INTERCONTINENTAL HOTELS GROUP PLC /NEW/
Form 20-F/A
February 25, 2015
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## SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 20-F/A

# Amendment No. 1

(Mark One)

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

**or**

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

**For the fiscal year ended December 31, 2013**

**or**

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

**or**

¨ **SHELL COMPANY 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)*

**Broadwater Park,**

**Denham, Buckinghamshire UB9 5HR**

*(Address of principal executive offices)*

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| American Depositary Shares | New York Stock Exchange |
| Ordinary Shares of 14 $^{194}/_{329}$ 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 14 $^{194}/_{329}$ pence each** | **259,155,305** |

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

| | | | |
|---|---|---|---|
| Large accelerated filer þ | Accelerated filer ¨ | Non-accelerated filer ¨<br>(Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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

Item 17 ¨ Item 18 þ

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes ¨ No þ

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

| | | |
|---|---|---|
| US GAAP ¨ | International Reporting Standards as issued by the International Standards Accounting Board þ | Other ¨ |

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**Explanatory Note**

This Amendment No. 1 to the Annual Report on Form 20-F (this Form 20-F/A ) is being filed solely to correct a typographical error contained in Exhibit 13(a) (certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002) to the Annual Report on Form 20-F for the fiscal year ended December 31, 2013 of InterContinental Hotels Group PLC (the Registrant ), which was originally filed on February 26, 2014 (the Original Form 20-F ).

This Form 20-F/A is filed in its entirety and includes corrected and currently dated Exhibit 13(a) certifications. In addition, this Form 20-F/A includes currently dated Exhibit 12(a) and Exhibit 12(b) certifications (certification pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002).

This Form 20-F/A makes no changes to the financial statements of the Registrant included in the Original Form 20-F. Except as described above, this Form 20-F/A does not amend, update or restate the information in any other item of the Original Form 20-F or reflect any events that have occurred after the filing of the Original Form 20-F.

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*Annual Report*

*and Form 20-F 2013*

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It all began in 1777 when William Bass opened a brewery in Burton-on-Trent in the UK. Bass made its move into the hotel industry in 1988, buying Holiday Inn International. By 2003 the business had changed from domestic brewer to international hospitality retailer: InterContinental Hotels Group PLC.

**Front cover**

Crowne Plaza Resort, Xishuangbanna, People s Republic of China

## InterContinental® Hotels & Resorts

In April 1946 Juan Trippe, the founder of Pan American Airways, had a vision to bring high-quality hotel accommodation to the end of every Pan Am flight route. This led to the first InterContinental being opened in 1949, the Hotel Grande in Belém, Brazil. From here InterContinental Hotels & Resorts expanded steadily to become the world s first truly international luxury hospitality brand. The brand s ethos is to provide insightful, meaningful experiences that enhance our guests  feeling that they are in a global club. Bass acquired the InterContinental brand in 1998, adding it to our brand portfolio.

***178 hotels; 60,103 rooms open***

***51 hotels in the pipeline***

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**Parent Company Financial Statements:**



**Additional Information:**

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## *The IHG story*

2013 marked 10 years since InterContinental Hotels Group PLC (IHG) became a standalone company. Today, we are one of the world s leading hotel companies with almost 4,700 hotels in nearly 100 countries and territories, and a portfolio of nine preferred brands that have a deep history and heritage. Highlighted below are just some of the milestones, achievements and innovations that have come to define IHG and our family of brands.

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## *Chairman s statement*

2013 was another strong year for IHG. Despite what continued to be challenging macroeconomic conditions around the world, we delivered on our strategy and reported good growth in our operating profit and earnings per share.

***We are delighted to have delivered another year of strong performance in 2013, my first year as Chairman of IHG.***

+9%: 70.0¢

*Total full-year dividend*

*(sterling equivalent of 43.2p)*

+3.8%

*Revenue per available room**

*686,873 rooms (4,697 hotels)*

*operating in the IHG System*

+4%

*Fee revenue*

*Driven by 3.8% of RevPAR growth*

*and 1.6% net IHG System size growth*

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

Group revenue excluding owned and leased hotels, managed leases and significant liquidated damages. Growth stated at constant currency.

In last year s Annual Report, I shared my perspective and initial impressions of IHG. I have not been disappointed. I have continued to be deeply impressed by the skills, dedication and energy of our people, our award-winning brand portfolio and our relentless focus on delivering our strategy. On behalf of the Board, I would therefore like to extend my sincere thanks to our 350,000 colleagues around the world who have strived to put our guests at the heart of everything they do with pride and dedication.

## Responsible Business

Being a responsible business is an integral part of delivering on our strategy. It is not only reflected in our culture, but also in our approach to governance and doing the right thing. Our commitment to serve the local communities in which we operate is stronger than ever and we recently launched stretching Corporate Responsibility (CR) targets to reflect this. You can find more information on our CR programmes and targets on page 32.

A robust and effective system of internal controls and risk management processes is an essential part of IHG s governance structure and a key part of being a responsible business. More detail on our approach to risk management can be found on pages 34 to 37.

## Shareholder returns and financial position

IHG has an excellent track record of delivering sustainable and attractive returns for shareholders. Last year we announced a $350 million special dividend, which was paid alongside the ordinary interim dividend on 4 October 2013. We also bought back $283 million of shares in the year, in addition to the $107 million bought back in 2012, leaving $110 million of our existing $500 million share buyback programme to complete. Once complete, total funds returned to shareholders since our 2003 demerger, excluding ordinary dividends, will amount to $8.0 billion.

I am also pleased to announce that the Board is recommending a 9 per cent increase to the final dividend for 2013 resulting in a full-year dividend of 70 cents (43.2 pence) per share, up 9 per cent on 2012.

We continue to honour our commitment to maintaining an efficient balance sheet whilst retaining an investment grade credit rating through the cycle. This approach has delivered significant value for investors. Over the three-year period to 31 December 2013, IHG s annualised total shareholder return (TSR) was 22 per cent, compared with 9 per cent for the FTSE 100 as a whole.

## Board

I have been impressed by the strength and diversity of the IHG Board. We have a very strong balance of skills, knowledge, experience and diversity among our Directors. Critical to the success of the business is ensuring we maintain this breadth and balance of skills to suit both the existing shape of the business and to support our future growth. We have, for example, recognised that consumer facing technology will continue to be an important part of our business and that we need to strengthen ourselves accordingly. We have therefore taken the decision to look to further enhance the Board by appointing an additional Non-Executive Director with strong experience in this area. Equally important, is ensuring the Board has absolutely the right processes in place to ensure it is operating as efficiently and effectively as possible, and is helping to set the agenda for the business to succeed both in the short and long term. This will continue to be a priority in 2014 and beyond.

Reflecting these commitments, this year, we announced a number changes to the Board.

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We welcomed two new independent Non-Executive Directors to the Board. Jill McDonald joined IHG on 1 June 2013 and Ian Dyson joined on 1 September 2013. Jill has a wealth of experience in franchising and marketing and Ian has a range of experience in senior executive and finance roles. Both Jill and Ian are members of the Audit and Nomination Committees and Ian is also a member of the Remuneration Committee.

David Kappler will be stepping down from the Board and his roles as Chairman of the Audit Committee and Senior Independent Non-Executive Director in 2014. David joined IHG s Board in June 2004 and has been a great asset to the business and an invaluable support to me in my first year as Chairman. Ian Dyson will take over as Chairman of the Audit Committee with effect from 1 April 2014. David will retire from the Board on 31 May 2014 and Dale Morrison, who has been an independent Non-Executive Director of IHG since June 2011, will become the Senior Independent Non-Executive Director, ensuring a smooth transition of David s duties.

We said goodbye to Tom Singer, who stepped down from his position as Chief Financial Officer and the Board on 1 January 2014. Tom played a key role in the success of the Group since he joined IHG s Board and Executive Committee in September 2011. We thank him for his contribution and wish him the best for the future.

I am pleased to welcome Paul Edgecliffe-Johnson to the Board. Paul was appointed Chief Financial Officer on 1 January 2014, becoming a member of IHG s Board and Executive Committee at that time. Paul joined IHG in August 2004 and has worked in a number of senior roles across the Group, most recently as Chief Financial Officer of IHG s Europe and Asia, Middle East and Africa regions.

## Governance

High standards of corporate governance are fundamental to the way IHG operates. The Board is committed to ensuring that we not only operate effectively, but that each Director is committed to the role and continues to make a valuable contribution to the business.

This year we commissioned a formal evaluation of the Board from an independent consultant. The findings from the evaluation are outlined on page 65.

Our Annual Report this year includes, for the first time, our US Annual Report on Form 20-F reporting requirements, as well as taking into consideration the new requirements of the UK Corporate Governance Code and changes to UK legislation, providing all reporting information in a single report.

## Remuneration

Recruiting and retaining an outstanding executive leadership team is critical to ensuring that IHG succeeds over both the short and long term. Our Directors Remuneration Policy is designed to help achieve this objective. The policy requires a significant proportion of remuneration to be linked to the delivery of both strong financial and operational results and market-beating performance. Details of the policy are set out in the Directors Remuneration Report on pages 74 to 97. We believe that our policy, which is largely unchanged from last year, is aligned with best practice and remains fit for purpose.

We have historically tried to make the Directors Remuneration Report as transparent and easy to read as possible, and were pleased to receive the PwC Building Public Trust Award for Executive Remuneration Reporting in the FTSE 100 for our 2012 Directors Remuneration Report. In preparation for the first binding shareholder vote on our Directors Remuneration Policy in the 2013 Directors Remuneration Report,

we have worked hard to present both the policy and the reward paid to our Board in an open and accessible way, as well as complying with the regulatory requirements.

**Outlook**

We remain confident in the long-term growth prospects of the hotel industry. This reflects our belief that we will continue to see an increase in demand for hotels over the next few decades. This belief is supported by the positive socio-economic, demographic and technological changes that we see across the globe which will ultimately mean record numbers of people join the travel market each year.

As a result, we start 2014 with confidence that the business will continue to deliver high-quality growth and generate long-term value to all stakeholders. Our significant scale, broad geographical exposure as well as our strong understanding of the industry and how it is evolving, particularly in terms of consumer trends and technological innovation, means we are well-positioned for future growth. This will allow us to continue to deliver attractive shareholder returns whilst further enhancing our guest propositions to create brands which are truly preferred.

**Patrick Cescau**

**Chairman**

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## *Chief Executive Officer s review*

2013 marked our tenth year as a standalone company. During this period, we have delivered market-leading shareholder returns, more than doubled our fee revenues and significantly increased returns on capital employed. Our focus on high-quality growth delivered by our Winning Model, underpinned by Disciplined Execution, has enabled us to drive a good revenue and profit performance again in 2013, despite the ongoing challenging economic conditions in some of our markets.

***2013 marked IHG s tenth anniversary as a standalone company, and was another year of strong performance.***

+10%: $668m*

*Operating profit before exceptional items*

+2%: $21.6bn

*Total gross revenue in IHG s System Revenue up 4% to $1,903m**

6.4m

*New IHG Rewards Club members added*

*(total members 77.4m)*

* Includes three liquidated damages receipts in 2013; $31m in The Americas, $9m in Europe and $6m in AMEA.

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

**IHG s Winning Model**

IHG s Winning Model is our framework for delivering superior value creation through our brands, our people and our systems. We deliver preferred experiences for guests through our targeted brand propositions, consistently delivered by over 350,000 talented colleagues across the world. Our brands are brought to life by our people and last year we launched two new training programmes for hotel General Managers to ensure the strongest possible connection between what each brand stands for and the delivery of the brand experience at the front line, encouraging General

Managers to behave like Brand Managers.

Our brands already deliver superior and consistent experiences, which we measure by continuous guest satisfaction surveys, and which, in 2013, told us that we drove increased guest satisfaction globally across each of our brands. This drives revenue per available room (RevPAR) premiums and, in turn, better returns for our owners. We are very proud of the large number of industry awards our brands win and are focused on ensuring that they stay relevant to the changing needs of our guests.

To help do this, we conduct extensive, industry-leading research to ensure we have the best possible understanding of our guests needs. This unique insight is allowing us to better differentiate our hotel experiences and is a key driver of our ability to continue to grow ahead of the market.

Furthermore, our annual Trends Report demonstrates the insight and consumer understanding that helps us adapt to, and stay ahead of, the latest trends both within the hospitality industry and more widely. This year s report, Creating Moments of Trust the key to building successful brand relationships in the Kinship Economy , suggests that the rise of technology-aided personalisation means that to continue to win and maintain guest loyalty in the future, hotels need to deliver global, local and personalised appeal for their guests.

Hotel brands that are able to become truly 3D by delivering local, global and personal experiences through trusted global brands will build the trust that is needed to sustain lasting relationships with guests and outperform in the future. This marks a step-change in the thinking that has dominated the travel and hospitality industry over the last two decades, a period during which hotel brands have traditionally concentrated on being 2D solely global and local.

An important part of building trust is offering a strong loyalty programme that is tailored to guests needs. To enable us to better meet the different needs and occasions of our guests and to strengthen our proposition to owners, on 1 July 2013, we relaunched our loyalty programme with a new name: IHG Rewards Club. This name clearly communicates to consumers that all of our brands are part of the same IHG brand family. No other hotel loyalty programme gives its members more places to use their points than IHG, and from July 2013, we also added new benefits, including being the first hotel company to offer free internet to members in all our hotels globally.

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Our strong brand portfolio and loyalty programme are underpinned by our channel management strategy which is aimed at delivering the highest quality revenues to IHG hotels at the lowest possible cost. Only the largest companies who understand these trends, and are able to deliver consistent, locally relevant and differentiated guest experiences, will win in this environment.

IHG is focused on delivering guest needs across the entirety of their journey, which we break down into five distinct steps: Dream, Plan, Book, Travel and Share. Our strategy is led by our multi-lingual websites and mobile apps, call centres, global sales force, strong brand portfolio and 77.4 million member loyalty programme. These provide compelling experiences that allow guests to use the most appropriate channel for their needs. In 2013, IHG s direct and indirect systems and channels delivered 69 per cent of total room revenues to our hotels.

