	2.7
<b>Operating profit before exceptional items:</b>			
Owned and leased	97	77	26.0
Managed	24	19	26.3
Franchised	21	18	16.7
	142	114	24.6
Regional overheads	(23)	(22)	4.5
Total £ million	119	92	29.3
Dollar equivalent \$ million(i)	216	149	45.0

(i) The results have been translated into US dollars at weighted average rates of exchange for the year. The translation rates are fiscal 2004: \$1 = £0.55 (2003: \$1 = £0.62).

Turnover for EMEA for 2004 was £829 million, £22 million higher than for the 12 months ended December 31, 2003. Owned and leased turnover grew by £13 million despite the loss of £42 million turnover compared to 2003 as a result of hotels being sold.

Trading conditions across the region varied; UK hotels experienced strong growth in RevPAR throughout the year and the performance in the Middle East and Africa business was strong. Continental Europe was more mixed with Paris in particular slower to recover from the adverse conditions in 2003.

In the owned and leased estate, RevPAR in the United Kingdom Holiday Inn estate continued to grow over previous periods. For the year Holiday Inn UK RevPAR was up by 8.0% over 2003. London hotels in particular experienced strong growth in RevPAR over 2003 (up by 16.0%) as they were slower to recover than the UK regional hotels which had seen some recovery from mid-2003. Holiday Inn UK regional hotel RevPAR was up by 4.7%.

InterContinental owned and leased RevPAR on a comparable basis was 1.0% up on 2003. InterContinental owned and leased turnover and operating profit was boosted by a full year's trading from the InterContinental Le Grand Paris, which was closed for refurbishment for part of 2003. Owned and leased operating profit finished £20 million ahead of 2003 with the InterContinental Le Grand Paris contributing £12 million of the increase.

Managed operating profit in EMEA rose by £5 million to £24 million. This was driven by hotels in the Middle East where over half of EMEA's managed hotels are located. Overall, Middle East managed RevPAR increased by 8.8% for InterContinental, 8.8% for Crowne Plaza and 6.4% for Holiday Inn. Liquidated damages of approximately £4 million were received from the early termination of the management contract for the InterContinental Barcelona.

Overall EMEA franchise RevPAR was 6.1% up on 2003 and there was a net increase in system size of 13 hotels. As a result, EMEA franchise operating profit was £3 million ahead of 2003 at £21 million.

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Total EMEA regional overheads increased by £1 million, reflecting the benefits of the reorganisation partly offset by bonus awards for 2004.

During the year, a number of UK hotels were sold, including the Crowne Plaza Manchester Midland, Holiday Inn Teeside, Holiday Inn Sheffield West, Holiday Inn Crawley and the Holiday Inn Preston.

*Asia Pacific*  
*Asia Pacific Results*

	Year ended December 31, 2004	12 months ended December 31, 2003	Change  %
	(\$ million)		
Turnover:			
Owned and leased	201	154	30.5
Managed	38	26	46.2
Franchised	5	5	
	244	185	31.9
Operating profit before exceptional items:			
Owned and leased	31	18	72.2
Managed	25	15	66.7
Franchised	3	4	(25.0)
	59	37	59.5
Regional overheads	(20)	(18)	11.1
Total \$ million	39	19	105.3
Sterling equivalent £ million(i)	21	12	75.0

(i) The results have been translated into pounds sterling at weighted average rates of exchange for the year. The translation rates are fiscal 2004: £1 = \$1.82 (2003: £1 = \$1.62).

Asia Pacific's results improved significantly in 2004 as the region made a recovery from the negative impacts in 2003 of the war in Iraq, SARS and the terrorist bombing in Bali.

Turnover grew by 32% to \$244 million with a significant increase in both owned and leased turnover (up by \$47 million) and managed turnover (up by \$12 million).

The owned and leased estate operating profit grew by \$13 million to \$31 million with a significant contribution from the InterContinental Hong Kong. RevPAR at the InterContinental Hong Kong increased by over 50% on 2003 and, with high operational gearing, this led to a substantially improved profit. In the last quarter of the year the hotel was running at an occupancy of over 85% and RevPAR was up by 29% over 2003. In total, owned and leased RevPAR across the region was up by 47%.

Asia Pacific managed hotel RevPAR also increased in comparison with 2003; InterContinental increased by 18%, Crowne Plaza by 23% and Holiday Inn by 24%. Operating profit increased by \$10 million to \$25 million.



Asia Pacific regional overheads were \$2 million higher than 2003, principally as a result of infrastructure costs to support further planned expansion in Greater China. In addition to the 44 IHG hotels already open and operating in Greater China, there are another 53 management agreements signed and under negotiation which will increase IHG's presence and leadership in the China hotel market.

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In the year, the Holiday Inn Newcastle and the Holiday Inn Adelaide were sold with proceeds being broadly in line with net book value.

*Central*  
*Central*

	<b>Year ended December 31, 2004</b>	<b>12 months ended December 31, 2003</b>	<b>Change</b>
	( <b>£ million</b> )		%
Turnover	40	41	(2.4)
Gross central costs	(92)	(106)	(13.2)
Net central costs £ million	(52)	(65)	(20.0)
Dollar equivalent \$ million(i)	(93)	(105)	(11.4)

(i) The results have been translated into US dollars at weighted average rates of exchange for the year. The translation rates are fiscal 2004: \$1 = £0.55 (2003: \$1 = £0.62).

Central support function costs totaled £52 million in 2004, £13 million down on 2003. The reduction primarily reflects the continued drive to reduce overhead costs. US dollar denominated costs also benefited from being converted at a weaker US dollar to sterling exchange rate.

Regional and central overheads were flat year on year reflecting significant savings achieved given inflationary pressures, new initiatives and the payment of bonuses in 2004. EMEA overheads expressed in US dollars were 16.7% higher than 2003 primarily due to the impact of exchange rates; in sterling, the increase was 4.5%. Including regional costs charged directly to income streams, total gross overheads were 2.0% below 2003 levels when compared at constant exchange rates.

*Cash flow and Investment*

Operating cash flow for Hotels was £291 million compared with £308 million for the 12 months ended December 31, 2003. Net capital expenditure, net of disposal proceeds, was £81 million against £45 million in 2003.

*Soft Drinks*

	<b>Year ended December 31, 2004(i)</b>	<b>12 months ended December 31, 2003(i)</b>	<b>Change</b>
	( <b>£ million</b> )		%
Turnover	706	674	4.7
Operating profit before exceptional items	80	83	(3.6)

(i) 2004 53 weeks 2003 52 weeks

*Strategy*

Soft Drinks continued to invest in its key brands and in new product innovation. During 2004, Britvic acquired the Ben Shaw's water business, for £4 million, further increasing Britvic's presence in the UK's expanding water market and providing additional capacity.

**Table of Contents***Performance*

Soft Drinks turnover increased by 4.7% to £706 million, a strong performance against a 2003 result that benefited from a particularly favorable summer. Volume growth was 1.5% with strong growth in on-premise volume up 7.3%, driven by carbonates, adult and fruit drinks, with J<sub>2</sub>O and Fruit Shoot performing particularly well. Soft Drinks increased its share of the take-home market although volumes were lower as the market volume fell below 2003. Pepsi achieved a take-home cola market share of 20%. Turnover growth benefited from an extra week's trading; 2004 included 53 weeks' trading compared with 52 weeks in 2003.

Operating profit for Soft Drinks was £80 million, £3 million down on 2003. Operating profit in 2003, however, was boosted by an estimated £5 million from the exceptionally good summer weather. Although 2004 operating profit benefited from an extra week's trading, incremental costs associated with a move to a more stand-alone basis, additional depreciation, increased pension costs and continued investment both in brand support and infrastructure costs, left profit £3 million down on last year.

*Cash flow and Investment*

Operating cash flow for Soft Drinks was £73 million compared with £71 million for the 12 months ended December 31, 2003. Net capital expenditure was £70 million against £55 million in 2003 in line with forecast, including the acquisition of Ben Shaw's water business and significant investment in systems and business processes. Capital expenditure is expected to reduce to approximately £50 million in 2005.

**Highlights for the 12 months ended December 31, 2003**

*Turnover.* Hotels turnover decreased £51 million (3.3%) from £1,538 million for the year ended December 31, 2002, to £1,487 million for the 12 months ended December 31, 2003. While revenue rose £7 million (0.9%) in EMEA, the Americas and Asia Pacific were negatively impacted by exchange rate movements. The decline of the US dollar against sterling by 9.7% from the first to fourth quarters resulted in sterling reported turnover in the Americas finishing the 12 months down 7.7% and Asia Pacific down 10.9%.

*Operating profit.* Hotels operating profit before exceptional items for the year ended December 31, 2003 was £200 million, down 16.3% (12 months ended December 31, 2002 £239 million). Trading was depressed in the first and second quarters by the threat and then outbreak of the war in Iraq and the outbreak of SARS in Asia and Canada. The weakening of the US dollar against sterling had a negative impact in the second half of the year in the Americas. In EMEA the owned and leased estate was negatively impacted by the combined effects of pre-opening costs, hotels opening towards the end of the period, and increased depreciation charges associated with prior year refurbishments. A reduction in overheads primarily driven from the reorganization review helped to offset some of the profit declines.

*Americas*

Operating profit before exceptional items for the Americas region for the year ended December 31, 2003 of \$262 million, marginally ahead of 2002 (\$260 million 12 months ended December 31, 2002). The weakening of the US dollar against sterling had a negative impact in the second half of the year on sterling reported results and the Americas finished the 12 months ended December 31, 2003 with operating profit before exceptional items in sterling of £161 million, down 7% from the 12 months ended December 31, 2002. Total Americas overheads including direct costs, were down 10%, with the separately disclosed regional overheads down 3% reflecting implementation of initiatives arising from the reorganization review.

RevPAR performance in the franchised estate finished the year ended December 31, 2003 0.3% down from the prior year at \$46.61. The war in Iraq in the first half of the year contributed to the decline. In the third and fourth quarters, as a result of an improvement in domestic travel, the franchised estate recorded 1.5% and 2.7% RevPAR growth respectively. All brands recorded a stronger second half to the year, with InterContinental, Express and Staybridge Suite franchises all recording over 3.5% year-on-year growth for the second six months.

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RevPAR growth in the owned and managed estates followed a similar trend with the second half of the year significantly up on the first. The InterContinental owned estate, with its major gateway city exposure, grew year-on-year in each quarter as stability returned to the travel market. The InterContinental hotels in Chicago, New York, San Francisco and Miami all recorded strong growth in the second half of the year. In July 2003, IHG sold 16 Staybridge Suites to HPT for \$185 million, retaining management and branding.

Managed results include the full profit and loss account for certain properties where IHG is responsible for the underlying operations. Operating profit before exceptional items in the managed estate fell due to RevPAR declines in the managed InterContinental and Crowne Plaza estates in North and Latin America, and the agreed payments made to HPT under our management contract. In September, HPT converted 14 additional suite hotels to IHG's Staybridge Suite brand and management.

*Europe, Middle East and Africa*

The managed and franchised estate in EMEA opened 40 hotels with over 6,500 rooms. Of these hotels, 78% were new build. As at December 31, 2003, there were a further 96 hotels with over 18,000 rooms signed and under development.

Turnover in EMEA totaled £807 million for the 12 months ended December 31, 2003, an increase of £7 million on 2002. Owned and leased turnover grew by £7 million with the reopening during the year of the refurbished InterContinental Le Grand Paris, and the opening of the newly built Crowne Plaza Brussels Airport, Holiday Inn Paris Disney, and three Express hotels in Germany. EMEA operating profit before exceptional items totaled £92 million for the 12 months ended December 31, 2003. The conversion of revenue to operating profit was depressed by the owned and leased estate, where the combined effects of pre-opening costs, hotels opening towards the end of the period, and increased depreciation charges associated with prior year refurbishment, all negatively impacted costs. Regional overheads fell £8 million to £22 million for the 12 months ended December 31, 2003 (£30 million for the 12 months ended December 31, 2002) as a result of the reorganization initiatives.

RevPAR in the region for the 12 months ended December 31, 2003 was 0.7% lower than the prior 12 months at \$56.36. The trend in the first half of the year was similar to that experienced in the Americas, with trading primarily depressed by the threat and then outbreak of the war in Iraq. In the second half of the year the UK market showed signs of recovery, although the picture was less clear in Europe, with both the German and French markets experiencing mixed trading conditions.

The Holiday Inn UK estate recorded five consecutive months of RevPAR growth to finish the year up 2.3%, primarily driven by increased occupancy. The UK regions, with their domestic focus, recovered earlier than London and recorded seven consecutive months of growth. In London, December 2003 trading was particularly strong with the majority of the owned estate recording double digit RevPAR growth to end the month up 12.3%.

Across EMEA the InterContinental estate finished the year with an overall RevPAR decline of 5.7%. While the owned InterContinental estate finished down 8.0% due to its exposure to the main European gateways, the managed Middle East estate traded more positively with the comparable Middle East estate recording RevPAR growth of 2.7%.

Crowne Plaza finished the 12 months with RevPAR growth of 3.3% due to growth in the managed and franchised estates of 11.1% and 3.2% respectively. This performance was helped by the Middle East estate which finished the 12 months ended December 31, 2003 up 29.5%.

Franchise turnover fell due to a fall in RevPAR and exchange rate movements, offset by growth in system size. Franchise profits grew primarily due to savings in franchise overheads realized as part of the organizational review.

During the year the InterContinental Le Grand Paris reopened after a full refurbishment to position the property at the top of the Paris market. The Holiday Inn Paris Disney opened, giving representation at one of

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Europe's leading family leisure destinations and the Crowne Plaza Brussels Airport opened at the end of the year, giving the brand another defining asset at a major European airport.

*Asia Pacific*

System growth continued in the region with a net increase of over 3,000 rooms operated under management agreements. Highlights of the new openings were five new InterContinental hotels in Thailand, Australia and India, and four Holiday Inns in Greater China. The new Holiday Inns in China brought the system size to 44 hotels. There are also 18 management agreements signed, but under development, which will extend IHG's leadership in the key Greater China market.

Turnover in Asia Pacific for the 12 months ended December 31, 2003 was \$185 million, down \$7 million (4%) from the 12 months ended December 31, 2002. In addition to the impact of the war in Iraq, trading in Asia Pacific was depressed by the Bali bombing and the SARS outbreak.

Trading at the InterContinental Hong Kong fell sharply in March 2003 in connection with the outbreak of SARS, but recovery commenced in the third and fourth quarters. The opening of the award-winning Spoon restaurant in the InterContinental Hong Kong in October lifted non-rooms revenue. In Australia, the Rugby World Cup gave trading a boost in the second half of the year.

Initiatives to increase revenue within the region included the roll-out of local websites for China, Australia and New Zealand, and the opening of a Central Reservations Office based in Guangzhou, The People's Republic Of China, supporting calls in Cantonese and Mandarin. The addition during the year of Air China as a Priority Club Rewards partner further strengthened our travel alliances in the region.

*Central*

Central overheads principally comprise the costs of global functions that were centralized following the reorganization review, reduced by Holidex fee income. The reduction in gross central costs from £121 million for the year ended December 31, 2002 to £106 million for 2003, primarily reflects savings driven from the reorganization review.

***Cash flow and Investment***

Following the Separation, the Group undertook a detailed review of its owned and leased portfolio to identify opportunities to lower capital intensity. The Group's strategy is that it will, in general, only own assets if they have strategic value or generate superior returns. The Group has now developed plans for each owned asset taking into account a wide range of different criteria, including where relevant the state of the local market and readiness of the asset to be sold. It is currently estimated that the disposal program will involve the further sale of assets with a net book value of between £800 million and £1 billion. The scale and complexity of the program means that it will take some considerable time to complete and is subject to there being no significant adverse changes in market conditions.

In the 12 months ended December 31, 2003 the Group completed sales of fixed assets with proceeds of £254 million with an overall gain on sale of £4 million. The Group is in active negotiations on further sales and has a pipeline of disposals.

In July 2003, the Group completed the sale of a 16 property Staybridge Suites portfolio to HPT, one of the largest US hotel real estate investment trusts, for \$185 million. Investment had been made into the Staybridge Suites portfolio by the Group to enable rapid entry to the important US extended stay market. The disposal to HPT achieved a reduction in capital employed within the business while retaining management and branding of the hotels.

The Group's strategic relationship with HPT expanded further with the conversion in September 2003 of 14 further HPT owned hotels to the Staybridge Suites brand.

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The sale of the InterContinental London May Fair for £115 million was completed in September 2003. With an alternative property in London, and with this property in need of refurbishment, IHG took the opportunity to reduce capital intensity in the business at a favorable price in excess of £400,000 per room.

In October 2003, IHG announced the acquisition of the Candlewood Suites brand in the US for \$15 million from Candlewood Hotel Corporation. This brand's positioning in the midscale extended stay segment will complement Staybridge's upscale positioning. Candlewood Suites is an established brand of purpose built hotels with 109 properties on average less than five years old. The major owner of Candlewood properties is HPT, which owned 64 properties at the time of announcement and which, in a related transaction, purchased an additional 12 properties. IHG will manage all 76 of HPT's properties under 20-year agreements, with options to extend. The transaction concluded on December 31, 2003.

*Soft Drinks*

Soft Drinks grew its market share in a number of key segments in which it operates. In addition to a strong investment program in its key brands, Soft Drinks is also committed to an active new product development program, which has recently brought additional success to the business through its J<sub>2</sub>O and Fruit Shoot brands. While this investment is driving top line revenue growth, Soft Drinks is also focused on effective cost and asset management to deliver an even higher level of earnings and return on capital employed growth.

*Turnover.* As a result of favorable summer trading conditions the overall UK soft drinks market grew 8%. Soft Drinks turnover of £674 million was up 10% on the previous year. In the 12 months ended December 31, 2003, Soft Drinks grew its share of the carbonates market with Tango having an outstanding year, with volumes up 14%. Both Pepsi and 7UP performed well with volumes up 3% and 6%, respectively. Following good performance in 2002, Robinsons continued to grow with sales excluding Fruit Shoot up a further 4% in 2003. Investment was made in further capacity to support the success of Fruit Shoot and J<sub>2</sub>O, with both brands leading their respective market segments with volume growth in 2003 of 54% and 95%, respectively.

*Operating profit.* The business continued its focus on effective cost control, which along with the increase in turnover, contributed to an overall operating profit before exceptional items increase of 22% to £83 million for the 12 months ended December 31, 2003.

*Cash flow and Investment*

Operating cash flow for the 12 months ended December 31, 2003 was £71 million. Capital expenditure of £55 million for the 12 months ended December 31, 2003 was driven by expansionary investment in additional Fruit Shoot and J<sub>2</sub>O production capacity, together with significant investment in a business transformation program. This, in addition to implementing new IT infrastructure, will significantly enhance operating efficiency.

*Discontinued Operations – Mitchells and Butlers*

The audited Group results for the 15 months ended December 31, 2003 includes MAB operations for the 28 weeks from October 1, 2002 until the Separation on April 15, 2003. For the year ended September 30, 2002 MAB results are included for the full fiscal year.

For the 28 weeks until Separation, turnover from MAB operations was £793 million, up 0.9% from the comparable period in the prior year (£786 million in the 28 weeks ended April 13, 2002). Underlying the 0.9% rise in turnover was a 1.0% fall in drink sales and a 2.7% rise in food sales. These comparisons were adversely affected by the timing of the important Easter trading period, which fell after the 28 week period in 2003 but within the 2002 trading period. MAB turnover for the year ended September 30, 2002 was £1,481 million.

MAB operating profit before exceptional items for the 28 weeks prior to the Separation was £137 million (£146 million in the 28 weeks ended April 13, 2002). Gross operating margins were maintained despite the different Easter period, higher employment and property costs arising from regulatory changes, and an

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increase in the pension charge. The reduction in operating profit was largely due to higher depreciation costs. MAB operating profit for the year ended September 30, 2002 was £289 million.

Operating cash flow generated by MAB was £152 million for the 28 weeks prior to the Separation (£72 million in the 28 weeks ended April 13, 2002). The improvement over the 28 weeks ended April 13, 2002 was attributable to a £64 million reduction in net capital expenditure and a favourable movement in working capital of £17 million. MAB operating cash flow for the year ended September 30, 2002 was £145 million.

**LIQUIDITY AND CAPITAL RESOURCES*****Sources of Liquidity***

IHG's policy is to maintain sufficient financial resources to meet its medium term funding requirements. In 2004 the Group refinanced its syndicated bank facility with a new £1.6 billion facility which gave the Group greater financial flexibility at a lower cost. As a result of the cost effective funding obtained from the bank market the Group repurchased the outstanding £18 million of its 2007 Notes, and made a tender offer to repurchase its 600 million 4.75% 2010 Notes. The repurchase of the Group's public debt was completed in January 2005.

At December 31, 2004 gross debt (including currency swaps) amounted to £1,538 million comprising £799 million euro borrowings, £335 million of US dollar borrowings, £247 million of sterling borrowings, £69 million of Hong Kong dollar borrowings and the remainder denominated in a variety of other currencies.

At December 31, 2004 committed bank facilities amounted to £1,697 million and uncommitted facilities of £64 million, and of these committed facilities £542 million were unutilized.

The Group also held short term deposits and investments (including currency swaps) at December 31, 2004 amounting to £422 million. Credit risk on treasury transactions is minimised by operating a policy on investment of surplus funds that generally restricts counterparties to those with an A credit rating or better or those providing adequate security. Limits are also set on the amounts invested with individual counterparties. Most of the Group's surplus funds are held in the United Kingdom or United States and there are no material funds where repatriation is restricted as a result of foreign exchange regulations.

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

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

***Cash From Operating Activities***

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

***Cash Used for Investing Activities***

In March 2004 IHG announced an on-market share repurchase program for £250 million. By December 20, 2004 the program was completed with, in total, 45.6 million shares repurchased at an average price of 548p per share.

In September 2004 IHG announced a further £750 million return of funds to shareholders. A special dividend of £501 million was paid to shareholders on December 17, 2004, followed by an associated share consolidation. A further £250 million share repurchase program commenced in December 2004, and by December 31, 2004 a further 0.8 million shares had been repurchased at an average price per share of 651 pence (total £5 million). By April 25, 2005, a total of 20,259,275 shares had been repurchased under the



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second repurchase program at an average price per share of 632 pence per share (approximately £128 million).

Following the announcement of the sale of 73 hotels in the United Kingdom, IHG intends to return a further £1 billion to shareholders. This will require a capital restructuring to enable the release of funds arising from the receipt of disposal proceeds. Subject to receipt of shareholder approval, completion of disposal transactions and there being no material adverse change in market conditions, it is planned to complete the restructuring by the end of June 2005 and to return funds to shareholders as soon as practicable thereafter.

As of December 31, 2004, the Group had committed contractual capital expenditure of £53 million. Contracts for expenditure on fixed assets are not authorized by the directors on an annual basis, as divisional capital expenditure is controlled by cash flow budgets. Authorization of major projects occurs shortly before contracts are placed.

The Group intends to invest approximately £300 million in capital expenditure in 2005. This level of capital expenditure is reviewed regularly during the year and may be increased or decreased in the light of prevailing economic and market conditions and other financial considerations.

***Contractual Obligations***

The Company had the following contractual obligations outstanding as of December 31, 2004:

	Total amounts committed	Less than			After 5 years
		1 year	1-3 years	3-5 years	
		(£ million)			
Long-term debt	1,199	43	41	1,111	4
Operating lease obligations	1,106	55	98	69	884
Other long-term obligations(i)	62	30	32		
Capital contracts placed	53	53			
	2,420	186	171	1,180	888

(i) Other long-term obligations includes credit balances on currency swaps, interest rate swaps, forward contracts and pension obligations.

The Company may provide performance guarantees to third-party owners to secure management contracts. The maximum exposure under such guarantees is £115 million. It is the view of the directors that, other than to the extent that liabilities have been provided for in the Consolidated Financial Statements, such guarantees are not expected to result in financial loss to the Group.

As of December 31, 2004, the Group had outstanding letters of credit of £33 million mainly relating to self-insurance programs.

The Group may guarantee loans made to facilitate third-party ownership of hotels in which the Group has an equity interest and also a management contract. As of December 31, 2004, the Group was a guarantor of loans which could amount to a maximum of £15 million.

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

***Pension Plan Commitments***

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

The InterContinental Hotels UK Pension Plan and the Britvic Pension Plan were both established with effect from April 1, 2003. On a Financial Report Standard (FRS) 17 Retirement Benefits basis, at



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December 31, 2004 the Plans had a deficit of £20 million and £108 million, respectively. In October 2004, £51 million was paid into the InterContinental Hotels UK Pension Plan, while £1 million was paid into the Britvic Pension Plan in January 2004. The defined benefits sections of both these Plans are generally closed to new members. In 2005, the Group expects to make projected regular contributions to the two UK principal plans of £17 million and additional contributions of £40 million to the Britvic Pension Plan.

The US based InterContinental Hotels Plan is closed to new members and pensionable service no longer accrues for current employee members. On an FRS 17 basis, at December 31, 2004 the Plan had a deficit of \$19 million.

The InterContinental Hotels Group will be exposed to the funding risks in relation to the defined benefit sections of the InterContinental Hotels and Britvic Plans and the InterContinental Hotels Pension Plan, as explained in Item 3. Key Information Risk Factors .

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

## **INTERNATIONAL FINANCIAL REPORTING INFORMATION**

The Group will be required to produce its first set of audited financial statements in line with International Financial Reporting Standards for the year ending December 31, 2005. Historically, the Group financial statements have been prepared in accordance with UK GAAP. The following explanatory notes and reconciliations describe the differences between IFRS and UK GAAP reporting for the financial year 2004 as well as for the IFRS opening balance sheet at January 1, 2004.

The effects of the transition are explained on the following pages which include balance sheet reconciliations at the date of transition, January 1, 2004, and at December 31, 2004 and a reconciliation of the profit and loss account for the year ended December 31, 2004.

### ***IFRS accounting policies***

#### ***Basis of Accounting***

The financial information is prepared in accordance with International Financial Reporting Standards ( IFRS ).

The financial information is prepared on a historical cost basis, except for certain items of property, plant and equipment held at deemed cost under the transitional rules of IFRS.

The principle IFRS accounting policies of the Group are set out below.

#### ***First Time Adoption of IFRS***

The Group has adopted IFRS from January 1, 2004 ( date of transition ) with the exception of IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement , which are adopted with effect from January 1, 2005 in accordance with the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards .

In accordance with IFRS 1, the Group is entitled to a number of voluntary and mandatory exemptions from full restatement, which have been adopted as follows:

***Business combinations*** The basis of accounting for pre-transition combinations under UK GAAP has not been revisited. The initial carrying amount of assets and liabilities acquired in such business combinations is deemed to be equivalent to cost.

***Property, plant and equipment*** The Group has elected to retain UK GAAP carrying values of freehold and leasehold hotels including revaluations as deemed cost at transition.

***Employee benefits*** The cumulative actuarial gains and losses on defined benefit pension schemes and similar post retirement benefits at transition date have been recognised in full in equity.

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*Foreign currencies* The Group has elected not to recognize separately cumulative foreign exchange movements up to the transition date, and from January 1, 2004 onwards, to recognize foreign exchange differences on the retranslation of foreign subsidiaries in a separate reserve within equity.

*Share-based payments* IFRS 2 *Share-based Payment* has been applied to all grants of equity instruments after November 7, 2002 that had not vested at January 1, 2005.

*IFRS Accounting Policies*

The Group has adopted the transitional requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IFRS 2 *Share-based Payment* from January 1, 2004.