## Targeted Portfolio

IHG has hotels in nearly 100 countries and territories around the world. Our growth strategy is focused primarily on the largest and/or fastest growing markets in which IHG has a strong existing brand presence, where our scale and revenue delivery systems confer the greatest benefits, and where the growth opportunities available are aligned to our asset-light business model. With a five per cent share of global hotel industry rooms supply and a 12 per cent share of the active industry hotel pipeline, we are well-positioned to continue to take share into the future.

During 2013, we opened 237 hotels and signed a further 444 hotels into our pipeline, the highest number for five years, reinforcing our already strong brand distribution platform and with it the promise of further high-quality growth.

Our commitment to an asset-light model continues to be core to our strategy and is key to the resilience of our income stream. During 2013, we completed the disposal of the InterContinental London Park Lane and agreed to dispose of an 80 per cent interest in InterContinental New York Barclay, both with long-term, valuable management contracts. This has driven up IHG s return on capital employed, reduced the capital intensity of the business whilst forming a relationship with a great new owner.

In February 2014, we signed an agreement to sell the InterContinental Mark Hopkins San Francisco.

## Disciplined Execution

Successful delivery of our strategy for high-quality growth requires Disciplined Execution. IHG is focused on leveraging our scale to drive efficiencies whilst investing behind the growth of the business. Talent is key to our success and our investment in strengthening our employer brand has been recognised externally through a number of accolades, including being awarded 3rd place in The Sunday Times 25 Best Big Companies To Work For in the UK.

Being a responsible business is part of IHG s DNA and it underpins our business practices, enabling us to make a positive contribution to the communities in which we operate, as well as building trust and preference for our brands. Having already met our previous Corporate Responsibility targets in 2012, in September 2013, we announced new ones for the five years from 2013 to 2017. These revolve around three core programmes; IHG Green Engage, IHG Academy and IHG Shelter in a Storm Programme. These are all tightly tied to our Winning Model, which ensures they are sustainable with full support from our owners.

Looking forward, IHG s strategy for high-quality growth gives us the confidence that we will outperform an industry which is set for good growth for many years to come, and as such we will continue to drive superior returns for our shareholders.

**Richard Solomons**

**Chief Executive Officer**

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## Holiday Inn®

In 1951, Kemmons Wilson recognised a need for clean, comfortable and affordable places for families to stay; he opened the first Holiday Inn hotel in Memphis, Tennessee in 1952. Today, the brand offers the perfect mix of business and pleasure for today s comfort-seeking traveller by providing an inviting, familiar atmosphere where guests can relax and enjoy themselves.

***1,168 hotels; 212,058 rooms open***

***249 hotels in the pipeline***

## Holiday Inn Express®

Launched in 1991, Holiday Inn Express hotels are geared towards the smart business or leisure traveller who appreciate value but don t want to compromise on efficiency and style.

***2,258 hotels; 214,597 rooms open***

***473 hotels in the pipeline***

## Holiday Inn Resort®

In 2007, the Holiday Inn brand began a $1 billion relaunch and as part of this, Holiday Inn Resort brand was launched offering the perfect destination for family fun and relaxation.

***38 properties; 8,818 rooms open***

***14 properties in the pipeline***

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## Holiday Inn Club Vacations®

Holiday Inn Club Vacations properties offer villas for families in holiday destinations in the US. The sub-brand of the Holiday Inn brand was launched in 2008 by IHG as part of a strategic alliance with the family of Orange Lake Resorts, the Kemmons Wilson family, who continue to own and operate the resorts today.

***10 properties; 3,701 rooms open***

***1 property in the pipeline***



The Strategic Report (pages 10 to 53) was approved by the Board on 17 February 2014.

**George Turner, Company Secretary**

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*Industry overview*

*Where the industry is now*

## The global hotel industry

The global hotel industry comprises approximately 14.6 million rooms, according to Smith Travel Research, and these are broadly segmented into branded (multiple hotels under the same brand name) and independent (non-branded) hotels. Growth in demand is driven by economic growth and an increasing trend for domestic and global travel resulting in part from favourable demographics and globalisation of travel.

There are a number of key industry metrics which are widely recognised and used to track performance. These include revenue per available room (RevPAR), average daily rate and rooms supply growth. These are amongst the key performance measures actively monitored by IHG. IHG also monitors macroeconomic indicators such as gross domestic product (GDP) trends, which is a leading indicator in hotel industry trends.

*IHG s KPIs are set out on pages 38 and 39.*

## The branded hotel market

Smith Travel Research estimates that the branded hotel market accounts for 51.5% of the total hotel market. However, this market is fragmented in terms of key brand players with the top five branded hotel companies (of which IHG is one) accounting for only 41% of the total branded hotel market in terms of open rooms and 72% of the development pipeline (hotels in planning and under construction but not yet open). However, as can be seen in the graph on the right, globally, the branded hotel market is increasing its share of the total hotel market, due to the advantages a brand can bring to hotel performance over that of independent hotels. Branded hotels have shown an increased resilience through the economic cycles, with the big branded players showing clear revenue outperformance, as well as benefiting from advantages in terms of economies of scale across a broad portfolio of hotels.

In the US, around 70% of the industry supply is branded. In fast developing markets, such as China and India, branded penetration is lower, at around 20 to 30%. However, this is expected to increase significantly over the coming decades as branded hotels gain traction due to the advantages of reliability, guest safety and security and consistency of standards that large global brands bring.

IHG s 2014 Trends Report (see page 20 and www.ihgplc.com/trends_report) identified that consumers trust brands with a heritage and they value the comfort and security established global brands provide. However the collision of globalisation, localisation and personalisation means that brands need to stay relevant by becoming 3D managing their global, local and personal assets simultaneously.

## The different business models within the hotel industry

The global hotel industry operates under a number of different business models, depending on whether a hotel is branded or independent. The four models typically seen are owned, leased, managed or franchised:

- Owned hotels are owned and operated by an owner who bears all the costs associated with the hotel but also benefits from all of the income;
- a leased model is similar, except that the owner-operator of a hotel does not have outright ownership of the hotel but pays rental fees to the ultimate owner of the property;
- under a managed model, the owner of a hotel will use a third-party manager to operate the hotel on its behalf and will pay the manager management fees and, if the hotel is operated under a third-party brand name, brand licensing fees; and
- a franchised hotel is owned and operated by an owner under a third-party brand name and the owner will pay a brand licensing fee to the brand owner.

Whilst an owner-operated hotel enables the owner to have full control over hotel operation, it requires high capital investment. In contrast, for hotel brand owners, a managed or franchised model enables quicker rooms growth due to the lower capital investment, but this requires strong relationships with third-party hotel owners.

*IHG s business model is set out on page 16.*

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*Where the industry is heading*

## Short-term drivers and global trends

Short-term industry trends are shaped by differing economic, political or physical factors impacting local geographical markets. Since the economic crisis of 2008/09, GDP growth has returned to key economies, leading to an increase in disposable income and an increase in demand for hotel rooms. Typically, the industry would meet this demand through an increase in the supply of rooms.

In developed markets, recent industry revenue growth has been driven largely by an increase in the room rate as occupancy levels have returned to previous peak levels, but the growth in supply of rooms has been below the long-term average. In emerging markets, growth has been as a result of both an increase in room rate and the supply of rooms. The industry is also impacted in the short-term by local market economic or political factors.

## Long-term drivers and global trends

In the long term, growth in the hotel industry is driven by a number of trends:

### Economic

The travel and hotel industries have benefited substantially from long-term macroeconomic trends. Global GDP growth in the last 10 years of circa 4% per annum has contributed to increasing disposable income and a greater number of middle-class households, particularly in emerging markets such as Greater China, with a greater propensity to travel.

Over the long term, global economic growth and more sophisticated financial markets in emerging countries has led to a 1.8% increase in global total hotel rooms supply over the last eight years.

Improvements in physical infrastructure, particularly in emerging markets, have allowed hotels to more effectively meet the needs of guests and to open up new destinations for travel.

### Demographic

During the last 10 years the typical traveller demographic has changed. Travellers travel for a variety of reasons and no longer travel for a singular purpose, such as only business or leisure. Across the globe, the type of traveller can range from single people to multi-generation families. The younger workforce is driving more diverse and informal working patterns, with an expectation that hotels will cater for flexible working arrangements. A growing ageing population with the desire, and means to travel, is expected to significantly increase travel flows and lead to an overall increase in demand for travel services.

## Technology

Technology has played an important role in shaping the travel industry. A decade ago, internet access and the role of digital technology in planning, booking and experiencing travel was very limited. Today, the reach and role of digital technology is very different. The internet, increasingly accessed through mobile devices, has established itself in developed markets as the preferred method to research, plan and book travel. In emerging markets, online purchasing and international travel are relatively new to travellers, and therefore personal interactions remain key, making the role of the traditional travel agent important. Industry experts estimate that about 12 to 15% of tickets and rooms are booked online in China and of that online market, approximately 70 to 80% are booked through third-party intermediaries.

The development of social networking and photo sharing has changed the way in which people think about travel, with the sharing of travel experiences, reviews and recommendations having a greater impact on travel decision-making. These recommendations, combined with the ability to compare prices and review the richer information that is available online, allow travellers to make informed decisions and book their travel options with greater control and immediacy, leading to an increase in travel to a variety of destinations.

IHG s 2014 Trends Report (see page 20) found that the rapid rise of technology-enabled personalisation is helping to shape the experience guests want when they travel. It also found that personalised brand experiences which resonate with the local culture are particularly important for the fast-growing number of international travellers from emerging markets.

Changing technological trends and changes in consumer behaviour will continue to shape the industry.

## Social

Other trends also present new opportunities to travel. Increased competition and capacity amongst airlines, lower air fares and more relaxed travel and immigration restrictions in many regions have made international travel a viable option for an increasing number of people.

## Competitors

These long-term drivers and global trends are changing the competitive landscape within the travel industry. Competitors are no longer simply branded or independent hotels, but now include travel intermediaries and companies offering alternative lodging solutions and search options, providing inspiration for travel ideas and aggregating a range of travel solutions. Many of these businesses are also not subject to regulations such as fire and life safety, food safety and local industry regulations, which apply to traditional hotel operators.

*Source: Smith Travel Research for industry facts.*

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## *Industry performance in 2013*

Overall, global industry RevPAR increased by 4.4% in 2013 and IHG s global RevPAR grew 3.8%. As would be anticipated, performance varied across regions and across segments (see page 29), with each facing different economic, social and physical conditions.

*RevPAR is a KPI see page 38.*

*IHG s performance globally and in each of our regions during 2013 is detailed on pages 40 to 50.*

*Source: Smith Travel Research for industry facts.*

### The Americas

#### Industry

The hotel industry performed strongly in the region. RevPAR grew by 6.6% with average daily rate increasing by 5%. On the supply side, the number of rooms only increased by 0.8%. Although RevPAR growth was strong, it was not consistent across all segments, with the luxury, upper upscale and upscale segments performing best.

The overall dynamic remains favourable in the US, with industry demand achieving record highs and supply growth still below the 2% per annum historic average. Reflecting this, US RevPAR increased 5.4% during 2013 with average daily rate growing 3.9% and occupancy also continued to grow. On a negative note, the US government s reduced travel over 2012 and 2013 and complete shutdown in the fourth quarter of 2013, meant that some cities, such as Washington D.C., were impacted. However, this did not outweigh the positive economic trends that contributed to greater demand in the industry.

#### IHG s Americas region

IHG s comparable RevPAR increased 4.3% with 2.6% rate growth. The region is predominantly represented by the US, where comparable RevPAR was up 4.2%. Our upscale and luxury brands (InterContinental, Crowne Plaza and

Hotel Indigo) outperformed the industry. In the midscale segment, Holiday Inn and Holiday Inn Express maintained a rate premium to the segment. However, RevPAR grew at a lower rate than the market, reflecting the superior RevPAR performance versus the market in recent years and higher absolute RevPAR. Quality remained a focus, and 17,968 rooms left the IHG System. Overall the number of rooms open in the region increased by 1,807 rooms.

## Europe

### Industry

Despite continuing challenging economic conditions in the eurozone, overall the industry performed well with RevPAR increasing 3.2% and average daily rate 1.5%. The number of rooms across the industry increased by only 0.9%. Europe is a diverse region and the industry figures were driven by the larger markets, in particular the UK and Germany.

In the UK, RevPAR grew 3.9%, predominantly led by occupancy growth, although average daily rate grew marginally (0.2%). The UK provinces, after a relatively protracted period of weakness, performed particularly well. London s RevPAR growth was positive in 2013, despite an unprecedented level of new rooms and 2012 figures elevated by the London 2012 Olympic and Paralympic Games.

Economic growth in Germany has tended to be more stable in the recent past. Although RevPAR for Germany did increase by 1.7%, the industry is highly dependent upon trade fairs, which are not consistent in number or size year-on-year. Overall, there were fewer trade fairs in 2013 compared to 2012 and RevPAR growth was positive but not as high as the growth seen in 2012.

### IHG s Europe region

IHG s comparable RevPAR increased 1.7% led by a 1.5 percentage point increase in occupancy. RevPAR growth was resilient in our priority markets, despite tough comparatives. In London, we outperformed the market, although across the UK we were marginally below market. Overall, comparable UK RevPAR increased by 3%. In Germany, RevPAR grew 0.8% reflecting a weaker trade fair calendar in key cities, particularly Berlin and Dusseldorf. In France, RevPAR grew 2.6%, with 5.3% growth at our owned InterContinental Paris Le Grand.

## Asia, Middle East and Africa (AMEA)

### Industry

AMEA is a diverse geographical region comprising many individual country markets. Overall RevPAR increased 6.1%, led by a 5% growth in average daily rate. The number of rooms available across the industry increased by 2.6%.

Strong growth was seen in Southeast Asia, where RevPAR grew 7.9% driven by continued strength in Indonesia and Thailand; Japan, where RevPAR grew by 11.4%; and in the Middle East, where RevPAR growth of 5.5% was achieved despite continuing geopolitical unrest.

In India, 2013 was a challenging year with pricing challenges as a result of rooms supply growth of 4.6% leading to a RevPAR decline of 3.3%.