*Basis of Consolidation*

The Group financial statements comprise the financial statements of the Company and entities controlled by the Company.

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

*Investment In Associates*

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

Associates are accounted for using the equity method, unless the investment is held for sale (see below). Using the equity method, the Group's investment is recorded at cost adjusted by the Group's share of post acquisition profits and losses.

*Assets Held for Sale*

Assets and liabilities are classified as held for sale when their carrying amount will be recovered principally through a sale transaction, rather than continuing use, and a sale is highly probable.

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

Depreciation is not charged against tangible assets classified as held for sale.

*Foreign Currencies*

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the balance sheet date.

The results of foreign operations are translated into sterling at weighted average rates of exchange for the period.

Exchange differences arising from the retranslation of opening net assets and the net result for the year denominated in foreign currencies are transferred to the Group's translation reserve within equity. Other exchange differences are taken to the profit and loss account.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of that foreign operation and is translated into sterling at the relevant closing rate.

*Financial Instruments*

The Group has adopted both IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* from January 1, 2005.

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Under the transition rules of IFRS 1, IAS 32 and IAS 39 are not applied to comparative balances; in 2005, comparative balances will be presented on the existing UK GAAP basis.

*Trade debtors* Trade debtors are recorded at their original amount less an allowance for any doubtful accounts.

An allowance for doubtful accounts is made when collection of the full amount is no longer considered probable.

*Investments* On adoption of IAS 39 non current investments are classified as available for sale and held at fair value. Gains and losses from fair value changes are recognized within equity. Impairment losses are recognized within the profit and loss account.

Until January 1, 2005, such investments were recorded in accordance with UK GAAP at cost less any provision for impairment.

*Trade creditors* Under both IAS 39 and UK GAAP, trade creditors are non interest bearing and are stated at their nominal value.

*Bank and other borrowings* Under both IAS 39 (subject to the hedging policies outlined below) and UK GAAP, borrowings are stated at proceeds received plus any unamortized issue costs.

Under IAS 39 and UK GAAP, finance charges including issue costs are charged to the profit and loss account using an effective interest rate method. Finance costs not settled in the period are included within the outstanding loan balance.

*Derivative financial instruments and hedging* Under IFRS, non hedging derivatives and other treasury instruments are carried on the balance sheet at fair value. Movements in fair value are recognized in the profit and loss account.

Derivatives designated as hedging instruments are accounted for in line with the nature of the hedging arrangement. Documentation outlining the measurement and effectiveness of a hedging arrangement is maintained throughout the life of the hedge relationship. Any ineffective element of a hedge arrangement is recognized in the profit and loss account.

*Goodwill*

Goodwill arises on consolidation as the excess of the cost of acquisition over the fair value at the date of acquisition of assets acquired of a subsidiary, associate or jointly controlled entity.

Goodwill is recognized as an asset and tested annually for impairment. Goodwill is not amortized.

Negative goodwill is recognized immediately in the profit and loss account.

Goodwill arising on acquisitions prior to September 30, 1998 was eliminated against shareholders funds under UK GAAP; it has not been reinstated. On disposal of a business, any such goodwill relating to the business will not be taken into account in determining the profit or loss on disposal.

*Intangible Assets*

*Acquired through a business combination* On acquisition of an entity, intangible assets which are separately identifiable and arise from a legal or contractual right are recognized at fair value and amortized on a straight line basis over a period appropriate to the type of asset.

*Other intangible assets* Amounts paid to hotel owners to secure management contracts and franchise agreements are capitalized and amortized over the shorter of the contracted period and 10 years.

Internally generated development costs are capitalized when forecast related revenues exceed attributable forecast development costs.

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In the circumstance of a hotel or other asset being sold to a purchaser who then enters into a management or franchise contract with the Group, this is accounted for as an exchange of assets and the profit or loss on disposal is determined by comparing the net book value of the asset sold to the total consideration received, which includes an estimate of the fair value of the contract.

*Property, Plant and Equipment*

Freehold and leasehold land and buildings are stated at cost, except as allowed under the IFRS 1 transition rules, less depreciation and any impairment.

All other fixed assets are stated at cost less depreciation and impairment. Borrowing costs are not capitalized. Repairs and maintenance costs are expensed as incurred.

Under the transition rules of IFRS 1, the Group has elected to use previous UK GAAP carrying values, including revaluations, as deemed cost at transition.

Freehold land is not depreciated. All other tangible fixed assets are depreciated to a residual value over their estimated useful lives, namely:

Freehold buildings	50 years
Leasehold buildings	lesser of unexpired term of lease and 50 years
Fixtures, fittings and equipment	3-25 years
Plant and machinery	4-20 years

All depreciation and amortization is charged on a straight line basis.

*Impairment*

At each balance sheet date the Group reviews all assets to determine if there are any indicators of impairment. If indicators of impairment exist then the recoverable amount of an asset or cash generating unit ( CGU ) is estimated.

Where individual assets do not generate cash flows independent from other assets, the Group reviews the carrying value and recoverable amount of a CGU. This is the smallest group of assets where independent cash flows are produced.

Intangible assets with an indefinite life and goodwill are tested for impairment at least annually by comparing carrying values with recoverable amounts.

If the recoverable amount of an asset or CGU is less than its carrying amount, the difference is recognized in the profit and loss account as an impairment loss.

*Deferred Taxation*

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the asset or liability will be settled.

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*Leases*

Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

*Pensions*

*Defined contribution plans* Payments to defined contribution schemes are charged to the profit and loss account as they fall due.

*Defined benefit plans* Any excess or shortfall of scheme assets, measured at fair value, over scheme liabilities, measured using the projected unit credit method, is recognized in the balance sheet.

Actuarial gains and losses are recognized in reserves in the year in which they arise.

Past service cost is recognized immediately when the related benefits have vested. When benefits are not fully vested, these costs are recognized on a straight line basis over the remaining vesting period.

Actuarial valuations are normally carried out every three years.

*Self Insurance*

The Group is self insured for various levels of general liability, workers' compensation and employee medical and dental coverage. Insurance reserves include projected settlements for known and incurred but not reported claims. Projected settlements are estimated based on historical trends and actuarial data.

*Stocks*

Stocks are stated at the lower of cost and net realizable value. Cost includes direct purchase costs and other overheads incurred in bringing these stocks to their present location and condition. Cost is determined by a first-in, first-out method.

Net realizable value represents estimated selling price less marketing and selling costs.

*Revenue Recognition*

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

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

Owned and leased revenue derived from hotel operations, including the rental of rooms and food and beverage sales from a worldwide network of owned and leased hotels operated under the Group's brand names. Revenue is recognized when rooms are occupied and food and beverage is sold.

Management fees earned from hotels managed by the Group, usually under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and an incentive fee, which is generally based on the hotel's profitability. Revenue is recognized in accordance with the contract.

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

Soft Drinks sales (excluding VAT and similar taxes) of goods and services, net of discounts, provided in the normal course of business. Revenue is recognized when sales are made.

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*Loyalty Program*

The hotel loyalty program, Priority Club Rewards, enables members to earn points, funded through hotel assessments, during each stay at an InterContinental Hotels Group hotel and redeem points at a later date for free accommodation or other benefits. The future redemption liability is included in creditors less than, and greater than, one year and is estimated using actuarial methods which estimate eventual redemption rates and points values.

*Use of Estimates*

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

*Cash and Cash Equivalents*

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term highly liquid investments with a maturity of less than 90 days that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Bank overdrafts repayable on demand are a component of cash equivalents.

*Share-Based Payments*

In accordance with the transitional provisions of IFRS 2 *Share-based Payment* the Group has elected to apply IFRS 2 to grants, options and other equity instruments granted after November 7, 2002 not vested at January 1, 2004.

The Group issues equity settled share-based payments to certain employees through incentive schemes and a *Save As You Earn* scheme. The fair value of these share-based payments is expensed on a straight line basis over the vesting period of the equity instrument, based on the Group's best estimate of the number of shares that will vest.

Fair value is based on option pricing models and the terms and conditions of the option schemes.

*Proposed Dividend*

Dividends of £81 million (2003 £86 million) were proposed before the balance sheet date.

***Accounting policy differences between UK GAAP and IFRS***

The Group financial statements are prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP) which differ from IFRS. The significant differences, as they apply to the Group, are summarized below.

*Assets held for sale* Under UK GAAP there is no held for sale definition and no reclassification is required.

Under IFRS, assets are classified as held for sale when their value will be recovered through a sale transaction rather than continuing use, and management consider a sale to be highly probable.

Assets classified as held for sale are held at the lower of their carrying value and fair value less costs to sell. No depreciation or amortization is charged on assets held for sale.

*Discontinued operations* Under UK GAAP, operations are classified as discontinued when the sale or termination of operations is completed before the earlier of three months after year end or approval of the financial statements. In addition, the operations concerned must have a material effect on the nature and focus



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of operations resulting in either a withdrawal from a particular class of business or geographical market or a material reduction in turnover in a continuing market.

Under IFRS, the results of operations arising from assets classified as held for sale are classified as discontinued operations when the results relate to a separate line of business, or geographical area of operations, or where there is a coordinated plan to dispose of a separate line of business or geographical area of operations.

Discontinued operations are shown as a separate figure, net of tax, on the face of the profit and loss account.

*Goodwill* Under UK GAAP, goodwill is amortized over 20 years and tested for impairment annually.

Under IFRS, goodwill is subject to annual impairment testing and is not amortized.

*Impairment* Under UK GAAP, impairment is measured for an income-generating unit when indicators of impairment exist. All assets are reviewed for indicators of impairment at the balance sheet date.

Under IFRS, all assets are reviewed for evidence of the existence of impairment indicators at each reporting date. Assets with an indefinite life (such as goodwill) are subject to impairment testing at least annually.

*Pension costs* Under UK GAAP, the Group provides for the cost of retirement benefits based upon a consistent percentage of employees' pensionable pay as recommended by independent qualified actuaries. Variations in regular pension costs are amortized over the average expected service life of current employees on a straight line basis. Scheme assets and liabilities are not recognized on the Group's balance sheet.

Under IFRS, the cost of providing defined benefit retirement benefits is recognized over the service life of scheme members. This cost is calculated by an independent qualified actuary, based on estimates of long-term rates of return on scheme assets and discount rates on scheme liabilities.

Any excess or deficit of scheme assets over scheme liabilities is recorded as an asset or liability, respectively, in the Group's balance sheet to the extent that it does not relate to unrecognized actuarial gains and losses.

Each year the scheme net assets or liabilities are adjusted for actuarial gains and losses which are recognized directly in reserves.

*Share-based payment* Under IFRS, the fair value of all share-based payments is expensed over the vesting period of the related equity instruments, based on the Group's best estimate of the number of shares that will vest.

Fair value is determined by an option pricing model applied to all share-based payments granted after November 7, 2002.

*Deferred taxation* Under UK GAAP, deferred tax is provided on all timing differences, subject to certain exceptions. Accordingly, deferred tax is not provided on revaluation gains and gains rolled over into replacement assets unless there exists a binding agreement for sale, nor on unremitted earnings of investments except to the extent of accrued dividends or where there exists a binding agreement to distribute earnings.

Under IFRS, deferred tax is recognized on all temporary differences between the tax base and carrying value of assets and liabilities, including those arising from revaluation of assets, on gains rolled over into replacement assets and on unremitted earnings of investments where the Group does not control the timing of distributions.

In addition, IFRS requires the tax base of assets and liabilities to be determined by management's current intended use and the intended manner of realization of the asset or liability.

*Cash and cash equivalents* Under UK GAAP, there is no equivalent definition.

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Under IFRS, cash equivalents are defined as short-term highly liquid investments with a maturity of less than 90 days that are readily convertible into a known amount of cash.

*Dividends* Under UK GAAP, dividends are recognized in the period in which they are declared.

Under IFRS, dividends are recognized as an appropriation of reserves in the period in which they are approved.

*Reconciliation of earnings under UK GAAP to IFRS for the year ended December 31, 2004*

	Turnover	Operating profit before exceptional items	Interest	Tax	Exceptional items	Profit after tax	Minority interest	Earnings available for shareholders
	(£ million)							
<b>As reported under UK GAAP</b>	<b>2,204</b>	<b>331</b>	<b>(22)</b>	<b>(50)</b>	<b>68</b>	<b>327</b>	<b>(28)</b>	<b>299</b>
Remove goodwill amortization		10		(1)		9	(1)	8
Pension accounting adjustments		(6)		2		(4)	2	(2)
Share-based payment adjustments		(4)		3		(1)		(1)
Impairment of previously revalued assets					(6)	(6)		(6)
Depreciation adjustment of held for sale assets		15		(5)		10		10
Adjustment to provision for loss on disposal of operations					74	74		74
Tax adjustments				(5)	6	1		1
<b>Under IFRS</b>	<b>2,204</b>	<b>346</b>	<b>(22)</b>	<b>(56)</b>	<b>142</b>	<b>410</b>	<b>(27)</b>	<b>383</b>
Continuing operations	1,602	228	(22)	(18)	118	306	(27)	279
Discontinued operations	602	118		(38)	24	104		104

*Key indicators*

	UK GAAP	IFRS
	(£ million except per ordinary share amounts)	
Net debt	(1,116)	(1,116)
Basic earnings per ordinary share	42.1p	53.9p



**Table of Contents***Reconciliation of basic EPS to adjusted EPS*

	£ million	Pence per ordinary share
<b>Basic EPS under IFRS</b>	<b>383</b>	<b>53.9p</b>
Exceptional items:		
Impairment of tangible fixed assets	48	6.7p
Administrative expense	11	1.5p
Other operating income	(20)	(2.8p)
Profit on disposal of fixed assets	(15)	(2.1p)
Provision against fixed asset investments	10	1.4p
Interest receivable	(22)	(3.1p)
Interest payable	16	2.3p
Premium on early settlement of debt	17	2.4p
Tax credit on above items	(20)	(2.8p)
Exceptional tax credit	(167)	(23.5p)
	(142)	(20.0p)
<b>Adjusted EPS under IFRS</b>	<b>241</b>	<b>33.9p</b>

*Reconciliation of UK GAAP balance sheet to IFRS balance sheet at January 1, 2004*

	Non current assets	Current assets	Current liabilities	Non current liabilities	Minority interests	Net assets	Equity
	(£ million)						
<b>As reported under UK GAAP</b>	<b>4,281</b>	<b>999</b>	<b>(1,085)</b>	<b>(1,478)</b>	<b>(163)</b>	<b>2,554</b>	<b>(2,554)</b>
Reclassify proposed dividends			86			86	(86)
Pension accounting adjustments		(47)		(131)	57	(121)	121
Deferred tax adjustments				(163)	(17)	(180)	180
Reclassifications	30	(30)					
<b>Under IFRS at January 1, 2004</b>	<b>4,311</b>	<b>922</b>	<b>(999)</b>	<b>(1,772)</b>	<b>(123)</b>	<b>2,339</b>	<b>(2,339)</b>

*Reconciliation of UK GAAP balance sheet to IFRS balance sheet at December 31, 2004*

	Non current	Current	Current	Non current	Minority
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	assets	assets	liabilities	liabilities	interests	Net assets	Equity
	(£ million)						
<b>As reported under UK GAAP</b>	<b>4,017</b>	<b>757</b>	<b>(1,013)</b>	<b>(1,634)</b>	<b>(150)</b>	<b>1,977</b>	<b>(1,977)</b>
Reclassify proposed dividends			81			81	(81)
Remove goodwill amortisation	10				(1)	9	(9)
Pension accounting adjustments		(110)		(125)	75	(160)	160
Deferred tax adjustments				(134)	(22)	(156)	156
Reclassify assets as held for sale	15			74		89	(89)
Reclassifications	31	(31)					
<b>Under IFRS at December 31, 2004</b>	<b>4,073</b>	<b>616</b>	<b>(932)</b>	<b>(1,819)</b>	<b>(98)</b>	<b>1,840</b>	<b>(1,840)</b>

**Table of Contents****ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**  
**DIRECTORS AND SENIOR MANAGEMENT**

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

The directors and officers of InterContinental Hotels Group PLC as at April 25, 2005 are:

<b>Name</b>	<b>Title</b>	<b>Initially appointed to the board</b>	<b>Date of next reappointment by shareholders</b>
Andrew Cosslett	Director and Chief Executive	2005	2005
Richard Hartman	Director and Managing Director, EMEA	2003	2005
David Kappler(1)	Director and Senior Independent Director	2004	2005
Ralph Kugler(1)	Director	2003	2005
Robert C. Larson(1)	Director	2003	2005
Stevan Porter	Director and President, the Americas	2003	2006*
David Prosser(1)	Director	2003	2006*
Richard Solomons	Director and Finance Director	2003	2005
Sir Howard Stringer(1)	Chairman of Britvic	2003	2006*
David Webster(1)	Chairman	2003	2006*

\* One third of the directors are required to retire by rotation at each Annual General Meeting. Three of the four directors asterisked will be required to retire and/or stand for re-election at the Annual General Meeting to be held in 2006.

(1) Non-executive director.

**Officers**

<b>Name</b>	<b>Title</b>	<b>Initially appointed</b>
Peter Gowers	Executive Vice President, Global Brand Services	2003
A. Patrick Imbardelli	Managing Director, Asia Pacific	2003
Jim Larson	Executive Vice President, Human Resources	2003
Richard Winter	Executive Vice President, Corporate Services, Group Company Secretary and General Counsel	2003

**Former Directors and Officers**

Richard North served as director and Chief Executive of the Company from Separation in April 2003 until September 30, 2004.

***Directors and Officers***

*Andrew Cosslett*

Andrew Cosslett was appointed Chief Executive in February 2005. He joined the Group from Cadbury Schweppes plc where he was most recently President, Europe, Middle East and Africa. During his career at Cadbury Schweppes he held a variety of senior regional management and marketing roles in the UK and Asia Pacific. He has over 11 years previous experience in brand marketing with Unilever. He is also non-executive Chairman of Duchy Originals Limited. Aged 50.

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*Peter Gowers*

Peter Gowers has previous international experience in management consultancy based in London and Singapore. He joined the Group in 1999 and was appointed Executive Vice President, Global Brand Services in January 2003. He is responsible for Group strategy, worldwide marketing and distribution, reservations and loyalty programs. Aged 32.

*Richard Hartman*

Richard Hartman has over 38 years experience in the hotel industry including 30 years with Sheraton. He joined the Group in 1999 as Managing Director, Asia Pacific. Subsequently, as Managing Director, Europe, Middle East & Africa, he was appointed an executive director in April 2003. He is responsible for the business of all the Hotel brands and properties in the EMEA region. Aged 59.

*A. Patrick Imbardelli*

A. Patrick Imbardelli has over 23 years experience in the hotel industry including 12 years with Southern Pacific Hotels Corporation. He joined the Group in 2000 and was appointed Managing Director, Asia Pacific in January 2003. He is responsible for the business of all the Hotel brands and properties in the Asia Pacific region. Aged 44.

*David Kappler*

David Kappler was appointed a director and Senior Independent Director in June 2004. He is non-executive Chairman of Premier Foods plc and a non-executive director of Shire Pharmaceuticals Group plc and HMV Group plc. A qualified accountant and formerly Chief Financial Officer of Cadbury Schweppes plc until April 2004, he also served as a non-executive director of Camelot Group plc. He is Chairman of the Audit Committee. Aged 58.

*Ralph Kugler*

Ralph Kugler was appointed a director in April 2003. He is President, Unilever Home and Personal Care, and has been nominated to join the Board of Unilever in May 2005. He has held a variety of senior positions globally for Unilever and has experience of regional management in Asia, Latin America and Europe (including as President of Unilever Latin America and, more recently, President of Unilever Europe, Home and Personal Care) with over 25 years involvement in brand marketing. Aged 49.

*Jim Larson*

Jim Larson has over 25 years experience in human resources, most recently with the Kellogg Company. He joined the Group in 2002 as Executive Vice President, Human Resources. He is responsible for global reward strategy and implementation, talent management and leadership development. Aged 52.

*Robert C. Larson*

Robert C. Larson was appointed a director in April 2003. He is Managing Director of Lazard Frères & Co LLC, Chairman of Lazard Frères Real Estate Investors, LLC and non-executive Chairman of United Dominion Realty Trust Inc. He served as a non-executive director of Six Continents PLC (formerly Bass PLC) from 1996 until April 2003. Aged 70.

*Stevan Porter*

Stevan Porter spent 13 years with Hilton Corporation in a variety of senior management positions. He joined the Group in 2001 as Chief Operating Officer, the Americas. Subsequently, as President, the Americas, he was appointed an executive director in April 2003. He is responsible for the business of all the Hotel brands and properties in the Americas region. Aged 50.



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*David Prosser*

David Prosser is a qualified actuary with 40 years experience in financial services. Appointed a director in April 2003, he is Group Chief Executive of Legal & General Group Plc. He is Chairman of the Financial Services Skills Council and a director of the Royal Automobile Club Limited and of Epsom Downs Racecourse Limited. He served as Senior Independent Director from January to June 2004. He is Chairman of the Remuneration Committee. Aged 61.

*Richard Solomons*

Richard Solomons qualified as a chartered accountant in 1985, followed by seven years in investment banking, based in London and New York. He joined the Group in 1992 and held a variety of senior finance and operational roles. He was appointed Finance Director of the Hotels business in October 2002 in anticipation of the Company's listing in April 2003. He is responsible for finance and asset management, tax, treasury and central shared services. He is also Chairman of Britvic. Aged 43.

*Sir Howard Stringer*

Sir Howard Stringer has over 35 years experience in the media and entertainment industries. He was appointed a director in April 2003. He is a director of Sony Corporation and Chairman and Chief Executive Officer of Sony Corporation of America and has been nominated to be Group Chairman and Chief Executive Officer of Sony Corporation. He served as a non-executive director of Six Continents PLC from 2002 until April 2003. Aged 63.

*David Webster*

David Webster was appointed Deputy Chairman and Senior Independent Director of InterContinental Hotels Group on the Separation of Six Continents PLC in April 2003. He was appointed non-executive Chairman on 1 January 2004. He is also non-executive Chairman of Makinson Cowell Limited, a capital markets advisory firm. He was formerly Chairman of Safeway plc and a non-executive director of Reed Elsevier PLC. He is chairman of the Nomination Committee. Aged 60.

*Richard Winter*

Richard Winter, a solicitor, qualified in 1973 and has 20 years commercial law experience in private practice. He joined the Group in 1994 as Director of Group Legal. He is now responsible for corporate governance, risk management, internal audit, data privacy, company secretariat, Group legal services and corporate social responsibility. Aged 56.

**COMPENSATION**

In fiscal 2004, the aggregate compensation (including pension contributions, bonus and awards under the long term incentive plans) of the directors and officers of the Company was £5,191,000. The aggregate amount set aside or accrued by the Company in fiscal 2004 to provide pension retirement or similar benefits for those individuals was £243,000. An amount of nil was charged in fiscal 2004 in respect of bonuses payable to them under performance related cash bonus schemes and long term incentive plans.

Note 4 of Notes to the Financial Statements sets out the individual compensation of the directors. The following are details of the Company's principal share schemes, in which the directors of the Company participated during the period.

***Former Six Continents Share Schemes***

Under the terms of the Separation of Six Continents PLC in 2003, holders of options under the Six Continents Executive Share Option Schemes were given the opportunity to exchange their Six Continents options for equivalent value new options over IHG shares. During fiscal 2004, 7,429,736 such options were exercised, leaving a total of 12,568,562 such options outstanding at prices ranging from 308.48p to 593.29p.

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Under the terms of the Six Continents Special Deferred Incentive Plan 59,217 IHG shares were transferred to employees in 2004, reflecting entitlements existing prior to the Separation.

***Share Plans established on Separation******Executive Share Option Plan***

The Remuneration Committee, consisting solely of non-executive directors, may select employees, including executive directors, of the Group, for the grant of options to acquire ordinary shares in the Company. The option price will not be less than the market value of an ordinary share, or the nominal value if higher. The market value will be the quoted price on the business day preceding the date of grant, or the average of the middle market quoted prices on the three consecutive dealing days immediately preceding the date of grant. The International Schedule to the Scheme extends it to executives outside the United Kingdom. Grants of options under the Executive Share Option Plan are normally made annually and except in exceptional circumstances, will not, in any year, exceed three times annual salary for executive directors. A performance condition has to be met before options can be exercised. The performance condition is set by the Remuneration Committee.

In April 2004, options were granted to 180 employees over 6,951,420 IHG shares at 494.17p per share. In April 2005, options were granted to 58 employees over 2,104,570 IHG shares at 619.83p per share. For options granted in 2004 and 2005, the Company's adjusted earnings per share over the three-year performance periods ending December 31, 2006 and December 31, 2007 must increase by at least nine percentage points over the increase in the UK Retail Prices Index for the same period for any of the award to vest. Options granted in 2004 are exercisable between 2007 and 2014 and options granted in 2005 are exercisable between 2008 and 2015, subject to the achievement of the performance condition.

As of April 25, 2005, 27,633,433 IHG shares were subject to options under the Executive Share Option Plan.

***Short Term Deferred Incentive Plan***

The IHG Short Term Deferred Incentive Plan (the STDIP) enables eligible employees, including executive directors, to receive all or part of their bonus in the form of IHG shares together with, in certain cases, a matching grant of free shares. The bonus and matching shares are deferred and released in equal amounts at the end of each of the three years following deferral. Participation in the STDIP is at the discretion of the IHG directors. The number of shares is calculated by dividing a specific percentage of the participant's salary by the average share price for a period of days prior to the date on which the shares are granted. As of April 25 2005, conditional rights over 804,165 IHG Shares had been awarded to participants under the Plan.

***Performance Restricted Share Plan***

The Performance Restricted Share Plan allows executive directors and eligible employees to receive share awards, subject to the satisfaction of a performance condition, set by the Remuneration Committee, which is normally measured over a three year period. Awards are normally made annually and, except in exceptional circumstances, will not exceed three times annual salary for executive directors. In determining the level of awards within this maximum limit, the Committee takes into account the level of Executive Share Options already granted to the same person. As of April 25, 2005 conditional rights over 5,914,246 IHG shares had been awarded to employees under the plan. The plan provides for the grant of nil cost options to participants as an alternative to share awards. As of April 25, 2005, no such nil cost options had been granted.

***Sharesave Plan***

The Sharesave Plan is a savings plan whereby employees contract to save a fixed amount each month with a Savings Institution for 3 or 5 years. At the end of the savings term, employees are given the option to purchase shares at a price set before savings began. The Sharesave Plan is available to all UK employees (including executive directors) employed by participating Group companies provided they have been

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employed for at least one year. The Plan provides for the grant of options to subscribe for ordinary shares at the higher of nominal value and not less than 80% of the middle market quotations of the ordinary shares on the three dealing days immediately following an announcement of results. As of April 25, 2005, 1,209,633 IHG shares were subject to options under the Sharesave Plan at a subscription price of 420.5p, exercisable up to the year 2009.

***Options and Ordinary Shares held by Directors***

Details of the directors' interests in the Company's shares are set out below and in Note 4 of Notes to the Financial Statements.

**BOARD PRACTICES**

***Contracts of Service***

The executive directors have service agreements with the Company.

Prior to the Separation of Six Continents PLC Richard Hartman, Richard North, Stevan Porter and Richard Solomons entered into service agreements with a notice period of 12 months. Following the year end, Andrew Cosslett entered into a service agreement with an initial notice period of 24 months, reducing month-by-month to 12 months after the initial 12 month period. All new appointments are intended to have 12 month notice periods. However, on occasion, to complete an external recruitment successfully, a longer initial period reducing to 12 months may be used, following guidance in the Combined Code.