In Australasia, RevPAR was up 3.9% driven by average daily rate up 2.7%, reflecting strong economic conditions in Australia.

### IHG s AMEA region

IHG is represented widely across the region, both geographically and by brand, and comparisons across the industry are hard to make. In addition, almost all of our net room growth is located in developing markets, where initial RevPAR expectations are on average about 30% of the level achieved by a mature hotel in that region. Even after three to five years, hotels in these markets are expected to achieve around 70% of the absolute RevPAR of primary city hotels. Comparable RevPAR increased 6.1% in the year but, reflecting new hotels in the developing markets, total RevPAR growth was 2.8%. Overall strong trading in Southeast Asia and Japan led the performance with RevPAR up 9.9% and 9.6% respectively. In Australasia, RevPAR increased by 4.5%. In the Middle East, RevPAR was up 3.2%, driven by good performance in Saudi Arabia and the UAE, offset by geopolitical unrest impacting our business in Egypt and Lebanon.

## Greater China

### Industry

Hotel industry RevPAR in Greater China was lower than industry expectations with full-year RevPAR declining by 4.2%. The RevPAR decline was predominantly led by a reduced average daily rate (an annual reduction of 3.1%), combined with a reduction in occupancy levels. Overall demand for rooms increased over the year, but occupancy rates were impacted by supply growth of 4.6%.

The industry was impacted by a number of factors in 2013 including natural disasters, slower macroeconomic conditions as reflected in GDP growth of only 7.7% (the softest pace of expansion since 1999) and the impact of the China-Japan territorial island dispute. Despite the challenges, travel and tourism continue to be a strategic pillar of the Chinese government s five-year plan and the continuing growth of the middle-classes and a shift in emphasis to a consumption led economy are all positive factors for the medium to long-term prospects.

## IHG s Greater China region

IHG s comparable RevPAR increased 1% as the scale and strength of our business drove a significant outperformance compared to the industry throughout 2013. IHG has brands across multiple price points and hotels in 70 cities which positions us well across the region. Conditions were difficult, but we opened 7,669 rooms and added 15,000 rooms to our pipeline, including seven HUALUXE hotels taking our pipeline of this key new brand to 21 hotels. From a growth perspective, almost 70% of the hotels in the pipeline are under construction. As with AMEA, much of the room growth is located in developing tier 2 and tier 3 cities with lower initial RevPAR expectation when compared to primary city hotels.

## IHG System

We continued to grow the IHG System size in 2013 (hotels franchised, managed, owned or leased under IHG s brands see Our business model on page 16).

As at 31 December 2013, we had 686,873 open IHG hotel rooms (4,697 hotels) in nearly 100 countries and territories around the world.

As part of our ongoing commitment to maintaining only high-quality hotels in our brands, we removed 24,576 rooms (144 hotels) during the year, an increase from 2012, actively strengthening the quality of our estate across our brand portfolio, particularly Holiday Inn.

*Information on our preferred brands is set out on pages 17 and 20.*

## IHG pipeline

As at 31 December 2013, we had 180,461 rooms (1,120 hotels) in the development pipeline (hotels in planning and under construction but not yet opened; a contract for these has been signed and the appropriate fees paid); the largest pipeline in the industry.

*Net rooms supply is a KPI*

*see page 38.*

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## *IHG at a glance**

### *Where we operate*

We operate in nearly 100 countries
and territories globally.

*Details of our Targeted Portfolio are set out on pages 28 and 29.*

### *Our business model*

3,977

*Franchised hotels*

711

*Managed hotels*

9

*Owned and leased hotels*

*Our business model is detailed on page 16.*

### *Our strategy for high-quality growth*

We focus on delivering high-quality growth, which for us means delivering consistent, sustained growth in cash flows and profits over the longer term. We do this by staying focused on our Targeted Portfolio and building preferred brands, driven by a deep understanding of guests   needs. IHG   s Winning Model, combined with a Targeted Portfolio underpinned by Disciplined Execution, will drive superior returns for IHG   s shareholders.

*Details on our performance globally and in each of our regions is set out on pages 40 to 50.*

* All facts and figures as at 31 December 2013.

Includes three liquidated damages receipts in 2013; $31m in The Americas, $9m in Europe and $6m in AMEA.

àIncludes one significant liquidated damages receipt in 2012; $3m in The Americas.

***Our brand***

***portfolio***

| | | | | | |
|---|---|---|---|---|---|
| Hotels | 178 | 391 | 55 | 1,168 | 2,258 |
| Rooms | 60,103 | 108,891 | 6,199 | 212,058 | 214,597 |
| Rooms (hotels) in the pipeline | 16,860 (51) | 28,369 (94) | 6,807 (51) | 46,958 (249) | 54,744 (473) |

| | | | | | | Total |
|---|---|---|---|---|---|---|
| 38 | 10 | 196 | 312 | | | 4,697¥ |
| 8,818 | 3,701 | 21,518 | 29,778 | | | 686,873¥ |
| 3,163 (14) | 120 (1) | 8,728 (80) | 6,914 (80) | 880 (5) | 6,804 (21) | 180,461 (1,120) |

¥ Includes 21,210 rooms (91 hotels) which are unbranded.

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*Our business model*

*Our business model*

| As at 31 December 2013: | Brand ownership | Marketing and distribution | Employees | Hotel ownership | IHG capital intensity | IHG income |
|---|---|---|---|---|---|---|
| **Franchised** We operate 3,977 hotels under franchise agreements (84.67%) | IHG | IHG | Third-party | Third-party | Low | Fee % of rooms revenue |
| **Managed** We manage 711 hotels (15.14%) | IHG | IHG | IHG & Third-party* | Third-party | Low | Fee % of total revenue plus % of profit |
| **Owned and leased** We own and lease 9 hotels (less than 1%) | IHG | IHG | IHG | IHG | High | All revenues and profits |

*IHG often employs the General Manager only.

## Managed and franchised model

Our business model is focused on franchising and managing hotels, rather than owning them, enabling us to grow at an accelerated pace with limited capital investment. Currently, 88 per cent of our Group operating profit (before regional and central overheads and exceptional items) is derived from franchised and managed operations. This business model allows us to focus on building preferred brands based on guests needs, and on strong delivery systems, such as our branded hotel websites and call centres. Our model allows us to create greater returns for owners whilst leaving asset management and real estate to our local third-party owners with the necessary expertise.

We adapt this business model by market as necessary, for example, in some markets we have in place managed leases to allow our business to grow. Managed leases are properties structured for legal reasons as operating leases but with the same characteristics as management contracts. In other markets we choose partnerships and joint ventures where appropriate.

A key characteristic of the franchised and managed business model is that it is highly cash generative, with a high return on capital employed. The asset-light approach means IHG benefits from the reduced volatility of fee-based income streams, as compared with the ownership of assets, resulting in a high-quality income stream. It enables us to focus on growing our fee revenues (Group revenue excluding owned and leased hotels, managed leases and significant liquidated damages) and fee margins (operating profit as a percentage of revenue, excluding revenue and operating profit from owned and leased hotels, managed leases and significant liquidated damages).

Dependent upon the market maturity, owner preference and, in certain cases, on the particular brand, hotels can be franchised or managed. For example, in the US, a mature market, IHG operates a largely franchised business, working together with our owners to deliver preferred brands. In contrast, in Greater China, IHG operates a predominantly managed business where IHG is responsible for operating the hotel on behalf of its owners.

*Fee revenues and Fee margins are KPIs* *see pages 38 and 39.*

## Capital expenditure

In some situations, IHG supports its brands by using its capital to build or support the funding of flagship assets in high-demand locations in order to drive growth. We plan to recycle capital by selling these assets when the time is right and to reinvest elsewhere in the business and across our portfolio.

We have committed up to $150 million to assist with the launch of our EVEN Hotels brand to demonstrate the success and economics of the brand. In 2013, IHG acquired three existing hotels which are being converted to EVEN Hotels, the first of which are due to open in 2014. In the future, we would look to recycle this capital, just as we previously did for both the Staybridge Suites and Hotel Indigo brands.

## Asset disposals

As part of our asset-light approach, in May 2013, we disposed of our leasehold interest in InterContinental London Park Lane for gross cash proceeds of £301.5 million ($469 million). IHG secured a 30-year management contract on the hotel, with three 10-year extension options at IHG s discretion, giving an expected contract length of 60 years.

In December 2013, we announced our agreement to dispose of 80 per cent of our interest in the InterContinental New York Barclay for $240 million and retain the remaining 20 per cent in a joint venture with a total circa $175 million refurbishment. Under the agreement, IHG will secure a 30-year management contract on the hotel, with two 10-year extension options at IHG s discretion, giving an expected contract length of 50 years.

In February 2014, the Group signed an agreement to sell the InterContinental Mark Hopkins San Francisco for $120 million in cash and enter into a long-term management contract on the hotel.

*Our breakdown by managed, franchised, owned and leased hotels for each region is set out on pages 40 to 50.*

## The System Fund

In addition to management or franchise fees, hotels within the IHG System pay assessments and contributions which are collected by IHG for specific use within the System Fund. The System Fund also receives proceeds from the sale of IHG Rewards Club points (see page 50 for further information).

The System Fund is managed by IHG for the benefit of hotels in the IHG System with the objective of driving revenues for the hotels. Total income for the System Fund in 2013 was $1.35 billion (2012: $1.25 billion) and these funds are used to pay for marketing, the IHG Rewards Club loyalty programme and the global reservation system. The System Fund is planned to operate at break even and does not result in a profit or loss for IHG.

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## *Our preferred brands*

Our portfolio of complementary and differentiated brands consistently deliver on guests needs.

*Information on how we deliver our preferred brands is set out on page 20.*

### InterContinental® Hotels & Resorts

Our international luxury brand is located in most of the world s key cities and many resort destinations across more than 60 countries worldwide. The brand s ethos is to provide insightful, meaningful experiences that enhance our guests feeling that they are in a global club.

### HUALUXE® Hotels & Resorts

Launched in March 2012 as the first luxury international hotel brand where every element has been designed specifically to suit the tastes and sensibilities of the Chinese guest. It focuses on the unique aspects of Chinese

### Holiday Inn® Hotels & Resorts

Offers the perfect mix of business and pleasure for today s comfort-seeking traveller by providing an inviting, familiar atmosphere where guests can relax and enjoy themselves.

### Holiday Inn Resort®

Offers leisure guests fun and relaxation in some of the world s best holiday destinations, with the peace of mind of a trusted brand name.

### Holiday Inn Club Vacations®

Formed as IHG s timeshare brand as part of a strategic alliance with the family of Orange Lake Resorts under an exclusive licensing and marketing agreement. The portfolio is a collection of resorts in the US, offering spacious villa accommodation for families in great etiquette, the importance of rejuvenation, status recognition, local customs and heritage.

vacation destinations.

**Crowne Plaza® Hotels & Resorts**

The brand supports career-focused travellers, putting them in control of their travel experience so they can be on top of their work and at the top of their game.

**Holiday Inn Express®**

Aimed at smart business or leisure travellers who appreciate value without compromising on efficiency and style.

**Hotel Indigo®**

IHG s boutique brand, artfully combines the modern design and intimate service associated with a boutique hotel with the peace of mind and ease of staying with one of the world s largest branded hotel companies. Each Hotel Indigo hotel reflects the local culture, character and history of the surrounding area.

**Staybridge Suites®**

IHG s extended-stay brand for business and leisure travellers who are spending an extended time away from home and prefer a warm, home-like and community environment.

**EVEN Hotels & Resorts**

Launched in February 2012, the brand was created to meet the large and growing demand for a hotel brand to help wellness-minded travellers maintain their balance on the road.

**Candlewood Suites®**

IHG s extended-stay brand in North America aimed at providing guests with a relaxed, casual and home-like environment at a great value.

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## *Our strategy for high-quality growth*

We focus on delivering high-quality growth, which for us means delivering consistent, sustained growth in cash flows and profits over the longer term. We do this by staying focused on our Targeted Portfolio and building preferred brands, driven by a deep understanding of guests needs.

IHG s Winning Model, combined with a Targeted Portfolio underpinned by Disciplined Execution, will drive superior returns for IHG s shareholders.

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***Our purpose is to create Great Hotels Guests Love®***

IHG s Winning Model is our framework for delivering superior value creation through our brands, our people and our systems.

*Preferred brands delivered through our people*

Our portfolio of nine preferred brands (set out on page 17) are brought to life by our people who deliver on each of our brand promises.

## Preferred brands

Our portfolio of brands comprises complementary, differentiated brands that clearly and consistently deliver on guests needs.

Building a portfolio of preferred brands that resonate with our guests, and therefore our owners, is crucial. The value is seen through our guests wanting to stay with us and pay more to do so thereby driving RevPAR and delivering better returns on investment for our owners.

For IHG, a hotel brand is a promise of a consistent, relevant and differentiated hospitality experience:

- our guests focus on this from a location, product and service perspective, all for the right value; and
- our owners focus on this in terms of revenue delivery, relevant and purposeful brand standards and the broader support they receive from being part of a global brand.

Our research into guest needs and the guest occasions (described on page 29) and our consumer insight research helps us gain a deeper understanding of what travellers around the world want from their relationships with hotel brands (as set out on the right), and together assist us in defining our brands.

We use our guest satisfaction measurement tool, Guest HeartBeat, to measure brand preference and guest satisfaction. We are always looking to find ways to improve Guest HeartBeat scores and meet guest expectations.

*RevPAR and Guest HeartBeat are KPIs see pages 38 and 39 and are performance measures for our incentive plans see pages 74 to 97.*

*The principal risks associated with Preferred brands, Owner proposition and Reputation and brand protection are set out on pages 36 and 37.*

**IHG s 2014 Trends Report**

IHG s 2014 Trends Report, Creating Moments of Trust the key to building successful brand relationships in the Kinship Economy , highlights the need for hotel brands to be 3D (3 dimensional), managing their global, local and personal assets simultaneously, in order to win future guests.

This primary research is based on a study of 7,000 international travellers worldwide and uncovers critical success criteria for global brands delivering localised and personalised guest experiences, enabled by technology.

*www.ihgplc.com/trends_report*

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## Our people

In order to deliver our preferred brands, IHG recognises the importance of the people who work across its hotels to deliver differentiated brand experiences and the brand promise for our guests.

## Our people strategy

Our expanding business requires us to continually look for additional colleagues to work in IHG hotels and deliver our preferred brands. To meet the challenges that are associated with recruitment, our people strategy is designed around attracting, retaining and developing the very best talent in the industry to service the needs of our guests, to engage and energise the talented and passionate people who work in our hotels and corporate offices, and to bring our brands to life every single day, creating Great Hotels Guests Love.

The four pillars of our people strategy are:

### 1. Developing a BrandHearted culture

Each of our brands offers a distinct promise to our guests and being BrandHearted means putting our brands at the heart of everything we do.

### 2. Making IHG a great place to work

We are dedicated to building a strong employer brand in order to attract the best possible talent to meet our strategic objectives:

- we ask our people to live our Winning Ways (set out above), a set of behaviours that define how we interact with our guests and colleagues; and

- we offer our people our Room to be yourself commitment, which is brought to life by four promises.

**Room to be yourself:**

- **Room to have a great start:** This assists us in recruiting the right people for each brand and role. We offer new recruits a structured orientation programme to provide them with an understanding of IHG s strategy and values.

- **Room to be involved:** We use various channels, including conferences, team meetings and our intranet site (refreshed in 2013), to communicate with employees on matters relating to the Group s business and performance and share information on people, policies and news across IHG. We also provide our employees opportunities to give regular feedback to ensure IHG meets expectations and delivers on its commitments. Twice a year, we ask our employees and those working in our managed hotels (excluding our joint venture hotels) to participate in an Employee Engagement survey.

**Room to grow:** We promise our people all the support, experience and training they need to perform at their best and provide various development opportunities.

**Room for you:** We understand it is important to recognise achievements and communicate these throughout our business.

*Our Employee Engagement survey score is a KPI* *see page 38* *and a performance measure for our annual incentive plan* *see pages 74 to 97.*

## Our people

Given our franchised and managed business model, IHG does not employ all those who work in IHG hotels.

### Who are our employees?

We employ all those working at our corporate offices and at our owned and leased hotels (including managed lease hotels) and the costs of these are borne by IHG. We typically employ the General Manager and in some cases, other hotel workers at our managed hotels, but the costs of these employees are not borne by IHG. We do not employ any persons working at our franchised hotels.

IHG employed 8,179 people worldwide during the year ended 31 December 2013, whose costs were borne by the Group. Of these, 94 per cent were employed on a full-time basis and 6 per cent were employed on a part-time basis.

The geographic distribution of the average number of these employees over the last three years is shown in the table to the right.

| | **2013** | **2012** | 2011 |
|---|---|---|---|
| Americas | **2,548** | **2,552** | 2,895 |
| Europe | **1,602** | **1,866** | 1,574 |
| AMEA | **1,545** | **1,195** | 1,195 |
| Greater China | **1,083** | **1,051** | 1,000 |
| Central | **1,401** | **1,317** | 1,292 |
| Total | **8,179** | **7,981** | 7,956 |

In addition, as at 31 December 2013, the Group s employees included 4,615 (2012: 4,431, 2011: 3,885) employees who worked directly on behalf of the System Fund and whose costs are borne by the System Fund (explained on page 16). In line with IHG s business model, IHG also employs 578 (2012: 587, 2011: 577) General Managers who work in our managed hotels and whose costs of $135m (2012: $132m, 2011: $125m) are borne by those hotels, and, in the US predominantly, there are 12,588 (2012: 12,494, 2011: 14,596) other hotel workers in our managed hotels who have contracts or letters of service with IHG whose costs of $376m (2012: $430m, 2011: $448m) are borne by those hotels.

When the Group s entire estate is taken into account (including those working in our franchised and managed hotels) over 350,000 people worked globally across all IHG s brands as at 31 December 2013.

### 3. Delivering world-class People Tools to our owners and hotels

To deliver our preferred brands throughout all of our hotels, we developed a set of People Tools, industry-leading best practices tailored specifically for our brands, to assist hotel management and human resources teams hire, train, involve and recognise colleagues. They work to help increase employee retention, performance, guest satisfaction, drive efficiencies and increase revenue for our owners. In 2013, we launched an e-learning module for our People Tools, available in three languages.

### 4. Building a strong leadership and performance culture

We build strong leadership from the top and our Board and Executive Committee leadership and governance processes are set out on pages 56 to 76.

The Group performance culture in our corporate offices is aligned with our strategic priorities for our senior executives, as shown in our incentive plan measures, explained in the Directors Remuneration Report on pages 74 to 97.

*The principal risks associated with People, talent and culture are set out on pages 36 and 37.*

## 2013 initiatives and events

These included:

- the launch of a bespoke Facebook page in India, a new IHG careers page on Russia s number one social media site and a country specific careers website in Greater China;
- a Winning in IHG workshop was held in Singapore, which shared best practice learnings from our AMEA region to assist other colleagues from other regions;
- our annual Celebrate Service week was held to say thank you to all those working at our hotels and corporate offices; and
- development of our online peer-to-peer recognition tool, Bravo!, as an app to download on a mobile phone or tablet.

## Case Study Talent in Greater China

With over 200 open hotels and 170 hotels in the pipeline, IHG leads the market in terms of system size and hotel signings in Greater China. People are our single biggest asset and we have over 50,000 people working across our hotels and in the next three years, we will create circa 30,000 jobs. To assist with this, we leverage our scale in Greater China to provide our people with opportunities to grow their careers within IHG and offer them a variety of locations, roles and different experiences to assist in retaining talent.

As an example, 70 per cent of our General Manager vacancies are filled internally and they are developed through our training programmes (for example see page 26). We also support the career development of the management team in hotels providing a structured way to help them map their career paths across hotel functions accompanied with learning guides. To assist with our recruitment at the entry level, at the end of 2013, we had 30 IHG Academy programmes with local schools and over 2,300 participants undertook placements with IHG. We also started the IHG Management Trainee programme and I-Grad Future Leaders programme, for new graduates from across our hotels in Greater China.

Leveraging our scale, we will continue to invest heavily in developing our people across all levels of the organisation and attract new talent across the region.

## Celebrating diversity and inclusion

As a global organisation operating in nearly 100 countries and territories around the world, we recognise the importance and benefit of ensuring our workforce fully represents the communities in which we operate and the guests who stay in our hotels.

In 2013, we introduced a new Global Diversity and Inclusion Policy to further our commitment in this area. We also made progress in our Talent Review processes, enabling us to increase local representation in emerging markets, gender balance in our leadership teams and international representation in our global functions.

In 2014, we will continue to focus on these areas by strengthening the support available internally and also by working with suppliers who comply with our Global Diversity and Inclusion Policy and principles set out therein.

We reviewed the composition of our global management teams and have set out the following objectives:

- to maintain at least 25 per cent female representation on our Board;
- to strengthen female representation in our global senior leadership population, with a target of reaching 25 per cent in three years; and
- to sustain a healthy balance of gender in the whole employee organisation.

We are committed to providing equality of opportunity to all employees without discrimination and providing an inclusive environment. Every effort is made to ensure that applications for employment from disabled employees are fully and fairly considered and that disabled employees have equal opportunities in training and promotion.

*Our Board s commitment to supporting diversity is set out on page 62.*

## External recognition

Our brands and our employer brand have won many awards in 2013, including:

the Holiday Inn brand won the Best Mid-Market Hotel Brand in the World and Asia Pacific by the readers of Business Traveller for the 13th successive year in 2013;

the Holiday Inn brand was ranked Highest in Guest Satisfaction Among Mid-Scale Full Service Hotel Chains in the US, for the third year in a row by J.D. Powers and Associates (see page 188);

Market Metrix Hospitality Index named Staybridge Suites brand as one of the Top 10 Brands in Customer Satisfaction globally in quarter 3 and quarter 4;

Market Metrix Hospitality Index named Candlewood Suites brand as Best Midscale Hotel Brand in the Americas region for three consecutive quarters (quarters 2, 3 and 4);

InterContinental Hotels & Resorts was awarded a total of 22 accolades at the 2013 World Travel Awards, including the World s Leading Hotel Brand for the seventh time and the fifth consecutive year;

InterContinental Hotels & Resorts won Best Business Hotel Chain Worldwide at the 2013 Business Traveller Awards;

Hotel Indigo Shanghai on the Bund was named Best Boutique Hotel at the TTG China Travel Awards 2013;

IHG was ranked third in 2013 The Sunday Times 25 Best Big Companies To Work For in the UK;

IHG was listed in TheJobCrowd s The Top Companies For Graduates To Work For in 2013/14;

IHG was named in the 2013 World s Learning Elite for the third consecutive year; and

IHG was named in the China Best Employer Awards.

*Build and leverage scale*

For each of our brands, we aim to deliver high-quality growth through building scale positions in the most attractive geographic markets. In key cities, we build scale through increasing our market share of rooms in that location. As our brands focus on a range of occasion segments meeting guest needs in different ways (see page 29), we use our consumer research to target the right brands for each location.

Increased scale enables us to drive more revenue and create cost synergies for both IHG and our owners. More hotels in an area encourages guests to use our direct reservation channels to search and book our hotels and provides corporate customers with good coverage of key locations. We can also centralise and co-ordinate operational support, national or city-level marketing campaigns and deliver efficient procurement practices, including negotiating reduced commission rates with online travel agencies.

*Net rooms supply, Total gross revenue, Fee revenues, RevPAR, System contribution to revenue and Fee margins are KPIs see pages 38 and 39.*

*The principal risks associated with Owner proposition are set out on page 37.*

**Case study IHG Voice**

IHG Voice is a premium pay-for-performance solution available to all of our hotels for managing local telephone reservations. The solution transfers reservation enquires made to a specific hotel to experienced sales operatives with expert local and regional knowledge, located in a number of core locations in each region.

The specially trained sales agents use the proven reservation booking methods of our award-winning central reservations offices, ensuring that guests are able to make the right booking for their needs and for any given occasion. It also maximises cross-sell opportunities. If a particular hotel is unable to meet a guest s needs then the guest is provided with alternate suitable IHG hotel suggestions. The service therefore maximises guest bookings to the IHG System, delivering incremental revenue to the hotel with improved average daily rate and RevPAR, whilst providing a superior booking experience for the guest.

The IHG Voice reservations solution means that hotels can concentrate on focusing their attention on providing a great guest service and experience for those staying at their hotel. By driving operational efficiencies and using technology in this way, the service also allows IHG to drive a low cost of sale without compromising the quality of the channel.

***Strong brand portfolio***

***& loyalty programme***

By building a strong brand portfolio and loyalty programme, IHG is able to offer an unparalleled choice for guests and owners. Our nine complementary brands are connected through a leading loyalty programme. IHG s loyalty programme was relaunched on 1 July 2013 with a new name: IHG Rewards Club (previously Priority Club Rewards), reflecting the history of innovation, reliability and integrity that is at the heart of IHG. The name, IHG Rewards Club, clearly identifies all our brands together under the IHG family and has driven a 10 percentage point increase in the awareness of IHG as a brand family.

Through our strong brands and loyalty programme we are able to:

- cross-sell each of our brands, recognising that guests stay across our brand portfolio, depending on their needs and the occasion (see page 29);

- strengthen our owner proposition by increasing the number and winning the loyalty of our guests, thereby driving higher RevPAR premiums and increasing total gross revenue (see page 26); and

- encourage more direct bookings, increasing revenue for IHG s owners (see page 25).

In 2013, IHG Rewards Club delivered around 38.2 per cent of total rooms revenue to our hotels; part of our system contribution to revenue (explained on page 25).

*The principal risks associated with Preferred brands and Reputation and brand protection are set out on pages 36 and 37.*

IHG® Rewards Club is the world s first and largest hotel loyalty programme, with 77.4 million members globally. It offers industry-leading benefits and increased opportunity for points redemption across our portfolio. As part of the relaunch, IHG Rewards Club offered enhanced benefits for members including free internet access across all hotels globally.

IHG Rewards Club has been named Best Hotel Rewards Program in the World for eight years running by Global Traveler magazine and Program of the Year by the Freddie Awards for the Middle East and Asia/Oceania for 2013

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*Effective channel management*

Our channel management strategy aims to deliver the highest quality revenues to IHG hotels at the lowest possible cost, recognising that the guest experience changes along the entirety of their travel journey. Guests use multiple devices and new technology to personalise their travel experience   from choosing where they want to go, to what they want to do and, of course, where they want to stay. Our focus is therefore to deliver against a guest  s needs across the entirety of this journey, which we break down into five distinct steps: Dream, Plan, Book, Travel, and Share.

We use our systems and technology to drive demand for our hotels, manage revenue per booking and encourage guest loyalty, thereby delivering the highest quality revenues to IHG hotels at the lowest possible cost and maximising owner returns. However, we recognise that guest trends, technology and the competitive environment are continually evolving. It is therefore important that we keep abreast of new technologies and systems to keep pace with these to continue to deliver a consistent, locally relevant and differentiated guest experience.

In 2013, IHG  s direct and indirect systems and channels delivered 69 per cent of total rooms revenue to our hotels (system contribution to revenue).

## Our booking systems and channels

Our multi-lingual web and mobile sites, call centres and global sales force allow guests to use the channel most appropriate for their needs, to plan and book our hotels. We also recognise that social media has an important role to play as part of the booking process as a method of advocacy and influence. As a result, we have changed the way we communicate with our guests, using social marketing innovations to make connections between hotels and guests and, through our Guests Rating and Review tool, providing our guests a forum to share their thoughts.

### Web and mobile

Web-based bookings now account for over $3.5 billion of IHG  s total rooms revenue to our hotels. As hotels and other booking competitors continue to invest in the online experience, we expect direct web sales to continue growing at the expense of traditional reservation services.

Mobile technology is also a growing booking and guest channel. We were the first major hotel chain to offer branded mobile apps across all our brands. Mobile visits accounted for over 30 per cent of our website visits, while over 50 per cent of our emails are opened via a mobile device. We continue to innovate in this area in line with advancing technology.