David Webster took over as interim Chief Executive on September 15, 2004 following announcement that Richard North would resign as a director of the Company on September 30, 2004. David Webster's remuneration in his capacity as interim Chief Executive was exclusive of his remuneration in his capacity as non-executive Chairman of the Company, which is the subject to six months' notice.

Non-executive directors, Ralph Kugler, Robert C. Larson, David Prosser and Sir Howard Stringer signed letters of appointment effective from the listing of IHG. David Kappler signed a letter of appointment effective from June 21, 2004. All non-executive directors' appointments are subject to re-election at the Annual General Meeting at which they may retire by rotation.

See Note 4 of the Notes to the Financial Statements for details of directors' service contracts.

***Payments on Termination***

No provisions for compensation for termination following change of control, or for liquidated damages of any kind, are included in the current directors' contracts. In the event of any early termination of an executive director's contract the policy is to seek to minimize any liability.

Upon retirement, and under certain other specified circumstances on termination of his employment, a director will become eligible to receive benefit from his participation in a Company pension plan. See Note 4 of Notes to the Financial Statements for details of directors' pension entitlements at December 31, 2004.

***Executive Committee***

This Committee is chaired by the Chief Executive, Andrew Cosslett. It consists of the executive directors and senior executives from the Group and the regions and usually meets monthly. Its role is to consider and manage a range of important strategic and business issues facing the Group. It is responsible for monitoring the performance of the regional Hotels business and the Britvic business and is authorised to approve capital and revenue investment within levels agreed by the board.

***Audit Committee***

The Audit Committee is chaired by David Kappler, who has significant recent and relevant financial experience and is the committee's financial expert. He took over the role of Chairman of the Committee from

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David Webster following his appointment to the board as Senior Independent Director on June 21, 2004. During 2004, the Audit Committee consisted of all the non-executive directors, excluding the Chairman of the Company. Since January 1, 2005, the membership of the Audit Committee has consisted of David Kappler, Ralph Kugler and David Prosser and is scheduled to meet at least four times a year.

The Audit Committee assists the board in observing its responsibilities in relation to the integrity of the Group's financial statements and associated announcements, the adequacy of internal control and risk management systems and the appointment and work of the internal and external auditors. The role of the Audit Committee, including the powers and responsibilities delegated by the board, is summarised below and in full in its terms of reference, a copy of which is available on the Company's website or in writing on request.

The Committee's Chairman and financial expert, David Kappler, is a chartered management accountant and until April 2004 was Chief Financial Officer of Cadbury Schweppes plc. He also chairs the Audit Committees of two other UK public limited companies.

The Committee's principal responsibilities are to:

review the Company's public statements on internal control and corporate governance compliance prior to their consideration by the board;

review the Company's processes for detecting and addressing fraud, misconduct and control weaknesses and to consider the Company's response to any such occurrence, including overseeing the process enabling the anonymous submission of concerns;

review reports from management, internal audit and external audit concerning the effectiveness of internal control, financial reporting and risk management processes;

review with management and the external auditor any financial statements required under UK or US legislation before submission to the board;

establish, review and maintain the role and effectiveness of the Internal Audit function, including overseeing the appointment of the Head of Internal Audit;

assume responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the external auditor, including review of the external audit, its cost and effectiveness;

pre-approve non-audit work to be carried out by the external auditor and the fees to be paid for that work along with the monitoring of the external auditor's independence; and

adopt and oversee a specific Code of Ethics for the senior financial officers, which is consistent with the Company's overall Guidelines for Proper Business Conduct.

To ensure that the independence and objectivity of the external auditor is not compromised, the Audit Committee has introduced a policy whereby all proposals for the provision of non-audit services by the external auditor must be pre-approved by the Audit Committee or its delegated member. At all times, the overriding consideration is to ensure that the provision of non-audit services does not impact the external auditor's independence and objectivity.

### ***Disclosure Committee***

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

### ***Remuneration Committee***

The Remuneration Committee, chaired by David Prosser, consists of all the non-executive directors, excluding the Chairman of the Company (Ralph Kugler, Robert C. Larson, David Prosser and Sir Howard

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Stringer), and meets at least three times a year. The Committee advises the board on overall remuneration policy. The Committee also determines, on behalf of the board, and with the benefit of advice from external consultants and members of the Human Resources department, the remuneration packages of the executive directors and other members of the Executive Committee. No member of the Committee has any personal financial interest, other than as a shareholder, in the matters to be decided by the Committee.

**Nomination Committee**

The Nomination Committee's quorum comprises any three non-executive directors although, where possible, all non-executive directors are present. It is chaired by the Chairman of the Company and is responsible for nominating, for the approval of the board, candidates for appointment to the board and, also for succession planning. The Committee generally engages external consultants to advise on candidates for board appointments and did so in connection with the appointments of Messrs Kappler and Cosslett. The Committee also assists the board in identifying and developing the role of the Senior Independent Director.

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

**EMPLOYEES**

The Group employed an average of 29,659 people worldwide in the year ended December 31, 2004. Of these, approximately 94% were employed on a full-time basis and 6% were employed on a part-time basis.

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

	United Kingdom	Rest of Europe, the Middle East and Africa	United States	Rest of World	Total
<b>2004:</b>					
Hotels	9,676	6,601	8,241	2,317	26,835
Soft drinks	2,824				2,824
InterContinental Hotels Group	12,500	6,601	8,241	2,317	29,659
<b>2003:</b>					
Hotels	11,174	5,585	5,704	4,648	27,111
Soft drinks	2,698				2,698
InterContinental Hotels Group	13,872	5,585	5,704	4,684	29,809
Discontinued operations	15,014				15,014
	28,886	5,585	5,704	4,648	44,823
<b>2002:</b>					
Hotels	11,872	5,622	5,944	4,947	28,385
Soft drinks	2,637				2,637
InterContinental Hotels Group	14,509	5,622	5,944	4,947	31,022
Discontinued operations	36,710	2,037			38,747

51,219	7,659	5,944	4,947	69,769
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Under EU law, many employees of Group companies are now covered by the Working Time Regulations which came into force in the United Kingdom on October 1, 1998. These regulations implemented the European Working Time Directive and parts of the Young Workers Directive, and lay down rights and

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protections for employees in areas such as maximum working hours, minimum rest time, minimum days off and paid leave.

In the United Kingdom there is in place a national minimum wage under the National Minimum Wage Act. At December 31, 2004, the minimum wage for individuals between 18 and under the age of 22 was £4.10 per hour and £4.85 per hour for individuals age 22 and above. This particularly impacts businesses in the hospitality and retailing sectors. Compliance with the National Minimum Wage Act is being monitored by the Low Pay Commission, an independent statutory body established by the UK Government.

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

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

**SHARE OWNERSHIP**

The interests of the directors and officers in the shares of the Company at April 25, 2005 were as follows:

	<b>Ordinary shares of 112p</b>
<b>Directors</b>	
Andrew Cosslett	10,000
Richard Hartman	95,615
David Kappler	2,602
Ralph Kugler	892
Robert C. Larson	10,714
Stevan Porter	88,077
David Prosser	4,464
Richard Solomons	55,009
Sir Howard Stringer	7,566
David Webster	13,395
<b>Officers</b>	
Peter Gowers	(Nil)
A. Patrick Imbardelli	52,202
Jim Larson	38,877
Richard Winter	8,159

The above shareholdings are all beneficial interests. The percentage of ordinary share capital owned by each of the directors is negligible.

On April 25, 2005, the executive directors' technical interest in unallocated InterContinental Hotels Group PLC ordinary shares held by the Trustees of the ESOP was 2,831,979 shares.

The directors' interests in options to subscribe for shares as at the year end in InterContinental Hotels Group PLC as at December 31, 2005 are set out in Note 4 of Notes to the Financial Statements.

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



**Table of Contents****ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****MAJOR SHAREHOLDERS**

As far as is known to management, InterContinental Hotels Group PLC is not directly or indirectly owned or controlled by another corporation or by any government. Under the provisions of Section 198 of the Companies Act, InterContinental Hotels has been advised of the following interests in its shares, being greater than 3% of its issued share capital as at April 25, 2005.

Identity of person or group	April 2005		April 2004		December 2002	
	Number of shares/ADSs	Percent of class	Number of shares/ADSs	Percent of class	Number of shares/ADSs	Percent of class
Lloyds TSB Group Plc	26,773,575	4.44%	(1)	(1)	(1)	(1)
Legal & General Group Plc	24,233,225(2)	4.02%	29,924,045	4.10%	24,176,81	3.10%
Barclays PLC	20,246,584	3.36%	(1)	(1)	(1)	(1)
AXA SA	18,121,201	3.00%	(1)	(1)	(1)	(1)
Dodge & Cox Funds	(1)	(1)	25,106,594	3.40%	(1)	(1)

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

(2) The number of shares stated to be beneficially held by Legal & General Group Plc (and its subsidiaries) is derived from the number of shares notified to the Company by Legal & General Group Plc, as adjusted to take account of a subsequent 25 for 28 share consolidation.

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

As of April 25, 2005, 29,548,420 ADSs equivalent to 29,548,420 ordinary shares, or approximately 5% of the total ordinary shares in issue, were outstanding and were held by 1,425 holders. Since certain ordinary shares are registered in the names of nominees, the number of shareholders of record may not be representative of the number of beneficial owners.

As of April 25, 2005, there were a total of 81,566 record holders of ordinary shares, of whom 216 had registered addresses in the United States and held a total of 256,987 ordinary shares (0.04% of the total issued).

**RELATED PARTY TRANSACTIONS**

Other than as herein described, the Company has entered into no related party transactions or loans.

Pursuant to an agreement dated February 12, 2003, Thomas R Oliver, a former director of Six Continents, was contracted to provide consultancy services to the Group. This agreement ended in March 2005. (See Note 4 of Notes to the Financial Statements).

During part of fiscal 2003, MAB was part of the Six Continents Group, and as a result the agreements entered into in connection with the Separation were with a related party at that time.

**Summary of Main Agreements Relating to the Separation****Share Purchase Agreement to effect the MAB Transfer (the MAB Transfer SPA )**

Under the MAB Transfer SPA, which was entered into between MAB and Six Continents PLC after MAB became the holding company of the Six Continents Group, Six Continents PLC transferred at book value the whole of the issued share capital of various Retail companies, namely Six Continents Retail Limited and Six Continents Retail Germany GmbH and their respective subsidiaries and subsidiary undertakings, and Six Continents Property Developments Limited to MAB (the MAB Transfer ).

Under the MAB Transfer SPA, Six Continents PLC gave no warranties (other than as to ownership of the shares in the companies being transferred) and agreed to give certain limited indemnities to MAB. These indemnities were

given to protect MAB against liabilities which it may incur and which relate exclusively or

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predominantly to InterContinental Hotels Group entities. In addition, Six Continents PLC indemnified MAB in respect of 50% of certain contingent liabilities which do not relate exclusively or predominantly to either MAB or InterContinental Hotels Group entities. These shared liabilities relate primarily to businesses which have been disposed of by the Six Continents Group or its subsidiaries in the past and where warranties or indemnities were given to third parties.

The MAB Transfer SPA also contained provisions relating to the allocation of tax liabilities and the conduct of the tax affairs of MAB and InterContinental Hotels Group relating to periods beginning before the reorganization was effected.

*Separation Agreement*

Following the MAB Transfer, an agreement was entered into between MAB and IHG PLC under which MAB agreed to transfer on the Separation date the whole of the issued share capital of Six Continents PLC (which at that point only owned the hotels business and soft drinks business) to IHG in consideration for which IHG allotted and issued IHG shares to the holders of MAB shares (the Separation Agreement). Each shareholder on the register of members of MAB, immediately before the transfer of the Six Continents PLC shares, received one IHG share for every MAB share held at that time. The holders of MAB ADSs on the ADR register maintained by the Depositary received one IHG ADS for every MAB ADS. A shareholder or ADR holder of MAB was not required to make any payment for the IHG shares or ADSs. The Separation did not affect the number of issued MAB shares or MAB ADSs.

All IHG shares received by MAB shareholders (including the Depositary) in connection with the Separation were credited as fully paid.

Under the Separation Agreement, MAB agreed to give certain limited indemnities to IHG. These indemnities were given to protect IHG against liabilities which it may incur but which relate exclusively or predominantly to Retail or SCPD. In addition, MAB indemnified IHG in respect of 50% of certain contingent liabilities which do not relate exclusively or predominantly to the Retail business and SCPD or to the hotels business and soft drinks business. These shared contingent liabilities relate primarily to businesses which have been disposed of by the Six Continents Group or its subsidiaries in the past and where warranties and indemnities were given.

*Relationship with Mitchells & Butlers plc*

Following the Separation, MAB and IHG each operate as separate listed companies. There are no cross-directorships between MAB and IHG. The Transitional Services Agreement put in place on Separation contains certain obligations, which expired as of December 31, 2003. Certain other obligations are continuing. Neither the expired, nor the residual continuing obligations, are believed to be material.

*Franchise Agreement for Express by Holiday Inn*

Prior to Separation, a franchise agreement on arm's length terms was entered into between a Group company (the Licensor) and an MAB Group company (the Licensee), pursuant to which the Licensor granted the Licensee the right to operate Express by Holiday Inn hotels operated by the Licensee. This license includes the rights to use the reservations and other systems of the Licensor, the trademarks and service marks and such other elements as designated from time to time by the Licensor, designed to identify Express by Holiday Inn hotels. In return, the Licensee pays a royalty to the Licensor, which is a pre-determined percentage of room revenues together with certain other fees as specified in the agreement. Each hotel has its own license agreement, which is typically for a ten-year period from the date of opening.

*Britvic Supply Agreement*

On February 7, 2003, Britvic Soft Drinks Limited and the MAB Group extended the terms of an existing Britvic Soft Drinks Limited supply agreement for five years from that date. Under the agreement, the MAB

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Group has a minimum purchase obligation for Britvic soft drinks across its estate which is well within the MAB Group's actual usage levels.