### Reservations centres

We operate 12 central reservations offices globally, with 13 different language capabilities to help potential guests and IHG Rewards Club members with queries they may have in their travel planning and to make bookings. In 2013, our global call centres answered more than 21 million calls, and accounted for almost $2 billion total rooms revenue to our hotels.

### Travel agents

IHG works with a number of third-party distribution partners to support revenue delivery to our hotels, including online travel agencies (OTAs). OTAs represent a role within IHG s distribution strategy, most specifically around infrequent, comparison-shopping leisure travellers. Therefore, IHG, on behalf of its owners, has leveraged its global footprint to secure deals with the lowest aggregate cost of sale for our owners, increasing their revenue.

### Sales force

Our global sales teams are dedicated to securing profitable deals with corporate clients and travel agents and leveraging our technology platform to connect hotels to global distributions systems, in ways that independent hotels and small chains cannot do cost-effectively. In 2013, they helped our circa 2,130 corporate accounts understand and plan for their future corporate travel.

*Total gross revenue, System contribution to revenue and RevPAR are KPIs* *see pages 38 and 39.*

*The principal risks associated with Channel management and technology platforms are set out on page 36.*

## IHG Rewards Club

We leverage our relaunched loyalty programme, IHG Rewards Club, (further explained on page 24) with 77.4 million members around the world, to encourage more direct bookings. In 2013, this delivered around 38.2 per cent of total rooms revenue to our hotels.

*Superior owner proposition*

IHG is committed to delivering a compelling and preferred offer to our hotel owners through a combination of strong owner relationship management and effective operational support.

We recognise the importance of owners in a managed and franchised business model and we therefore focus on building excellent relationships with our owners, through the IHG Owners Association.

We compete with other hotel brands when an owner chooses a brand for their hotel and we have therefore developed a strong owner proposition and a range of tools and services to drive revenues and make us the first choice for owners.

## Our owner offer

Our owners are provided with a range of tools and services to assist them in all areas of their operations, for example, providing them with access to our revenue systems which work to drive higher revenue streams to hotels, and our booking and reservation channels, to increase guest bookings (thereby increasing system contribution to revenue and total gross revenue, explained on page 25). This is one part of our broader online Hotel Solutions site enabling owners to search for, identify and get assistance with a large range of hotel-based issues, such as human resources and reservations. This network of knowledge is accessible by all IHG hotels worldwide and ensures that IHG continues to deliver solutions for our owners needs.

We also manage brand consistency risk for our owners by focusing on driving brand standards an important set of guidelines for each brand that support the delivery of a consistent branded hotel and guest experience and thereby assist in increasing guest satisfaction (measured through Guest HeartBeat) and driving brand preference and growth in RevPAR (both KPIs).

At our 2013 annual Owners Conference in Las Vegas, we had over 5,500 owners and General Managers attending and we took the opportunity to inform these key stakeholders about our future strategy and receive their feedback.

IHG continues to focus on delivering value to owners by pricing our fees in a way that reflects the services, tools and brand value that we deliver and we therefore drive a competitive branded fee structure to support owners in achieving premium returns. As explained on page 16, a franchised and managed business model requires us to focus on fee revenues and fee margins (both KPIs).

Guests, employees and owners are increasingly looking for confirmation that the business they interact with share their values and act responsibly. We are therefore committed to responsible business practices, and our corporate responsibility programmes are integrated with our business and our owner proposition. As set out on page 27, this is also a key priority area for the IHG Owners Association and are therefore KPIs for IHG.

*For our KPIs see pages 38 and 39.*

*The principal risks associated with Owner proposition are set out on pages 36 and 37.*

## IHG Owners Association

The IHG Owners Association represents the interests of nearly 2,000 of our owners who together own 3,000 IHG hotels globally. We work together to improve total revenue for our hotels and RevPAR, further strengthen IHG s brands and enhance the guest experience.

As set out in the Chairman of the IHG Owners Association s message on page 27, we have worked together with the IHG Owners Association in 2013 to make further progress on our agreed priorities.

## Progress against IHG Owners Association Priority 4: To develop the strongest General Manager talent in the industry

We have invested heavily in our approach to hiring, training and developing General Managers. To assist with this, we launched:

- **General Manager Programme:** This helps new General Managers become great brand ambassadors, deliver preferred brands, inspire their teams and achieve great results. The programme offers branded selection tools to assist owners and recruiters hire the right General Managers for the right brand and hotel and thereafter provides a General Manager with a tailored learning experience.

- **Journey to Brand Manager General Manager Professional Development Programme:** This helps experienced General Managers to focus on how a General Manager can consistently deliver the brand experience to drive results and maximise the profitability of our hotels.

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*IHG Owners Association*

*Chairman s message*

The IHG Owners Association works together with IHG to create long-term value for owners.

Last year in the Annual Report 2012, the 2013 IHG Owners Association Chairman, Mike Hembree, noted that the IHG Owners Association was changing its ways of working with IHG to better focus on how we work together. In autumn 2012, the following five key priorities around which we would strive to organise our work were agreed between IHG s Executive Committee (see page 65) and the IHG Owners Association:

1. deliver the strongest brand portfolio in the industry;
2. deliver the strongest set of tools in the industry;
3. develop the strongest approach to standards in the industry;
4. develop the strongest General Manager talent in the industry; and
5. maintain the strongest reputation for doing business the right way.

As the 2014 IHG Owners Association Chairman, I am proud to note that our new ways of working have reaped solid results.

Together, we launched a new professional development programme for existing and new Holiday Inn brand family General Managers. Our officers and volunteer leaders played an instrumental part in developing the programme, giving an owner perspective on what a General Manager needs to become a successful Brand Manager. This new programme is now rolling out through all IHG brands, and I am confident that they will all see the same success that we have seen in the Holiday Inn brand family.

We have worked with IHG to drive brand preference and have encouraged owners to use IHG s guest satisfaction measurement tool, Guest HeartBeat, as a measure of how well we are delivering against guests expectations. Hotels with higher Guest HeartBeat scores for overall experience tend to see higher RevPAR and we are therefore continuing to find ways to improve Guest HeartBeat scores and meet guest expectations.

Finally, and my personal focus, was the refresh of the approach to brand standards. Strong standards, consistently applied, deliver the brand promise and we have worked with IHG to simplify and clarify the brand standards. IHG started with the Holiday Inn Express brand, and took each and every standard through a rigorous review. At the end, more than 40,000 words were removed from the Holiday Inn Express Standards manual for The Americas region and an industry-leading online resource has been created, enabling owners and General Managers to quickly find and implement the standards. IHG will adopt a similar approach for all the other brands.

Looking ahead, the IHG Owners Association will continue its mission to help each owner find success with IHG hotel brands. We will continue to focus on increasing profitable revenue, decreasing operating expenses, and maximising our relationship with IHG.

**Buggsi Patel**

**2014 Chairman**

**IHG Owners Association**

*For information on the IHG Owners Association go to www.owners.org.*

We are focused on a Targeted Portfolio operating:

in the most attractive markets for IHG;

in the highest opportunity segments based on guests occasion needs; and

an asset-light business model, which means we focus on franchising and managing hotels rather than owning them.

Hotel Indigo Tianjin Haihe, People s Republic of China

### *Attractive markets*

Our growth strategy is focused on the largest and/or fastest growing markets in which IHG has strong existing brand presence or an opportunity to build a brand presence, where our scale and revenue delivery systems confer the greatest benefits and markets which are aligned to our asset-light business model. In these markets, we seek to take market share through our portfolio of brands, in the right locations, according to guest demand.

### US

According to Smith Travel Research, the US is the largest market for branded hotels, with 3.4 million rooms, accounting for 70 per cent of all US rooms available. The segment in the US with the greatest share is midscale, with 1.34 million branded hotel rooms, and IHG s Holiday Inn brand family (comprising Holiday Inn Hotels & Resorts, Holiday Inn Club Vacations, Holiday Inn Resort and Holiday Inn Express) is the largest in this segment. As at 31 December 2013, we had a total of 391,580 rooms (3,244 hotels) open and 63,860 rooms (604 hotels) in the pipeline across the region. Of the open ones, the Holiday Inn brand family comprised 271,936 rooms (2,483 hotels).

### Greater China

In Greater China, IHG continues to build on a position of strength. Having entered the market early (2014 will mark our 30th anniversary in the region), we continue to develop our relationships with key local owners and grow our presence rapidly. In a country with 790,670 branded hotel rooms (Smith Travel Research), IHG has over 68,545 rooms (208 hotels) open and 54,590 rooms (174 hotels) in our development pipeline. Our pipeline reflects our strategy to deepen our penetration in key cities such as Beijing and Guangzhou, ensuring we have more hotels in key resort locations such as Sanya, and targeting tier 2 and tier 3 cities with a growing middle-class demographic.

### India

During 2013, we continued to increase our presence in India particularly through Holiday Inn and Holiday Inn Express, opening a total of 818 rooms (5 hotels) and signing 1,404 rooms (9 hotels) into our pipeline. Accordingly, as at 31 December 2013, we had a total of 3,152 open rooms (18 hotels) and 9,088 rooms (45 hotels) in the pipeline.

### Russia and the Commonwealth of Independent States

These countries present opportunities for new construction and conversions as well as strong demand for branded hotels, and in 2013, we signed 1,737 rooms (10 hotels) into our development pipeline. As at 31 December 2013, the total number of open rooms was 5,283 (19 hotels) with 3,883 rooms (17 hotels) in the pipeline.

### Our priority markets

In November 2013, we stated our 10 priority markets, which include a number of key emerging markets and more developed markets US, Middle East, Germany, UK, Canada, Greater China, India, Russia and the Commonwealth of Independent States, Mexico and Indonesia. Information on our priority markets can be found at www.ihgplc.com/investors.

### Outside our priority markets

Outside our priority markets, we focus on building presence in key gateway cities and resorts where our brands can generate revenue premiums from high business and leisure demand. For example, in 2013, we opened an InterContinental hotel in Osaka, our first InterContinental to open in Japan for over 15 years, and an InterContinental in Lagos, Nigeria. We also announced a 15-hotel multiple development agreement in Australia for the Holiday Inn Express brand.

*Our performance across the Group and in each of our regions is set out on pages 40 to 50.*

### Future developments

As the industry continues to grow, IHG faces increased competition from other global branded hotel companies and other providers of accommodation (discussed in the Industry overview section on pages 10 and 11). We recognise this and have developed our Winning Model, which underpinned by Disciplined Execution, enables us to continue to deliver high-quality growth.

*For details on our Winning Model see pages 18 and 20 to 27 and Disciplined Execution see pages 18, 19 and 30 to 33.*

*Our KPIs, including Net rooms supply, are set out on pages 38 and 39.*

*See pages 36 and 37 for how IHG manages its principal risks.*

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*Highest opportunity segments*

Typically, the traditional hotel industry segment definitions are focused on the price point and the offer (luxury, upscale, midscale and economy). However, we recognise that guests choose hotels on the basis of a range of needs and the same guest may stay across more than one hotel segment, dependent upon the occasion and their needs. We are therefore refining our approach, so that we position and tailor our hotels to meet those guest needs, as defined by the occasion they are travelling for and their need for travelling.

## Guest occasion

We have segmented the market into nine globally relevant and differentiating categories of guest occasion (set out below), which have differing strengths dependent upon the geographical location. By understanding these guest occasions, we are able to deliver a number of core basic guest needs that are brand agnostic and serve to deliver a baseline level of consistency across all our brands, whilst also focusing on the nine identified guest occasions, so that each of our brands delivers the relevant guest experience for the occasion.

Our portfolio of brands is targeted around these differing occasion segments, focusing on those which we believe have the greatest growth opportunity and strongest resilience to the industry/economic cycle. We also concentrate on those areas where our scale and revenue delivery systems confer greatest benefits.

As shown below, each of IHG s brands is focused on some of these guest occasions and each brand seeks to address the needs of these in a unique way, through the eyes of its target guests, to bring the guest experience to life.

We have also identified that to be successful in the future, a brand needs to provide a global, local and personal experience to build trust see page 20 and the 2014 IHG Trends Report available at www.ihgplc.com/trends_report.

*RevPAR and Guest HeartBeat are KPIs* *see pages 38 and 39.*

| Brand | Guest occasion |
| --- | --- |
| | Mixing business with pleasure; Short break experience; Social identity. |
| | Building business interactions. |

Business productivity; Building business interactions.

Business productivity; Romantic getaway; Short break experience.

Wellbeing.

Family time; Mixing business with pleasure; Social identity.

Rest and go.

Business productivity.

Business productivity.

*Information on each of our preferred brands can be found on page 17.*

Successful delivery of our strategy for high-quality growth requires Disciplined Execution comprising:

- scale and efficiency of operations;
- investment in developing great talent and technology platforms; and
- commitment to responsible business practices.

Crowne Plaza Beijing Lido, People s Republic of China

### *Scale and efficiency of operations*

With almost 687,000 rooms in nearly 100 countries and territories around the world, we leverage our global and regional scale to maximise the efficiency of our operations. We focus on driving efficient operational processes and tightly managing our costs proportionate with our revenues to:

- drive fee margin growth whilst investing in a strong platform for the future;
- offer our owners access to market-leading capabilities and practices that significantly contribute to hotel performance;
- maximise the investments we make in building preferred brands (assisting us to increase guest satisfaction which we monitor through Guest HeartBeat); and

strengthen our revenue delivery system (to increase system contribution to revenue).

We continue to drive process improvements and cost-saving initiatives:

- our strong multi-lingual guest support team in the Philippines supports global reservations, sales and guest relations and loyalty marketing;
- over 500 business support roles have been moved to our Business Service Centre in Gurgaon, India, providing centralised accounting services for IHG corporate offices and owned and managed hotels; and
- the hardware for our central reservations system is managed by IBM, one of our largest corporate clients.

*Information on how we build and leverage scale can be found on page 24.*

***Investment in developing great talent and technology platforms***

We support the delivery of the Winning Model by investing in the development of talent and technology platforms that provide the foundation for future growth.

**Development of great talent**

We know that our brands are brought to life by the people working in our hotels who support the consistent delivery of the brand promise in each hotel. Talent is key to our success, both at a corporate level and in our hotels. We continue to invest in systems and tools to develop our people in the corporate environment and at our hotels and our People Tools (explained on page 22) are available for our owners and hotels.