**ITEM 8. FINANCIAL INFORMATION****CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION****Financial Statements**

See Item 18. Financial Statements .

**Legal Proceedings**

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

**Dividends**

See Item 3. Key Information Dividends .

**SIGNIFICANT CHANGES**

None.

**ITEM 9. THE OFFER AND LISTING**

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

InterContinental Hotels Group has a sponsored ADR facility with The Bank of New York as Depository.

The following tables show, for the fiscal periods indicated, the reported high and low middle market quotations (which represent an average of closing bid and ask prices) for the ordinary shares on the London Stock Exchange, as derived from the Daily Official List of the UK Listing Authority, and the highest and lowest sales prices of the ADSs as reported on the New York Stock Exchange composite tape.

Year ended September 30	£ per		\$ per ADS	
	Ordinary share			
	High	Low	High	Low
2000	8.42	5.80	13.75	8.50
2001	8.02	5.49	12.00	7.75
2002	7.83	5.41	11.73	7.49

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

**Year ended December 31**

2004	6.91	4.79	13.09	8.70
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15 months ended December 31	£ per ordinary share		\$ per ADS	
	High	Low	High	Low
<b>2003</b>				
First quarter	5.90	4.61	9.23	7.49
Second quarter	6.35	4.62	10.08	7.73
Third quarter April 1 to April 11 Six Continents	6.18	5.92	9.74	9.33
Third quarter April 15 to June 30	4.52	3.38	7.80	5.26
Fourth quarter	5.24	4.39	8.52	7.13
Final quarter	5.55	4.85	9.82	8.22

Year ended December 31	£ per Ordinary share		\$ per ADS	
	High	Low	High	Low
<b>2004</b>				
First quarter	5.75	4.79	10.80	8.90
Second quarter	5.82	4.87	10.78	8.70
Third quarter	6.49	5.37	11.82	9.88
Fourth quarter	6.91	6.45	13.09	11.80
<b>2005</b>				
First quarter	6.97	6.17	13.06	11.65
Second quarter (through April 25, 2005)	6.33	6.23	12.00	11.71

Month ended	£ per ordinary share		\$ per ADS	
	High	Low	High	Low
October 2004	6.75	6.45	12.59	11.80
November 2004	6.91	6.56	12.98	12.35
December 2004	6.72	6.47	13.09	12.61
January 2005	6.79	6.43	12.98	12.25
February 2005	6.97	6.63	13.06	12.66
March 2005	6.77	6.17	13.06	11.65
April 2005 (through to April 25, 2005)	6.42	6.12	12.61	12.31

**PLAN OF DISTRIBUTION**

Not applicable.

**SELLING SHAREHOLDERS**

Not applicable.

**DILUTION**

Not applicable.

**EXPENSES OF THE ISSUE**

Not applicable.

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**ITEM 10. ADDITIONAL INFORMATION  
MEMORANDUM AND ARTICLES OF ASSOCIATION**

The following summarizes material rights of holders of the Company's ordinary shares under the material provisions of the Company's memorandum and articles of association and English law. This summary is qualified in its entirety by reference to the Companies Act and the Company's memorandum and articles of association. The Company's memorandum and articles of association were filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 1-10409) filed with the SEC on April 23, 2003.

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

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

***Principal Objects***

The Company is incorporated under the name InterContinental Hotels Group PLC and is registered in England and Wales with registered number 4551528. The Company's memorandum of association provides that its objects include to acquire certain predecessor companies and carry on business as an investment holding company, to carry on business of brewers and distillers, licensed victuallers, to deal in commodities, to acquire and operate breweries, hotels and restaurants, as well as to carry on any other business which the Company may judge capable of enhancing the value of the Company's property or rights. The memorandum grants to the Company a range of corporate capabilities to effect these objects.

***Directors***

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

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

Any director attaining 70 years of age shall retire at the next Annual General Meeting. Such a director may be reappointed but shall retire (and be eligible for reappointment) at the next Annual General Meeting.

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

***Rights Attaching to Shares***

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



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

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

***Voting Rights***

Voting at any general meeting of shareholders is by a show of hands unless a poll, which is a written vote, is duly demanded. On a show of hands, every shareholder who is present in person or by proxy at a general meeting has one vote regardless of the number of shares held. On a poll, every shareholder who is present in person or by proxy has one vote for every 112 pence in nominal amount of the shares held by that shareholder. A poll may be demanded by any of the following:

the chairman of the meeting;

at least five shareholders entitled to vote at the meeting;

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

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

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

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

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

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

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

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

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

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

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

Annual General Meetings must be convened upon advance written notice of 21 days. Other meetings must be convened upon advance written notice of 21 days for the passing of a special resolution and 14 days for any other resolution, depending on the nature of the business to be transacted. The days of delivery or receipt of the notice are not included. The notice must specify the nature of the business to be transacted. The



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board of directors may if they choose make arrangements for shareholders who are unable to attend the place of the meeting to participate at other places.

### ***Variation of Rights***

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

### ***Rights in a Winding-up***

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

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

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

### ***Limitations on Voting and Shareholding***

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

## **MATERIAL CONTRACTS**

The Separation agreements summarized in Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Summary of Main Agreements Relating to the Separation are material contracts of the Group. In addition, the following contracts have been entered into otherwise than in the course of ordinary business by members of the Group either (i) in the two years immediately preceding the date of this document in the case of contracts which are or may be material or (ii) which contain provisions under which any Group member has any obligation or entitlement which is material to the Group as at the date of this document. To the extent that these agreements include representations, warranties and indemnities, such provisions are considered standard in an agreement of that nature, save to the extent identified below.

### ***Disposal of Bass Brewers***

The disposal agreement for Bass Brewers, including the business and assets of Bass Beers Worldwide, and Six Continents' 80% shareholding in Praszke Pivovary, was entered into on June 14, 2000 between Six Continents and certain of its subsidiaries and Interbrew and certain of its subsidiaries. The transaction completed on August 22, 2000. Pursuant to the disposal agreement, certain subsidiaries of Interbrew acquired Bass Brewers from Six Continents subsidiaries. Both Six Continents and Interbrew guaranteed certain of their respective subsidiaries' obligations under the disposal agreement.

The consideration for the sale of Bass Brewers was £2,300 million, comprising £1,426 million for the shares and assets and £874 million by way of repayment by Bass Brewers of net intra group debt owed to the

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Company (or members of the Group). An adjustment in respect of net assets was agreed on November 3, 2000. This involved a payment of £24 million from Interbrew to Six Continents. In fiscal 2002 a further payment of £9 million was received in respect of the finalization of completion account adjustments.

Under the disposal agreement, subsidiaries of Six Continents gave to Interbrew subsidiaries certain warranties and indemnities in relation to the shares and assets that were the subject of the disposal. In addition, Six Continents provided an indemnity in relation to the liabilities of Bass Holdings Limited (the holding company of Bass Brewers) arising out of that company having carried on the business of operation and management of licensed and unlicensed outlets as carried on by Six Continents Retail Limited, and other non-brewing businesses. MAB has indemnified the Group against claims relating to certain of these indemnities.

In connection with the disposal agreement, the parties entered into certain ancillary agreements on completion of the disposal which included: a soft drink supply agreement under which Six Continents PLC agreed to sell, or to procure the sale of, soft drinks to Bass Brewers for a term of five years; and ancillary intellectual property agreements governing the use of the Bass name and certain trademarks following the completion of the disposal.

***Britvic Joint Venture Agreements***

Britvic, Bass Public Limited Company (now Six Continents PLC), Whitbread and Company PLC, Allied-Lyons PLC and Allied Breweries Limited entered into a joint venture agreement dated February 10, 1986 under which Allied's soft drinks business was acquired by Britvic (which at that time comprised the former soft drinks business of Six Continents and Whitbread and Company PLC in an existing joint venture) in exchange for which Allied received shares in Britvic. This agreement governs the relations of Six Continents, Whitbread and Allied as shareholders of Britvic. InterContinental Hotels Group PLC became a party to this agreement (and Six Continents was released from its obligations) on March 10, 2004.

***IHG Facility Agreement***

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

The facilities are split into a £1.1 billion 5 year revolving credit facility and a £500 million 364 day revolving credit facility, the latter having a one year term-out option.

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

As part of this refinancing the Group repurchased its euro and sterling denominated bonds.

***Britvic IPO Agreement***

Britvic and InterContinental Hotels Group PLC, Allied Domecq PLC, Whitbread Group PLC (the Britvic Original Shareholders) and PepsiCo Inc. (together with the Britvic Original Shareholders the Britvic Shareholders) entered into the Britvic IPO Agreement dated April 22, 2005 providing for PepsiCo's rights as a minority shareholder of Britvic and the terms on which the parties would agree to proceed with an initial public offering of Britvic. The parties have agreed, subject, amongst other things, to market conditions, to consider an initial public offering of Britvic prior to December 31, 2008.

The Britvic IPO Agreement also sets out the Britvic Shareholders' rights to acquire and dispose of Britvic ordinary shares on and following any initial public offering.

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If a Britvic initial public offering has occurred, the Britvic IPO Agreement terminates upon the earlier of (a) the date on which each of the Britvic Original Shareholders has decreased its shareholding in Britvic to 3 per cent or (b) the third anniversary of the date of the listing of Britvic (or, if later, December 31, 2008). If no Britvic initial public offering has occurred, the Britvic IPO Agreement shall terminate upon the earlier of December 31, 2008 or the date upon which the Britvic board of directors decides not to proceed with an initial public offering.

***Disposal to Hospitality Properties Trust (2003)***

On July 1, 2003, IHG Resources entered into a Purchase and Sale Agreement with HPT IHG Properties Trust ( HPT IHG ), pursuant to which HPT IHG purchased from InterContinental Hotels Group Resources, Inc ( IHG Resources ), 16 Staybridge Suites hotels situated in the United States for US\$185 million. The Group continues to manage those hotels.

Under the Purchase and Sale Agreement, IHG Resources has given certain customary warranties to HPT IHG.

***Disposal to Hospitality Properties Trust (2004)***

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

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

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

***UK Hotels Disposal***

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

The agreed sale price for the LGR Shares was £1 billion. Receipt of £40 million of the total proceeds has been deferred, contingent upon certain pre-agreed performance targets being reached. Completion of the SPA

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is conditional upon the receipt of European Commission clearance. Following completion, the Group will continue to manage the LGR Hotels.

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

### **EXCHANGE CONTROLS**

There are no restrictions on dividend payments to US citizens.

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

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

### **TAXATION**

This section provides a summary of the material US federal income tax and UK tax consequences to US holders, as defined below, of owning and disposing of ordinary shares or ADSs of the Company. This section addresses only the tax position of a US holder who holds ordinary shares or ADSs as capital assets. This section does not, however, discuss the tax consequences of members of special classes of holders subject to special rules and holders that, directly or indirectly, hold 10% or more of the Company s voting stock. This section does not generally deal with the position of a US holder who is resident or ordinarily resident in the United Kingdom for UK tax purposes or who is subject to UK taxation on capital gains or income by virtue of carrying on a trade, profession or vocation in the United Kingdom.

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

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, and on UK tax laws and published practice of the UK Inland Revenue, all as currently in effect, and on the Double Taxation Convention between the United States and the United Kingdom that was ratified in March 2003 (the Treaty ). These laws are subject to change, possibly on a retroactive basis.

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

The US Treasury has previously expressed concerns that parties to whom ADRs are released may be taking actions that are inconsistent with the claiming of foreign tax credits for US holders of ADRs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, for qualified

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dividend income. Accordingly, the analysis of the availability of the reduced rate of tax for qualified dividend income described below could be affected by actions taken by parties to whom the ADRs are pre-released.

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

***Taxation of Dividends******United Kingdom Taxation***

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

***United States Federal Income Taxation***

Subject to the passive foreign investment company ( PFIC ) rules discussed below, a US holder is subject to US federal income taxation on the gross amount of any dividend paid by the Company out of its current or accumulated earnings and profits (as determined for US federal income tax purposes). Subject to applicable limitations and the discussion above regarding concerns expressed by the US Treasury, dividends paid to a non-corporate US holder in taxable years beginning before January 1, 2009 that constitute qualified dividend income will be taxable to the holder at a maximum tax rate of 15%. The Company expects that dividends paid by the Company with respect to the shares or ADSs will constitute qualified dividend income.

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

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

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

***Taxation of Capital Gains******United Kingdom Taxation***

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

A US holder of ADSs or ordinary shares who is an individual and who, broadly, has temporarily ceased to be resident or ordinarily resident in the UK for UK tax purposes for a period of less than five years of

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assessment and who disposes of ordinary shares or ADSs during that period may also be liable to UK tax on capital gains (subject to any available exemption or relief), notwithstanding the fact that such US holder was not resident or ordinarily resident in the United Kingdom at the time of the sale or other disposal. As described below, a US holder will be liable to US federal income tax on such gains.

*United States Federal Income Taxation*

Subject to the PFIC rules discussed below, a US holder that sells or otherwise disposes of shares or ADSs will recognize a capital gain or loss for US federal income tax purposes equal to the difference between the US dollar value of the amount realized and its tax basis, determined in US dollars, in the shares or ADSs. Generally, capital gain of a non-corporate US holder that is recognized before January 1, 2009 is taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. The deductibility of losses is subject to limitations.

***PFIC Rules***

The Company believes that the Company shares and ADSs will not be treated as stock of a PFIC for US federal income tax purposes for its 2004 taxable year. However this conclusion is an annual factual determination and thus may be subject to change. If the Company were to be treated as a PFIC, unless a US holder elects to be taxed annually on a mark-to-market basis with respect to the Company shares or ADSs, gain realized on the sale or other disposition of Company shares or ADSs would in general not be treated as capital gain. Instead, gain would be treated as if the US holder had realized such gain ratably over the holding period for the Company shares or ADSs and, to the extent allocated to the taxable year of the sale or other exchange and to any year before the Company became a PFIC, would be taxed as ordinary income. The amount allocated to each other taxable year would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. In addition, similar rules would apply to any excess distribution received on the Company shares or ADSs (generally, the excess of any distribution received on the Company shares or ADSs during the taxable year over 125% of the average amount of distributions received during a specified prior period), and the preferential rate for qualified dividend income would not apply.