*Our people strategy is detailed on pages 21 to 23.*

**Development of great technology platforms**

Keeping up with new technologies and systems is also key to our success. IHG invests across a range of technology platforms to ensure that our revenue delivery and guest experience systems are at the forefront of innovation in the industry. This includes investment in reservation technology platforms, guest-facing booking channels and new mobile services, as well as investment to support the guest experience in hotels such as the development of digital check-in services and the provision of wifi internet access.

## Locally tailored systems

We also invest in technology to ensure our revenue delivery systems and guest experiences are tailored to local markets based on knowledge of local market conditions and travellers.

For example, in Greater China we have made various technology investments to drive and convert demand and enhance the guest experience, including being the first international hotel company to launch a standalone Chinese website and being the only international hotel company in Greater China working with Alipay, the leading local payment system, to integrate their system into our website. This is of critical importance in a market where credit cards are not the primary means for paying online and enables us to offer more prepaid products for our guests.

*Information on our Effective channel management strategy can be found on page 25.*

## Case study Revenue Management

Our innovation in revenue management tools and techniques is one particular example of our investment in technology platforms. IHG Revenue Management is a core strategic tool that brings together available rooms, rates and marketing at the hotel level, co-ordinating with our channels to drive reservations to our hotels at the right price.

This expertise is available to hotels through the IHG PERFORM service, a pricing system designed to increase RevPAR and deliver profitable rate recommendations to a hotel. The IHG PERFORM system integrates local demand forecasting, competitive data analysis and price sensitivity modelling to recommend optimum pricing for each day based on the market dynamics and guest type for each hotel. This enables IHG hotels to effectively price their rooms within the context of a highly dynamic competitive market environment.

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### *Commitment to responsible business practices*

Responsible business is part of IHG s DNA and is at the heart of everything we do. Doing the right thing in the right way enables us to make a positive contribution to the communities where we operate and gives us a competitive edge by enhancing and protecting the reputation of our brands. It also ensures that we act in a manner which is mutually beneficial for our business, and all of our stakeholders, employees, guests, corporate customers and owners, who are also increasingly considering whether the businesses they interact with, share their values and act responsibly. It also helps us deliver profitable growth and create shared value, thereby ensuring that we are preferred by guests, employees and owners in the long term.

This is why, for us, our commitment to responsible business practices is an essential part of our Disciplined Execution and underpins our strategy.

For IHG, responsible business comprises five key elements (explained below), all of which assist us in seizing the opportunities behaving responsibly gives us to innovate, protect the environment, creating job opportunities and help foster community resilience. We therefore not only have specific responsible business KPIs, but our responsible business practices are also an important driver to both the Employee Engagement and Guest HeartBeat KPIs.

*Our KPIs are set out on pages 38 and 39.*

*The principal risks associated with Reputation and brand protection are set out on pages 36 and 37.*

## Corporate responsibility 2013 to 2017 five-year targets:

Reduce our carbon footprint per occupied room by 12% across our entire estate (against a 2012 baseline)

Contribute a total of $10 million to communities through monetary donations and in-kind support, including funds deployed through the IHG Shelter in a Storm Programme

*For our 2013 performance against these targets, which are KPIs, see page 39.*

Reduce water use per occupied room by 12% in water-stressed areas (against a 2012 baseline)

Track and report supply chain diversity

*To view our Corporate Responsibility Report: www.ihgplc.com/responsibility*
*IHG Planet CR Facebook page: www.facebook.com/*

*IHGCorporateResponsibility*

Provide skills and improved employability to 20,000 people through the IHG Academy

Integrate Corporate Responsibility criteria into the selection and evaluation process for all preferred suppliers

## Internal programmes, policies and training

We have in place a range of programmes, policies and training, which we regularly keep under review and which are communicated via e-learning and face-to-face training modules in order to raise understanding of key legal and regulatory areas. These include our Code of Conduct, environment, supporting our community, human rights, competition, anti-bribery, data privacy and crisis management policies and brand safety standards.

## Code of Conduct

In 2013, we refreshed our Code of Conduct, which is applicable to all Directors, officers and employees and available on the Company s website at www.ihgplc.com/investors under corporate governance. It consolidates and clarifies expected standards of behaviour, and communicates the ethical values of the Group.

A confidential disclosure channel also provides employees with a means to report any ethical concerns they may have.

## Human rights

As part of putting the human rights policy into practice, in 2013 we set up a cross-functional working group to ensure we are focused on the key areas of human rights relevant to our business, such as making sure we provide decent working conditions for all of our employees, and ensuring the rights of the local people where we operate are protected. We are working to raise further awareness of our human rights approach in our hotels around the world and will continue to add to our suite of training materials over the next year to support these efforts. During the year, we continued to work with the International Tourism Partnership s Human Trafficking Working Group to address the issue of human trafficking with other hotel companies. We are also a signatory of the UN Global Compact, aligning our operations and strategies with the 10 universal principles that include commitments to human rights and labour standards. We are currently working with our internal Procurement team to further embed our human rights policy and vendor code of conduct in our contracts.

## Corporate Responsibility (CR)

During 2013, we focused our efforts on driving the best use of the tools we provide. In September, we released our external targets (set out above) to measure our impact on a global and local level over a five-year period from 2013 to 2017. We aim to create more sustainable communities and better lives through our hotel operations and to achieve this we focus our activities in areas integrated with the way we operate our business.

### 1. Environmental sustainability

We have committed our hotel estate to designing, building and operating more environmentally sustainable hotels through IHG Green Engage, our online system to measure, monitor, manage and report on energy, carbon, water and waste.

### 2. Sustainable communities

To reinforce our mission to create shared value in our communities, we:

- provide local people with skills development and employment opportunities through the IHG Academy, a pioneering collaboration between IHG hotels and offices and education providers and for community organisations; and

- provide donations for shelter and vital assistance and guidance on the actions our hotels can take to support their communities when disaster strikes through the IHG Shelter in a Storm Programme. As part of this programme, we have established IHG Shelter Fund for our fundraising activities.

*For information on IHG Academy visit www.ihgacademy.com.*

*For information on IHG Shelter in a Storm Programme visit www.ihgshelterinastorm.com.*

*Our activities are supported by the Board through the Corporate Responsibility Committee, whose Report can be found on page 68.*

| | | |
|---|---|---|
| IHG Green Engage can help hotels become 10 to 25% more energy efficient | 301 IHG Academy programmes in 50 countries | During 2013, $1.2 million was raised for the IHG Shelter Fund |
| 2,646 hotels enrolled in IHG Green Engage over half of our global hotels | 6,391 participants benefited from the IHG Academy in 2013 | As part of IHG s fundraising event, Race around the World, IHG colleagues raised $442,116 for the IHG Shelter Fund |

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## IHG s global greenhouse gas (GHG) emissions

| Reporting boundary | Measure | 2013[1] | 2012[1] |
|---|---|---|---|
| Global corporate offices and managed, owned and leased hotels | Scope 1 Direct emissions | **424,329** | 516,586 |
| | Scope 2 Indirect emissions | **1,561,135** | 1,638,160 |
| | Total GHG emissions ($tCO_2e$) | **1,985,464** | 2,154,746 |
| | IHG s chosen intensity measurement GHG emissions per occupied room ($kgCO_2e$ per occupied room) | **56** | 64.5 |
| Global corporate offices and franchised, managed, owned and leased hotels | Scope 1 Direct emissions | **1,327,416** | 1,342,670 |
| | Scope 2 Indirect emissions | **3,358,380** | 3,241,159 |
| | Total GHG emissions ($tCO_2e$) | **4,685,796** | 4,583,829 |
| | IHG s chosen intensity measurement GHG emissions per occupied room ($kgCO_2e$ per occupied room) | **31.2** | 32 |

[1] Reporting period commencing on 1 October and ending on 30 September.

## Global greenhouse gas (GHG) emissions

### Scope

We are required to report on the GHG emissions from our corporate offices and managed, owned and leased hotels where we have operational control under the Companies Act 2006. We have also chosen to report on our GHG emissions from corporate offices and all of our hotels as our GHG emissions reduction target is based upon this.

We report Scope 1 and 2 emissions as defined by the GHG protocol as follows:

Scope 1 (Direct emissions): combustion of fuel and operation of facilities; and

Scope 2 (Indirect emissions): electricity, heat, steam and cooling purchased for own use.

## Methodology

We have worked with Best Foot Forward to give us an up-to-date picture of IHG s carbon footprint and assess the performance over the past few years. Best Foot Forward used a sampling and extrapolation methodology to estimate our GHG emissions.

For 2013, in line with the methodology set out in the GHG Protocol Corporate Standard, the sample covered 1,372 hotels out of our total global estate of 4,697 hotels.

We are continuing to improve the quantity and quality of the data reported by hotels using IHG Green Engage to improve the accuracy of our GHG reporting.

The results in the table above include all of our branded hotels but do not include emissions from 87 hotels. We do not have sufficient data to estimate their emissions and we believe them to be immaterial.

Due to the delay in hotels receiving their energy bills it is not possible to report accurately GHG emissions from 1 January to 31 December and therefore we have defined our GHG emissions reporting year as the period commencing on 1 October and ending on 30 September.

## External recognition

| | | |
|---|---|---|
| The InterContinental Hotels & Resorts brand became the first hotel brand to have all of its IHG corporate-managed restaurants in the US and Canada become Certified Green Restaurants® by the Green Restaurant Association. | The IHG Shelter in a Storm Programme was awarded the Best Initiative in Sustainable Development and Social Responsibility at the 2013 Worldwide Hospitality Awards. | Member of the FTSE4Good Index. |

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## *Risk management*

IHG believes that an essential part of being a responsible business is having in place robust and effective risk management and internal controls. This supports our business to be resilient, successful and trusted.

### Risk management system

IHG has an effective risk management system and internal controls which provide assurance to its shareholders. These are well established and help IHG to protect against known and emerging risks and to cope with the unexpected. The Group develops the risk management system, strategies and controls as a result of continuous learning by management, which in turn drives the focus of the Major Risk Review and Global Internal Audit programme. Our internal controls and risk management system aims to support the achievement of business objectives and protect our business, in particular:

- our brands, business model and reputation across key stakeholders;
- the delivery of our strategy, commercial targets and plans for change; and
- the safeguarding of physical assets, people, systems and processes.

The risk environment that we operate in can be difficult to predict and is rapidly changing. There are many risks that could impact the Group s brands and reputation and, therefore, IHG is giving particular emphasis to developing its reputation risk management capability and strengthening its culture of doing business responsibly.

The key features of IHG s risk management system are:

- embedded risk management processes to consistently identify and manage key risks to the business;
- a holistic approach to risk assessment applied through Strategic, Tactical and Operational risk perspectives;
- risk strategies, controls and outcomes that support the business and reduce unnecessary risk exposure; and
- a proactive risk and crisis management culture, through leadership and training.

### Embedded risk management processes

IHG has a Major Risk Review process in place to identify, manage, monitor and report the principal risks and uncertainties affecting the Group (the Major Risks). The Board has ultimate responsibility for the Group s strategy and risk management as explained on page 70 and the Audit Committee annually reviews the effectiveness of the Group s systems of internal control and risk management. In addition, the Executive Committee as a whole is accountable for managing risks and as such all Major Risks have named Executive Committee members who ensure that effective risk mitigation and control strategies are in place.

Underpinning the Group s Major Risk Review process, each of the regions and functions have their own risk profiles which are updated biannually in line with the activities of the strategic planning cycle. During the interim periods, continuous dialogue

takes place between risk owners and the Global Risk Management team to develop, execute and monitor detailed risk plans and strategies for key risk exposures.

The Risk Working Group (RWG) provides a long-term, global and strategic perspective to the risks faced by IHG. Its mandate is to improve cross-functional working and effective risk management of the highest priority and emerging risks affecting IHG. The RWG is chaired by the General Counsel and Company Secretary and comprises the Heads of Global Risk Management, Global Strategy, Programme Office and Global Internal Audit. Major Risks are regularly discussed as part of Board, Executive Committee and senior leadership meetings. In addition, the Major Risks are collectively discussed at least twice annually at the meetings of the Executive Committee, Audit Committee and the Board.

## Holistic approach to risk assessment

IHG conducts risk assessments to identify, prioritise and distinguish risks it wishes to take from those it must mitigate. IHG thinks broadly about potential threats whether they are strategic, tactical or operational in nature.

Strategic risks: these are risks arising from IHG s relationship with the external environment and can impact on IHG s ambition and strategy over the long term. Strategic risks are a key feature of the Board and Executive Committee agendas, regional and functional strategy setting and are considered during decision-making on strategic issues such as the selection of future growth markets, the selection of strategic business partners and decisions pertaining to potential new initiatives.

Tactical risks: these are risks that could impact the delivery of IHG s one to three-year targets including implementation of projects. These include factors influencing IHG s ability to sign and open new hotels, the performance of existing hotels and delivery of projects. These are managed by senior operators and overseen by the Regional Operating Committees. In addition, project risks are managed by project management teams and business sponsors with oversight provided by the Programme Office.

Operational risks: these include a wide spectrum of day-to-day risks that front-line hotel colleagues and corporate teams face when dealing with guests or ensuring corporate systems and processes are running smoothly. A critical aspect of this is managing the safety and security of our people and assets and the continuity of the business. For some parts of the business, operational risks also include managing third-party service providers and the wider supply chain. Due to the nature of operational risks, IHG typically mitigates these through internal controls, operational and business processes, systems and tools. Oversight roles exist through the management line, the Regional Operating Committees and functional leadership teams.

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## External recognition

IHG s Risk Management team working in conjunction with Oxford Brookes University was awarded the 2013 Best Partnership of the Year at the Institute of Risk Management Global Risk Awards. Our risk management training programmes were awarded Gold Award for the Best e-Learning Widespread Adoption at the 2013 LearnX Impact Awards.

## Risk actions and outcomes

Fundamental to IHG s approach to risk management is that it is action-oriented and yields tangible outcomes in the business, thereby reducing risk exposures. There are numerous risk management programmes and activities that achieve this, including our hotel safety and security action plans, business continuity plans and crisis management programmes.