***Additional Tax Considerations****United Kingdom Inheritance Tax*

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

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

The transfer of ordinary shares will generally be liable to stamp duty at the rate of 0.5% of the amount or value of the consideration given (rounded up to the nearest £5). An unconditional agreement to transfer ordinary shares will generally be subject to SDRT at 0.5% of the agreed consideration. However, if within the period of six years of the date of such agreement becoming unconditional an instrument of transfer is executed



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pursuant to the agreement and duly stamped, any liability to SDRT will usually be repaid, if already paid, or cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee.

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

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

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

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

### **DOCUMENTS ON DISPLAY**

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The Company's SEC filings since May 22, 2002 are also publicly available through the SEC's website located at <http://www.sec.gov>.

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

### **Exchange and Interest Rate Risk, and Financial Instruments**

The Group's treasury policy is to manage financial risks that arise in relation to underlying business needs. The activities of the treasury function are carried out in accordance with board approved policies and are subject to regular internal audit. The treasury function does not operate as a profit center. Treasury activities include money market investments, spot and forward foreign exchange instruments, currency options, currency swaps, interest rate swaps and options, and forward rate agreements.

One of the primary objectives of the Group's treasury risk management policy is to protect the financial covenant ratios in the loan documentation against the adverse impact of movements in interest rates and foreign exchange rates.

Movements in foreign exchange rates, particularly in the US dollar and the euro, can affect the Group's reported net income, net assets and interest cover. To hedge this translation exposure as far as is reasonably practical, borrowings are taken out in foreign currencies (either directly or via currency swaps) which broadly match those in which the Group's major net assets are denominated.

Foreign exchange transaction exposure is managed by the forward purchase or sale of foreign currencies or the use of currency options. Most significant exposures of the Group are in currencies that are freely convertible.

Interest rate exposure is managed within parameters that stipulate that fixed rate borrowings should normally account for no less than 25%, and no more than 75%, of net borrowings for each major currency. This is achieved through the use of interest rate swaps and options, and forward rate agreements.

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At December 31, 2004 27% of borrowings in major currencies were at fixed rates and 73% were at variable rates. Based on the period end net debt position, and given the underlying maturity profile of investments, borrowings and hedging instruments at that date, a one percentage point rise in US dollar interest rates or a similar rise in euro rates would increase the net interest charge by approximately £2 million and £6 million respectively.

At December 31, 2003, 59% of borrowings in major currencies were at fixed rates and 41% were at variable rates. Based on the December 31, 2003 net debt position and given the underlying maturity profile of investments, borrowings and hedging instruments at that date, a one percentage point rise in US dollar interest rates or a similar rise in euro interest rates, would increase the net interest charge by approximately £4 million in each case.

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

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

*At December 31, 2004*

**Expected to mature before December 31**

	2005	2006	2007	2008	2009	Thereafter	Total	Fair value(i)
(£ million, except percentages)								
<b>Long-Term Debt:</b>								
Fixed Rate (US dollar)						0.5	0.5	0.8
Average dollar interest rate						11.0%	11.0%	
Fixed Rate (£)						2.8	2.8	2.2
Average interest rate								
Fixed Rate (euro)	0.5	0.6	31.3	0.2			32.6	33.3
Average interest rate	7.0%	6.9%	6.3%	7.8%			6.4%	
Variable Rate (various currencies)	10.1	1.8	1.8	10.9	1,099.6	1.2	1,125.4	1,125.4
Average interest rate	2.7%	3.9%	3.9%	6.4%	3.1%	3.0%	3.2%	

**Table of Contents****Expected to mature before December 31**

	2005	2006	2007	2008	2009	Thereafter	Total	Fair value(i)
(local currency million, except percentages)								
<b>Interest Rate Swaps and Forward rate agreements:</b>								
Principal (US dollar)		200					200	(4)
Fixed rate payable		4.5%					4.5%	
Variable rate receivable		2.2%					2.2%	
Principal (euro)	215						215	(1)
Fixed rate payable	2.9%						2.9%	
Variable rate receivable	2.2%						2.2%	
Principal (Australian dollar)	60						60	
Fixed rate payable	5.4%						5.4%	
Variable rate receivable	5.4%						5.4%	
Principal (Hong Kong dollar)	300						300	(1)
Fixed rate payable	1.5%						1.5%	
Variable rate receivable	1.0%						1.0%	

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

**Exchange Risk Sensitivity**

The following information provides details of the Group's derivative and other financial instruments by currency presented in sterling equivalents. The tables above provide details of non-sterling denominated long-term debt obligations which are subject to foreign currency exchange rates movements while the table below presents amounts and weighted average rates of foreign currency forward exchange contracts held at December 31, 2004. All forward exchange agreements mature within one year.

At December 31, 2004

	Receive for \$		Receive for £	
	Contract amount	Average contractual exchange rate	Contract amount	Average contractual exchange rate
	(£ million)		(£ million)	
Sterling	177.8	1.83		
US dollar			4.2	1.88
Euro			21.7	1.38
Total	177.8		25.9	
Fair value of forward contracts	8.4		1.0	

As part of the strategy to provide a currency hedge against currency net assets, the Group enters into currency swap agreements. A swap agreement has the effect of depositing cash surplus to immediate requirements and borrowing currencies which are required.

The Group had the following currency swap agreements at December 31, 2004:

	<b>Deposited 2004</b>	<b>Borrowed 2004</b>
	<b>(million)</b>	
Sterling to US dollar	£ 52	\$ 100
Sterling to euro	£ 239	350
Sterling to Australian dollar	£ 48	A\$ 120

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**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

**PART II**

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

None.

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

None.

**ITEM 15. CONTROLS AND PROCEDURES**

As at the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Chief Executive and Finance Director, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c)). These are defined as those controls and procedures designed to ensure that information required to be disclosed in report filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the specified periods. Based on that evaluation, the Chief Executive and Finance Director concluded that the Company's controls and procedures were effective.

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

**ITEM 16. [RESERVED]**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

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

**ITEM 16B. CODE OF ETHICS**

The board has agreed the adoption of a specific Code of Ethics for Senior Financial Officers, consistent with the Company's existing Guidelines for Proper Business Conduct. This Code of Ethics has been signed by the Chief Executive and the Finance Director of the Company and by the Group Financial Controller and regional financial heads. The Company has published its Code of Ethics for Senior Financial Officers on its website.

**Table of Contents****ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

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

	<b>Year ended December 31, 2004</b>	<b>15 months ended December 31, 2003</b>
	( <b>£ million</b> )	
Audit fees	3.8	2.8
Audit related fees	1.6	7.2
Tax fees	0.5	1.2
Total	5.9	11.2

Audit related fees include £nil (2003 £6.3 million) in relation to the Separation and bid defense. These costs have been charged to exceptional items (see Note 5 of Notes to the Financial Statements). Other audit related fees principally comprise accounting consultations, completion accounts and non-statutory reporting. Tax fees principally relate to tax compliance and tax advice services.

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

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

Not applicable.

**Table of Contents****ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

<b>Period of fiscal year</b>	<b>Total number of shares purchased</b>	<b>Average price paid per share (£)</b>	<b>Total number of shares purchased as part of publicly announced plans or programs</b>	<b>Maximum number of shares that may yet be purchased under the plans or programs</b>
Month 1				
Month 2				
Month 3 (03.11.04 - 03.31.04)	10,490,000	4.97	10,490,000	99,605,835
Month 4 (04.01.04 - 04.26.04)	9,760,000	5.11	9,760,000	89,845,835
Month 5				
Month 6 (06.02.04 - 06.25.04)	6,620,000	5.36	6,620,000	99,297,695
Month 7 (07.13.04 - 07.30.04)	6,236,000	5.76	6,236,000	93,061,695
Month 8 (08.02.04 - 08.06.04)	6,730,000	5.81	6,730,000	86,331,695
Month 9 (09.13.04 - 09.30.04)	2,250,000	6.29	2,250,000	84,081,695
Month 10 (10.01.04 - 10.22.04)	1,800,000	6.61	1,800,000	82,281,695
Month 11 (11.30.04 only)	150,000	6.68	150,000	82,131,695
Month 12 (12.01.04 - 12.03.04)	599,981	6.71	599,981	81,531,714
Month 12 (12.17.04 - 12.23.04)	1,750,000	6.50	1,750,000	91,439,655
<b>Total</b>	<b>46,385,981</b>		<b>46,385,981</b>	

On March 11, 2004 the Company announced an on-market share repurchase program for £250 million. By December 20, 2004 the program was completed with, in total, 45.6 million shares repurchased at an average price of 548 pence per share.

On September 9, 2004, the Company announced a further £250 million share repurchase program. By December 31, 2004 a further 0.8 million shares had been repurchased at an average price per share of 651 pence (total £5 million). By April 25, 2005, a total of 20,259,275 million shares had been repurchased under the second repurchase program at an average price per share of 632 pence per share (approximately £128 million).

During fiscal 2004, 5,062,409 ordinary shares were purchased by the Company's Employee Share Ownership Trust at prices ranging from £4.94 per share to £6.57 per share, for the purpose of satisfying future share awards to employees.

**PART III****ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

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**ITEM 18. FINANCIAL STATEMENTS**

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

	<b>Page</b>
<u>Report and Consent of Independent Registered Public Accounting Firm</u>	F-1
Financial Statements	
<u>Consolidated Profit and Loss Account for the year ended December 31, 2004, the 15 months ended December 31, 2003 and the year ended September 30, 2002</u>	F-3
<u>Consolidated Statement of Total Recognized Gains and Losses for the year ended December 31, 2004, the 15 months ended December 31, 2003 and the year ended September 30, 2002</u>	F-4
<u>Consolidated Balance Sheet at December 31, 2004 and 2003</u>	F-5
<u>Consolidated Statement of Changes in Shareholders Funds for the year ended December 31, 2004, the 15 months ended December 31, 2003 and the year ended September 30, 2002</u>	F-6
<u>Consolidated Statement of Cash Flows for the year ended December 31, 2004, the 15 months ended December 31, 2003 and the year ended September 30, 2002</u>	F-8
<u>Notes to the Financial Statements</u>	F-9
Schedule for the year ended December 31, 2004, the 15 months ended December 31, 2003 and the year ended September 30, 2002	
Schedule II Valuation and Qualifying Accounts	S-1

**ITEM 19. EXHIBITS**

The following exhibits, other than Exhibits 13.1 and 13.2, are filed as part of this Annual Report:

Exhibit 1	Memorandum and Articles of Association of IHG (incorporated by reference to Exhibit 4 of InterContinental Hotels Group's Registration Statement on S-8 (File No. 1-10409) filed with the SEC on April 23, 2003)
Exhibit 2(b)(i)	Instruments defining the Rights of Holders of Long-Term Debt: The total amount of long-term debt securities of the Group authorized under any individual instrument, other than the Amended and Restated Trust Deed dated September 21, 2000 relating to the Company's 2000 million Debt Issuance Program originally constituted on October 9, 1998 (incorporated by reference to Exhibit 2 of Six Continents PLC's Annual Report on Form 20-F (File No. 1-10409), dated December 20, 2001), and the Trust Deed dated September 24, 2003 relating to the Company's 1,000 million Debt Issuance Program and filed as Exhibit 2(b)(i) hereto does not exceed 10% of the total assets of the Group on a consolidated basis. The Company agrees to furnish copies of any or all such instruments to the Securities and Exchange Commission upon request
Exhibit 4(a)(i)	Agreement dated June 14, 2000 between the Company and the others and Interbrew SA and others relating to the disposal of Bass Brewers (incorporated by reference to Exhibit 4 of Six Continents PLC's Annual Report on Form 20-F (File No. 1-10409), dated December 21, 2000)
Exhibit 4(a)(ii)	£1,600 million Facility Agreement dated November 9, 2004 among Bank of Tokyo-Mitsubishi, Ltd., Barclays Capital, Citigroup Global Markets Limited, HSBC Bank plc, JP Morgan plc, Lloyds Bank plc, The Royal Bank of Scotland plc, SG Corporate & Investment Banking and West LB AG
Exhibit 4(a)(iii)	



Joint Venture Agreement, dated February 10, 1986, amongst Britannia Soft Drinks Limited, InterContinental Hotels Group PLC, Whitbread PLC, Allied Domecq PLC, Six Continents Investments Limited, Whitbread Group PLC and Allied