In developing our plans and programmes, we considered both our first-hand experience in managing events at our hotels, such as natural catastrophes and civil unrest and other possibilities which may impact IHG s central operations, brands and reputation. We have also linked our crisis management programme with the IHG Shelter in a Storm Programme (explained on page 32).

## Proactive risk and crisis management culture

IHG believes the value of risk management is realised through a proactive risk management culture and capability. To this end, IHG has developed numerous support and guidance materials, implementation toolkits, training and control systems and made these available to all hotel and corporate colleagues in various languages in order to build our risk management maturity and culture.

## Ensuring health, safety and security

Providing and supporting a safe and secure environment for our guests, employees and those working at or otherwise visiting our hotels and corporate offices is paramount, and therefore IHG applies high standards of health and safety across the Group. We ensure the protection and wellbeing of those working for IHG through suitable work-based strategies; minimise the risk of injury from work activity; ensure that sufficient information and systems are in place to address health and safety concerns; and involve employees in the continuous improvement, reporting and review of health and safety matters. We have established a set of policies, procedures and measures and require all to comply with relevant legislation.

## Hotel health, safety and security

Recognising the importance of operating safe hotels, our commitment to safety, security and crisis management in hotels is a fundamental part of being a responsible business. We therefore require hotels to comply with a set of global Brand Safety Standards. We also support hotel owners, General Managers and hotel employees to manage risk effectively by giving them a systematic approach and framework to follow and providing them with user-friendly tools and training. Where appropriate, IHG s risk management training is accredited by relevant recognised bodies such as the Chartered Institute of Environmental Health.

We have developed a Safe Hotel/Manage Risk framework (depicted on the right), which enables a consistent approach to managing safety and security risk in IHG hotels. It comprises two mechanical cogs meshed together, showing different types of safety and security risks in the Safe Hotel cog meshed against the actions described in the Manage Risk cog. This framework is actively promoted by IHG s risk managers around the world, working with hotels and their management teams in order to keep IHG hotels safe and secure.

Hotels are assessed by various methods, including self-assessment, guest satisfaction surveys, design and engineering plans, incidents, intelligence gathering, quality audits and risk management reviews. Hotel management teams discuss issues at monthly safety meetings and develop action plans. Risks are prioritised, responsibilities assigned and improvement actions identified, progressed and monitored. Action plans are reviewed as necessary by appropriate people to escalate and drive action or develop common solutions.

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*Risk management continued*

## Managing risks in a changing environment

We continue to experience a dynamic external risk environment with changes in political, economic, social, technological, legal and environmental risks. However, we do see the global macroeconomic conditions improving. We see the Group s business model, diversity of brand portfolio and wide geographical spread contributing to our resilience to events that could affect specific hotels, local areas or all but the most significant countries.

The table below sets out the principal risks and uncertainties (the Major Risks) in the context of delivering against our strategy for high-quality growth (as described on pages 18 to 33). These are perceived as the most dynamic risks and are therefore proactively managed and monitored by senior management. These complement the wider comprehensive risk factors set out on pages 164 to 167.

| Risk description | Control and mitigation activities |
|---|---|
| **Preferred brands**<br><br>Having a portfolio of preferred brands with a clear, distinct brand proposition (delivering a consistent guest experience, regardless of our predominantly managed and franchised business model) and a global presence aimed at meeting the changing needs of our guests, is crucial to creating brand preference, loyalty and advocacy. Failure to achieve this could impact on IHG s competitive position and its reputation with owners, investors and guests. | IHG has a complementary and differentiated portfolio of nine brands (see page 17), each of which is designed to meet a wide demographic of guests and differing guest occasions and needs through distinct brand propositions (see page 29).<br><br>IHG continues to review and refresh both its brands and brand standards, giving particular consideration to the optimisation of global requirements while retaining local distinctiveness.<br><br>IHG has built awareness and loyalty, particularly across our priority markets, through a blend of global and local marketing promotions, sponsorships and brand initiatives.<br><br>In 2013, IHG relaunched its loyalty programme to IHG Rewards Club to clearly communicate to consumers that all of our brands are part of the same IHG brand family and to therefore encourage guest loyalty and cross-sell opportunities. |

IHG manages brand consistency through the entire hotel life cycle commencing with development through to due diligence and deal approval processes, which help us select appropriate sites and owners. This is supported by clear contractual terms, new hotel opening processes, brand standard requirements and quality compliance processes. We also provide central support tools, training and guidance to assist those working at our hotels and owners to enable them to deliver brand consistency and thereby support the success of the hotel. However, to maintain high-quality growth in the IHG System, IHG may be required to exit non-compliant hotels.

**People, talent and culture**

IHG must recruit and retain the right people, give them the tools, guidance and support to be successful and to influence behaviour and culture in order to deliver a preferred brand promise. High growth and emerging markets are a particular challenge, and ensuring we have the right leadership is crucial. Failure to manage our people, talent and culture could impact on our service delivery, financial performance and longer-term growth.

IHG has in place a comprehensive global people strategy to ensure we are able to find and retain the right people to deliver our preferred brands at our hotels and corporate offices and we continually review the tools, systems and guidance we offer them.

We are constantly evolving our recruitment strategies. We have in place different strategies for different markets to ensure we have the most appropriate and effective methods and channels for talent attraction and recruitment. The IHG Academy also assists us with recruiting for our talent pipeline.

IHG proactively manages succession planning and has formal programmes in place to help its people grow their careers. Incentive plans for senior leaders are aligned to IHG s strategy to ensure longer-term growth.

**Channel management and technology platforms**

Travellers now have access to far more information through comparison websites, search engines and online travel agents. Booking channels and technological systems are a key part of the guest journey and an important value driver for our owners. This is also an area where there is rapid change in terms of technology, guest expectations and relationships with online travel agents and other intermediaries.

IHG recognises that technological advances and changing guest expectations mean that we must continually invest in and improve our systems and reservations channels. We have in place a multi-channel management strategy that focuses across the entire guest journey and encourages guests to book directly through IHG s channels and reservation systems.

Recognising the growing trend amongst some travellers to book through online travel agencies and intermediaries in search of better value, IHG proactively manages and seeks to improve terms and conditions of our relationships with these partners and continues to support roomkey.com, a meta-search website launched in 2012 in partnership with other hotel companies. These activities compliment our wide programmes and activities to encourage guests to book direct.

| | |
|---|---|
| Threats to information security, from payment card information to other information held in IT systems or, in paper format and other media, remain of concern. | IHG s Global Technology function works collaboratively with specialist third-party technology partners to continuously monitor, manage and optimise our systems and channels, including their resilience through backup systems and business continuity practices, to enhance all aspects of the guest journey. |
| Failure to effectively manage and keep under review our channels, information technology infrastructure and technological systems to optimise performance and resilience could impact on the Group s revenue and delivery channels, guest experience, return for our owners and investors and the Group s future performance. | Operating in nearly 100 countries and territories, IHG takes information security very seriously and has applied risk-based methods to build capability and resilience into our systems and processes. The Group manages data security to contain the risk and reduce the Group s exposure, tightly controlling sensitive data through limited and monitored access.<br><br>IHG continues to aim to be fully compliant with Payment Card Industry Data Security Standards (PCI-DSS) using tools and services from a leading specialist third-party provider with respect to payment card processing. |

| Risk description | Control and mitigation activities |
|---|---|
| **Owner proposition**<br><br>As a result of IHG s predominantly franchised and managed business model, managing relationships with our existing, new and potential owners is important. General trading conditions and the economic outlook also affect the availability of capital to current and potential owners. Failure to manage relationships and the macroeconomic outlook may have an impact on the existing IHG System, our operations and our development pipeline. | To ensure that IHG is continually considering its owners, the IHG Owners Association is the primary channel through which IHG engages with them. In addition, regional teams build relationships with owners through a variety of methods, including formal and informal communications and owner conferences. By agreeing a set of priorities together, and continually reviewing and updating our central support tools and systems, including revenue management tools, we aim to offer a compelling owner proposition.<br><br>The use of the System Fund (described on page 16) is also managed by IHG for the benefit of all our hotels with the objective of driving revenue for them. The use of this fund is reviewed annually in collaboration with the IHG Owners Association.<br><br>IHG s scale, diverse portfolio of brands, segments, countries of operation and mix in business model positions it well from short-term macroeconomic impacts and we continue to monitor macroeconomic conditions and make necessary adjustments, including cost optimisation programmes where appropriate. However, we recognise that macroeconomic issues can impact upon potential and existing owners and we therefore continue to review our business model and the owner proposition in light of these. |
| **Reputation and brand protection**<br><br>IHG recognises the importance of its brands and reputation as important assets for the business. Protecting them requires IHG, all those working in our hotels and corporate offices, owners and business partners to behave responsibly. | Responsible business underpins our strategy, by being an essential part of Disciplined Execution. Our Business Reputation and Responsibility function comprises a team of lawyers, brand standard compliance managers, chartered secretaries, corporate responsibility specialists, risk managers and internal auditors who work together to champion and protect the trusted reputation of IHG and its brands, including brand and intellectual property protection. |

| | |
|---|---|
| Failure to safeguard the reputation of IHG and its brands could have severe impacts on the Group s future performance. | IHG aims to embed a responsible business culture throughout the organisation, leveraging our Winning Ways (see page 21) to encourage those working at IHG to promote and protect our trusted reputation. To assist with this, we have in place various internal programmes, policies and training, including our Code of Conduct. |
| There is also a constant need to protect the safety and security of our guests, employees and visitors. | IHG s proactive risk-based approach to hotel safety and security (summarised on page 35) aims to ensure guest and employee safety and the security of hotels and office buildings. IHG has also put in place a crisis management programme to ensure our hotels and corporate offices are prepared for unexpected or unknown events. |

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## *Key performance indicators (KPIs)*

We measure our performance through a holistic set of carefully selected KPIs to monitor our success in achieving our strategy and the progress of our Group to deliver high-quality growth. The KPIs are organised around the elements of our strategy our Winning Model and Targeted Portfolio, and Disciplined Execution.

### *Winning Model and Targeted Portfolio*

| KPIs | 2013 progress | 2014 priorities |
| --- | --- | --- |
| **Net rooms supply[2]** | IHG System size of 686,873 rooms (4,697 hotels) reflecting 1.6% net IHG System size growth. The slower growth rate reflects a higher level of removals to maintain the quality of our estate, including 17 hotels for which significant liquidated damages totalling $46m were received. | Accelerate growth strategies in priority markets and key locations in agreed scale markets and continue to leverage scale. |
| **Growth in fee revenues[2]**<br>At constant currency | Completed disposal of our leasehold interest in the InterContinental London Park Lane and agreed to dispose of 80% of our interest in the InterContinental New York Barclay, retaining 20% in a joint venture, and entered into long-term management contracts on both hotels.<br>Pipeline of 180,461 rooms (1,120 hotels), including 21 hotels in the pipeline for the HUALUXE brand and five hotels in the pipeline for the EVEN brand (three of which are owned).<br>Lower growth in fee revenues compared to 2012 reflects a combination of lower RevPAR growth and lower net IHG System size growth in 2013. | Support growth of our new brands EVEN Hotels and HUALUXE Hotels & Resorts, opening our first hotels. |

| | | |
|---|---|---|
| | An increasing number of open hotels in developing markets, which drive incremental fees at a lower rate, also contributed to lower growth in fee revenues. | |
| **Total gross revenue** | Total gross revenue from hotels in IHG s System $21.6bn, up 2%. | Continue to strengthen IHG s revenue delivery systems to deliver profitable demand to hotels. |
| Actual $bn | Loyalty programme relaunched to IHG Rewards Club offering enhanced benefits for members, including free internet access across our hotels globally driving a 10 percentage point increase in awareness of IHG as a brand family. | Continue to drive loyalty to our portfolio of brands, driving awareness of IHG Rewards Club and leveraging this across our brands and regions. |
| **System contribution to revenue[1]** | | |
| | Enrolled 6m new members (up 8% on 2012) to IHG Rewards Club, taking the total to 77.4m members. | Continue to drive adoption and impact of our performance tools, systems and processes amongst our owners. |
| | | Continue with investment in technology systems and platforms. |
| **Employee Engagement survey scores** | Continued to deliver against our people strategy, increasing our employee engagement by 3.1% and recognised externally as an employer of choice (see page 23). | Strengthen our approach to developing leaders and invest in tools and training that build leadership capabilities. |
| | Launched bespoke, country-specific careers web pages and/or websites in India, Russia and Greater China to continue our aim to be employer of choice. | Continue to build a winning culture through strong leadership and performance management. |
| | | Continue to strengthen our talent pipeline to meet our growth ambitions. |

| | | |
|---|---|---|
| **Global RevPAR growth**[1, 2] Comparable hotels, constant $ | Growth in global RevPAR has slowed in 2013, reflecting slower growth in The Americas and IHG s predominantly midscale focus, and more significant slow down in Greater China due to industry-wide challenges (see pages 12 and 13). | Continue to strengthen the quality and consistency of the brand experience, delivering guest journeys that are differentiated by brand. |
| **Guest HeartBeat**[1] | Recorded improvements in guest satisfaction scores in every region, for all of our brands and received external recognition through awards (see page 23). | Continue to invest in building long-term brand preference in light of our guest occasion segmentation and the 2014 IHG Trends Report (see page 20). |
| **2011** Not applicable | Continued with the repositioning of the Crowne Plaza brand and refreshed marketing messaging for Holiday Inn and Holiday Inn Express to better reflect the differentiated brand propositions and drive brand consideration. | Continue to empower our frontline teams with the tools and training to consistently deliver great guest experiences that build brand preference. |
| | As part of simplifying and clarifying our standards for all of the brands, in 2013, we refreshed the Holiday Inn Express Standards manual ready for launch in January 2014. | Continue to progress with our standards refresh across the brands. |
| | Launched two General Manager training programmes to assist with General Manager development to deliver on the brand promise (see page 26). | Support the first openings of our new hotels for the EVEN Hotels and HUALUXE Hotels & Resorts brands. |