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	Domecq Overseas (Canada) Limited (incorporated by reference to Exhibit 4(a)(iii) of InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409), dated April 8, 2004)
Exhibit 4(a)(iv)	Mitchells and Butlers Group Transfer Share Purchase Agreement, dated April 15, 2003 (incorporated by reference to Exhibit 4(a)(ii) of Mitchells and Butlers plc's Registration Statement on Form 20-F (File No. 1-31653), dated March 28, 2003)
Exhibit 4(a)(v)	Separation Agreement dated April 15, 2003 between IHG and the Six Continents Group (incorporated by reference to Exhibit 4(a)(i) of Mitchells & Butlers plc's Registration Statement on Form 20-F (File No. 1-31653), dated March 28, 2003)
Exhibit 4(b)(i)	Purchase and Sale Agreement dated July 1, 2003 between InterContinental Hotels Group Resources Inc and HPT
Exhibit 4(b)(ii)	Amended and Restated Purchase and Sale Agreement dated February 9, 2005 among BHR Texas L.P., InterContinental Hotels Group Resources Inc, Crowne Plaza LAX, LLC, Crowne Plaza Hilton Head Holding Company, Holiday Pacific Partners Limited Partnership, Staybridge Markham and HPT
Exhibit 4(b)(iii)	Britvic IPO Agreement dated April 22, 2005 among Britannia Soft Drinks Limited, InterContinental Hotels Group PLC, Allied Domecq PLC, Whitbread Group PLC and Pepsico Inc
Exhibit 4(b)(iv)	Share Purchase Agreement dated March 10, 2005 between IHC London (Holdings) Limited, and LGR Acquisition and LGR Holdings Limited
Exhibit 4(b)(v)	Amended and Restated Stock Purchase Agreement dated February 9, 2005 between Six Continents International Holdings, B.V. and HPT IHG-2
Exhibit 4(c)(i)	Richard Hartman's service contract dated February 12, 2003 (incorporated by reference to Exhibit 4(c)(i) of InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated April 8, 2004)
Exhibit 4(c)(ii)	Richard North's service contract dated February 12, 2003 (incorporated by reference to Exhibit 4(c)(ii) of InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated April 8, 2004)
Exhibit 4(c)(iii)	Stevan Porter's service contract dated February 12, 2003 (incorporated by reference to Exhibit 4(c)(iii) of InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated April 8, 2004)
Exhibit 4(c)(iv)	Richard Solomons's service contract dated February 12, 2003 (incorporated by reference to Exhibit 4(c)(iv) of InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated April 8, 2004)
Exhibit 4(c)(v)	Andrew Cosslett's service contract dated December 13, 2004
Exhibit 4(c)(vi)	Agreement, dated February 12, 2003, between Thomas R Oliver and Six Continents Hotels Limited (incorporated by reference to Exhibit 4(c)(iv) of Six Continents PLC Annual Report of

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Form 20-F (File No. 1-10409) dated February 17, 2003)

Exhibit 4(c)(vii) Consultancy Agreement, dated February 12, 2003, between Thomas R Oliver and Six Continents Hotels Limited (incorporated by reference to Exhibit 4(c)(v) of Six Continents PLC Annual Report of Form 20-F (File No. 1-10409) dated February 17, 2003)

Exhibit 8 List of Subsidiaries

Exhibit 12(a) Certification of Andrew Cosslett filed pursuant to 17 CFR 240.13a-14(a)

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Exhibit 12(b)	Certification of Richard Solomons filed pursuant to 17 CFR 240.13a-14(a)
Exhibit 13(a)	Certification of Andrew Cosslett and Richard Solomons furnished pursuant to 17 CFR 240.13a-14(b) and 18 U.S.C.1350
Exhibit 14(a)	Consent of Ernst of Young LLP (included on page F-1)

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**INTERCONTINENTAL HOTELS GROUP PLC  
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors

INTERCONTINENTAL HOTELS GROUP PLC

We have audited the accompanying consolidated balance sheets of InterContinental Hotels Group PLC at December 31, 2004 and 2003, and the related consolidated profit and loss accounts and consolidated statements of total recognized gains and losses, changes in shareholders' funds and cash flows for the year ended December 31, 2004, the 15 months ended December 31, 2003 and year ended September 30, 2002. Our audits also included the financial statement schedule listed in the Index at Item 18. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with United Kingdom auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of InterContinental Hotels Group PLC at December 31, 2004 and 2003, and the consolidated results of its operations and its consolidated cash flows for the year ended December 31, 2004, the 15 months ended December 31, 2003 and the year ended September 30, 2002 in conformity with accounting principles generally accepted in the United Kingdom which differ in certain respects from those generally accepted in the United States (see Note 35 of Notes to the Financial Statements). Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

London, England

March 9, 2005, except for

Note 33 Post balance sheet events, and

Note 35 Differences between United Kingdom

and United States Generally Accepted Accounting Principles

as to which the date is

May 3, 2005.

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements (Form F-3 No. 333-108084 and Form S-8 Nos. 333-01572, 333-08336, 333-89508, 333-99785 and 333-104691) of InterContinental Hotels Group PLC of the reference to our name in Item 3. Key Information and our report dated March 9, 2005, except for Note 33 Post balance sheet events and Note 35 Differences between United Kingdom and United States Generally Accepted Accounting Principles, as to which the date is May 3, 2005, on the consolidated financial statements and schedule both included in the Annual Report (Form 20-F) of InterContinental Hotels Group PLC for the year ended December 31, 2004.

Ernst & Young LLP

London, England  
May 3, 2005

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**INTERCONTINENTAL HOTELS GROUP PLC  
CONSOLIDATED PROFIT AND LOSS ACCOUNT**

	Year ended December 31, 2004			15 months ended December 31, 2003			Year ended September 30, 2002		
	Before exceptional items	Exceptional items	Total	Before exceptional items restated(i)	Exceptional items restated(i)	Total	Before exceptional items restated(i)	Exceptional items restated(i)	Total
(£ million, except per ordinary share amounts)									
<b>Turnover</b> (Note 2)	2,204		2,204	3,483		3,483	3,615		3,615
Analyzed as:									
Continuing operations	2,204		2,204	2,690		2,690	2,134		2,134
Discontinued operations				793		793	1,481		1,481
Cost of sales	(1,652)	(28)	(1,680)	(2,717)	(51)	(2,768)	(2,791)	(77)	(2,868)
<b>Gross operating profit</b>	552	(28)	524	766	(51)	715	824	(77)	747
Administrative expenses	(221)	(11)	(232)	(283)		(283)	(206)		(206)
Other operating income		20	20						
<b>Operating profit</b> (Note 2)	331	(19)	312	483	(51)	432	618	(77)	541
Analyzed as:									
Continuing operations	331	(19)	312	346	(51)	295	329	(77)	252
Discontinued operations				137		137	289		289
<b>Non-operating exceptional items</b> (Note 5)		(69)	(69)		(213)	(213)		53	53
Analyzed as:									
Continuing operations:									
Cost of fundamental reorganization					(67)	(67)			
Separation costs					(51)	(51)		(4)	(4)
Profit on disposal of fixed assets		15	15		4	4		2	2
Provision for loss on disposal of		(74)	(74)						

operations									
Provision against fixed asset investments		(10)	(10)		(56)	(56)			
Discontinued operations:									
Separation costs					(41)	(41)			
Loss on disposal of fixed assets					(2)	(2)	(2)	(2)	
Profit on disposal of operations							57	57	
<b>Profit on ordinary activities before interest</b> (Note 2)	331	(88)	243	483	(264)	219	618	(24)	594
Interest receivable	48	22	70	104		104	116		116
Interest payable and similar charges (Note 6)	(70)	(16)	(86)	(151)		(151)	(176)		(176)
Premium on early settlement of debt (Note 5)		(17)	(17)		(136)	(136)			
<b>Profit on ordinary activities before taxation</b>	309	(99)	210	436	(400)	36	558	(24)	534
Tax on profit on ordinary activities (Note 7)	(50)	167	117	(115)	132	17	(171)	119	(52)
<b>Profit on ordinary activities after taxation</b>	259	68	327	321	(268)	53	387	95	482
Minority equity interests	(28)		(28)	(34)		(34)	(25)		(25)
<b>Earnings available for shareholders(ii)</b>	231	68	299	287	(268)	19	362	95	457
Dividends on equity shares (Note 8)	(592)		(592)	(156)		(156)	(305)		(305)
<b>Retained for reinvestment in the business</b>	(361)	68	(293)	131	(268)	(137)	57	95	152
Earnings per ordinary share (Note 9)									
Basic	32.5p	9.6p	42.1p	39.1p	(36.5)p	2.6p	49.5p	13.0p	62.5p
Diluted			41.6p			2.6p			62.3p



- (i) Restated to show exceptional tax credits on a basis consistent with 2004, comprising prior year adjustments which are exceptional by reason of their size or incidence. Also restated to present the period ended December 31, 2003 and year ended September 30, 2002 on a consistent basis with the year ended December 31, 2004 (see Note 1 of the Notes to the Financial Statements).
- (ii) A summary of the significant adjustments to earnings available for shareholders (net income) that would be required had United States generally accepted accounting principles been applied instead of those generally accepted in the United Kingdom is set out in Note 35 of Notes to the Financial Statements.

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

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**INTERCONTINENTAL HOTELS GROUP PLC**  
**CONSOLIDATED STATEMENT OF TOTAL RECOGNIZED GAINS AND LOSSES**

	Year ended December 31, 2004	15 months ended December 31, 2003	Year ended September 30, 2002
	(£ million)		
Earnings available for shareholders	299	19	457
Reversal of previous revaluation gains due to impairment	(20)	(22)	(36)
Exchange differences(i)			
Goodwill eliminated (Note 26)	(110)	(139)	(98)
Other assets and liabilities	(21)	79	62
Other recognized gains and losses	(151)	(82)	(72)
Total recognized gains and losses for the period	148	(63)	385
Prior year adjustment on adoption of FRS 19			(264)
Total recognized gains since previous year end	148	(63)	121

- (i) Foreign currency denominated net assets, including goodwill purchased prior to September 30, 1998 and eliminated against Group reserves, and related foreign currency borrowings and currency swaps, are translated at each balance sheet date giving rise to exchange differences which are taken to Group reserves as recognized gains and losses during the period.
- (ii) The statement of comprehensive income required under United States generally accepted accounting principles is set out in Note 35 of Notes to the Financial Statements.

**Note of historical cost Group profits and losses**

	Year ended December 31, 2004	15 months ended December 31, 2003	Year ended September 30, 2002
	(£ million)		
Reported profit on ordinary activities before taxation	210	36	534
Realization of revaluation gains of previous periods	3	16	3
Adjustment for previously recognized revaluation losses			(37)
Historical cost profit on ordinary activities before taxation	213	52	500

Historical cost (loss)/profit retained after taxation, minority equity interests and dividends	(290)	(121)	118
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The Notes to the Financial Statements are an integral part of these Financial Statements.

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**INTERCONTINENTAL HOTELS GROUP PLC  
CONSOLIDATED BALANCE SHEET**

	December 31, 2004	December 31, 2003
(£ million)		
<b>Fixed assets</b>		
Intangible assets (Note 15)	142	158
Tangible assets (Note 16)	3,776	3,951
Investments (Note 17)	99	172
	4,017	4,281
<b>Current assets</b>		
Stocks (Note 18)	42	44
Debtors (Note 19)	556	523
Analyzed as:		
Amounts falling due within one year	419	447
Amounts falling due after one year	137	76
Investments (Note 20)	116	377
Cash at bank and in hand	43	55
	757	999
Creditors: amounts falling due within one year (Note 21)	(1,013)	(1,085)
<b>Net current liabilities</b>	(256)	(86)
<b>Total assets less current liabilities</b>	3,761	4,195
Creditors: amounts falling due after one year (Note 22)	(1,252)	(1,085)
Provisions for liabilities and charges (Note 23)	(382)	(393)
Analyzed as:		
Deferred taxation	(248)	(314)
Other provisions	(134)	(79)
Minority equity interests	(150)	(163)
<b>Net assets (Note 2)</b>	1,977	2,554
<b>Capital and reserves</b>		
Equity share capital	697	739
Share premium account	26	14
Revaluation reserve	233	258
Capital redemption reserve	46	
Merger reserve	1,164	1,164
Other reserves	(22)	(11)
Profit and loss account	(167)	390
<b>Equity shareholders funds(i)</b>	1,977	2,554

- (i) A summary of the significant adjustments to shareholders' funds that would be required had United States generally accepted accounting principles been applied instead of those generally accepted in the United Kingdom is set out in Note 35 of Notes to the Financial Statements.

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

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**INTERCONTINENTAL HOTELS GROUP PLC**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS FUNDS**

	Share capital			Retained earnings and other reserves					Total shareholders funds
	Number of ordinary shares	Share premium	Revaluation reserve	Capital redemption reserve	Merger reserve	Other reserve	Profit and loss account		
	(i)	(i)	(ii)	(ii)	(ii)	(iii)			
	(£ million)								
<b>At October 1, 2001</b> (iv)	866	242	799	1,025	853		(32)	2,266	5,153
Goodwill (Note 26)								98	98
Exchange adjustments on: assets				(3)				(161)	(164)
borrowings and currency swaps								128	128
Allotment of ordinary shares:									
Option schemes(v)	1	1	3					(1)	3
Revaluation surplus realized on disposals				(3)				3	
Transfer of previously recognized revaluation losses				37				(37)	
Reversal of previous revaluation gains due to impairment				(36)					(36)
Allocation of shares in employee share trusts							1		1
Retained income								152	152
<b>At September 30, 2002</b> (iv)	867	243	802	1,020	853		(31)	2,448	5,335
Separation of MAB:									
Net Assets of MAB eliminated				(743)				(2,034)	(2,777)
Transfer to merger reserve	(133)	491	(802)		(853)	1,164			
MAB goodwill eliminated								50	50
Minority interest on transfer of pension prepayment								(7)	(7)
Reduction of shares in employee share trusts							13	(5)	8

Allotment of ordinary shares:									
Option schemes(v)	5	5	14				(1)	18	
Allocation of shares in employee share trusts						7		7	
Goodwill (Note 26)							139	139	
Revaluation surplus realized on disposals				(16)			16		
Reversal of previous revaluation gains due to impairment				(22)				(22)	
Exchange adjustments on: assets				19			(142)	(123)	
borrowings and currency swaps							63	63	
Retained loss							(137)	(137)	
<b>At December 31,</b>									
<b>2003(iv)</b>	739	739	14	258		1,164	(11)	390	2,554
Goodwill (Note 26)								110	110
Premium on allotment of ordinary shares:									
Option schemes(v)	4	4	12					16	
Share capital consolidation	(75)								
Repurchase of ordinary shares	(46)	(46)					(211)	(257)	
Transfer to capital redemption reserve					46		(46)		
Purchase of own shares by employee share trusts							(33)	(33)	
Release of own shares by employee share trusts							22	(6)	16
Credit in respect of employee share schemes								15	15
Revaluation surplus realized on disposals				(3)			3		
Reversal of previous revaluation gains due to impairment				(20)				(20)	
Exchange adjustments on: assets				(2)			(73)	(75)	
borrowings and currency swaps							(56)	(56)	
Retained loss							(293)	(293)	