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| | |
|---|---|
| KPIs used to assess performance measures for remuneration plans:<br><br>[1] Annual incentive plan (Annual Performance Plan)<br><br>[2] Long-term incentive plan (Long Term Incentive Plan) | *For more information see Directors Remuneration Report pages 74 to 97.* |

*Disciplined Execution*

| KPIs | 2013 progress | 2014 priorities |
|---|---|---|
| **Fee margins[1]**<br><br>* Restated for IAS19R Employee Benefits | Group fee margins of 43.2%, up 1.3 percentage points on 2012, with scale benefits and cost efficiencies more than offsetting increased investment for future growth. | Continue to focus on sustainable fee margin progression over the medium-term. |
| **Number of people participating in IHG Academy programmes**<br><br>**2012** Not applicable<br><br>**2011** Not applicable | Opened a further 144 IHG Academy programmes, taking the total to 301, with 6,391 participants in 2013 helping us to build a strong pipeline of talent for the future. | Continue to expand the IHG Academy throughout our hotel estate making sure the programmes deliver positive and transformational results for participants and IHG.<br><br>Provide skills and improved employability to a total of 20,000 people via IHG Academy over the five-year period (2013-2017). |

| | | |
|---|---|---|
| **Value of monetary donations and in-kind support to communities by IHG, including funds deployed through IHG Shelter in a Storm Programme** | Contributed a total of $1.92m in 2013 to communities through monetary donations and in-kind support, including funds deployed through the IHG Shelter in a Storm Programme.<br><br>$1.2m raised for the IHG Shelter Fund. | Continue to increase awareness of, and engagement with, the IHG Shelter in a Storm Programme, ensuring our hotels are prepared for disaster and able to respond quickly and effectively to help the local community and employees when needed. |
| **2012** Not applicable<br><br>**2011** Not applicable | Responded to 15 disasters in 8 countries, including super typhoon Haiyan in the Philippines, floods in Jakarta, Buenos Aires, Canada and Mexico, tornadoes in mid-west America and wildfires in Arizona, by allocating funds to help with financial support, vital supplies and accommodation. | Contribute a total of $10m over a five-year period (2013-2017) to communities through monetary donations and in-kind support, including funds deployed through the IHG Shelter in a Storm Programme. |
| **Carbon footprint per occupied room** | Reduced carbon footprint per occupied room by 31.2kg$CO_2$e (reduction of 2.4% on 2012 baseline) across our entire estate | Reduce carbon footprint per occupied room by 12% across our entire estate (over a five-year period (2013-2017) using 2012 baseline). |
| **2011** Not applicable | Carbon Disclosure Project disclosure rating of 85B (the joint highest-scoring hotel company in the FTSE 350, Standard & Poor s 500 and Global 500). | Continue to drive quality of use of IHG Green Engage to reduce impact on the environment, enable cost savings and drive revenue. |
| **Water use per occupied room in water stressed areas** | Reduced water use per occupied room by 0.56$m^3$ (reduction of 4.6% on 2012 baseline) in water-stressed areas. | Reduce water use per occupied room by 12% in water-stressed areas across our estate (over a five-year period (2013-2017) using 2012 baseline). |
| **2011** Not applicable | | |

*Our regional priorities are set out on pages 42, 44, 46 and 48.*

*For definitions of each of the above KPIs see the Glossary on pages 186 and 187.*

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*Performance*

*Group*

## Group results

| | | | 12 months ended 31 December | | |
|---|---|---|---|---|---|
| | 2013 | 2012[1] | 2013 vs 2012 % | 2011[1] | 2012 vs 2011 % |
| | $m | $m | change | $m | change |
| **Revenue** | | | | | |
| Americas | 916 | 837 | 9.4 | 830 | 0.8 |
| Europe | 400 | 436 | (8.3) | 405 | 7.7 |
| AMEA | 230 | 218 | 5.5 | 216 | 0.9 |
| Greater China | 236 | 230 | 2.6 | 205 | 12.2 |
| Central | 121 | 114 | 6.1 | 112 | 1.8 |
| Total | 1,903 | 1,835 | 3.7 | 1,768 | 3.8 |
| **Operating profit** | | | | | |
| Americas | 550 | 486 | 13.2 | 451 | 7.8 |
| Europe | 105 | 112 | (6.3) | 100 | 12.0 |
| AMEA | 86 | 88 | (2.3) | 84 | 4.8 |
| Greater China | 82 | 81 | 1.2 | 67 | 20.9 |
| Central | (155) | (162) | 4.3 | (154) | (5.2) |
| Operating profit before exceptional items | 668 | 605 | 10.4 | 548 | 10.4 |
| Exceptional operating items | 5 | (4) | n/a | 57 | (107.0) |
| | 673 | 601 | 12.0 | 605 | (0.7) |
| Net financial expenses | (73) | (54) | (35.2) | (62) | 12.9 |
| Profit before tax | 600 | 547 | 9.7 | 543 | 0.7 |
| **Earnings per ordinary share** | | | | | |
| Basic | 140.9¢ | 187.1¢ | (24.7) | 160.9¢ | 16.3 |
| Adjusted | 158.3¢ | 139.0¢ | 13.9 | 127.7¢ | 8.8 |
| **Average US dollar to sterling exchange rate** | $1: £0.64 | $1: £0.63 | 1.6 | $1: £0.62 | 1.6 |

[1] With effect from 1 January 2013 the Group has adopted IASI9 (Revised) Employee Benefits resulting in an additional charge to operating profit before exceptional items of $9m for the year ended 31 December 2012 and $11m for the year ended 31 December 2011.

### Accounting principles

The Group results are prepared under International Financial Reporting Standards (IFRS). The application of IFRS requires management to make judgements, estimates and assumptions and those considered critical to the preparation of the Group results are set out on pages 115 and 116 of the Group Financial Statements.

The Group discloses certain financial information both including and excluding exceptional items. For comparability of the periods presented, some of the performance indicators in this Performance review are calculated after eliminating these exceptional items. Such indicators are prefixed with adjusted . An analysis of exceptional items is included in note 5 on page 124 of the Group Financial Statements.

## Highlights for the year ended 31 December 2013

The results for the year reflect the varying economic, physical and social factors influencing the markets that the Group operates in. In the US, favourable supply and demand dynamics have resulted in a strong performance albeit this was tempered slightly by the October government shutdown. In Europe, despite continuing economic challenges, the performance in key markets has remained relatively resilient whilst in AMEA there has been strong growth in key markets including Japan and Southeast Asia but weaker fundamentals in India and specific countries in the Middle East. Greater China overall has experienced slower macroeconomic growth and the hotel industry has also been impacted by a number of one-off

events. With this background, overall Group revenue increased by $68m (3.7%) to $1,903m and operating profit before exceptional items increased by $63m (10.4%) to $668m.

On 1 May 2013, IHG completed the disposal of its leasehold interest in the InterContinental London Park Lane for gross proceeds of $469m and entered into a 30-year management contract with three 10-year extension rights.

On an underlying basis, defined as reported results, excluding those from the InterContinental London Park Lane whilst under IHG ownership, results from managed leased hotels, together with the benefit of $46m liquidated damages receipts in 2013 and a $3m liquidated damages receipt in 2012, revenue and operating profit increased by $68m (4.2%) and $44m (7.8%) respectively when translated at constant currency and applying 2012 exchange rates.

Fee revenue* increased by 4.3%, with Group RevPAR (see Glossary on pages 186 and 187) growth of 3.8% over the period (including an increase in average daily rate of 1.8%) and IHG System size growth of 1.6% to 686,873 rooms.

At constant currency, net central overheads decreased from $162m to $157m in 2013 ($155m at actual currency), helped by continued tight cost control, as well as additional technology fee income.

Operating profit margin was 43.2%, up 1.3 percentage points on 2012, after adjusting for owned and leased hotels, managed leases and significant liquidated damages.

Profit before tax increased by $53m to $600m. Adjusted earnings per ordinary share increased by 13.9% to 158.3¢.

## Highlights for the year ended 31 December 2012

Revenue increased by 3.8% to $1,835m and operating profit before exceptional items increased by 10.4% to $605m during the 12 months ended 31 December 2012.

Fee revenue*, increased by 6.8% when translated at constant currency and applying 2011 exchange rates.

The 2012 results reflect continued RevPAR growth in each of the regions, with an overall RevPAR increase of 5.2%, including a 3.2% increase in average daily rate. The results also benefited from IHG System size growth of 2.7% year on year to 675,982 rooms. Group RevPAR growth remained robust for the year, reflecting favourable supply and demand dynamics in the US over 2011, although trading was also affected by the impact of Eurozone uncertainty as well as industry wide challenges in Greater China in the latter part of the year.

Operating profit improved in each of the regions. RevPAR growth of 6.1% in The Americas helped drive an operating profit increase of $42m (9.5%), after excluding the benefit of a $3m liquidated damages receipt in 2012 and a $10m liquidated damages receipt in 2011. Operating profit in Europe increased by $12m (12.0%), with RevPAR growth of 1.7%. Operating profit in AMEA increased by $13m (17.3%) after adjusting for a $6m liquidated damages receipt in 2011 and the disposal of a hotel asset and partnership interest that contributed $3m in profits in 2011, reflecting RevPAR growth of 4.9%. Strong operating profit growth of $14m in Greater China reflected an 11.6% increase in IHG System size as well as 5.4% RevPAR growth.

At constant currency, central overheads increased from $154m in 2011 to $164m in 2012 ($162m at actual currency), reflecting investment in infrastructure and capabilities to support the growth of the business.

* Fee revenue is defined as Group revenue excluding revenue from owned and leased hotels, managed leases and significant liquidated damages at constant currency.

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## Global total gross revenue

| | 12 months ended 31 December | | |
|---|---|---|---|
| | 2013 | 2012 | |
| | $bn | $bn | % change |
| InterContinental | 4.5 | 4.5 | |
| Crowne Plaza | 4.0 | 4.0 | |
| Holiday Inn | 6.2 | 6.3 | (1.6) |
| Holiday Inn Express | 5.2 | 4.8 | 8.3 |
| Staybridge Suites | 0.6 | 0.6 | |
| Candlewood Suites | 0.6 | 0.5 | 20.0 |
| Hotel Indigo | 0.2 | 0.2 | |
| Other | 0.3 | 0.3 | |
| Total | 21.6 | 21.2 | 1.9 |

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

Total gross revenue increased by 1.9% (2.8% increase at constant currency) to $21.6bn. Total gross revenue for Holiday Inn decreased by $0.1bn (1.6%), primarily because the number of rooms open under the brand fell by 6,911, driven by the removal of 10,933 rooms in the US reflecting the Group s ongoing focus on quality.

## Global hotel and room count

| | | Hotels Change | | Rooms Change |
|---|---|---|---|---|
| **At 31 December** | 2013 | over 2012 | 2013 | over 2012 |
| **Analysed by brand** | | | | |
| InterContinental | 178 | 8 | 60,103 | 2,789 |
| Crowne Plaza | 391 | (1) | 108,891 | 584 |
| Holiday Inn[1] | 1,216 | (31) | 224,577 | (6,911) |
| Holiday Inn Express | 2,258 | 66 | 214,597 | 8,966 |
| Staybridge Suites | 196 | 7 | 21,518 | 822 |
| Candlewood Suites | 312 | 13 | 29,778 | 1,103 |
| Hotel Indigo | 55 | 5 | 6,199 | 538 |
| Other | 91 | 28 | 21,210 | 3,000 |
| Total | 4,697 | 95 | 686,873 | 10,891 |
| **Analysed by ownership type** | | | | |
| Franchised | 3,977 | 43 | 502,187 | 1,395 |
| Managed | 711 | 53 | 180,724 | 9,726 |
| Owned and leased | 9 | (1) | 3,962 | (230) |
| Total | 4,697 | 95 | 686,873 | 10,891 |

[1] Includes 10 Holiday Inn Club Vacations (3,701 rooms) and 38 Holiday Inn Resort properties (8,818 rooms) (2012: 10 Holiday Inn Club Vacations (3,701 rooms) and 37 Holiday Inn Resort properties (8,806 rooms)).

During 2013, the global IHG System (the number of hotels and rooms which are franchised, managed, owned or leased by the Group) increased by 95 hotels (10,891 rooms).

The Group continued to expand its global footprint, opening hotels in 33 different countries and territories. More than a third of 2013 openings were in developing markets, as classified by The World Bank, with 21% of the closing rooms balance located in these markets, representing an increase of two percentage points from 31 December 2012. Removals of 142 hotels (24,576 rooms) increased from the previous year (104 hotels, 16,288 rooms) reflecting the Group s ongoing focus on improving the quality of the estate.

Openings of 237 hotels (35,467 rooms) were 4.6% higher than in 2012. This included 115 hotels (12,448 rooms) in the Holiday Inn brand family in The Americas and 33 hotels (4,061 rooms) as part of the US government s Privatisation of Army Lodgings (PAL) initiative. 23 hotels (7,669 rooms) were opened in Greater China across five brands in 2013, up 1.1% from last year, with the Europe and AMEA regions contributing openings of 21 hotels (3,528 rooms) and 20 hotels (4,495 rooms) respectively.

In May 2013, the Group completed the disposal of its leasehold interest in the InterContinental London Park Lane and on 19 December 2013, announced the disposal of an 80% interest in the InterContinental New York Barclay for gross proceeds of $240m, with IHG holding the remaining 20% interest. The transaction is expected to be completed in the first quarter of 2014. The Group has secured a 30-year management contract on the hotel, with two 10-year extension rights at IHG s discretion.

In February 2014, the Group signed an agreement to sell the InterContinental Mark Hopkins San Francisco for $120m in cash and enter into a long-term management contract on the hotel. The hotel had a net book value of $90m at 31 December 2013.

| **Global pipeline** | | Hotels Change | | Rooms Change |
|---|---|---|---|---|
| At 31 December | **2013** | over 2012 | **2013** | over 2012 |
| **Analysed by brand** | | | | |
| InterContinental | **51** | 3 | **16,860** | 1,147 |
| Crowne Plaza | **94** | (4) | **28,369** | (2,814) |
| Holiday Inn[1] | **264** | 21 | **50,241** | 5,253 |
| Holiday Inn Express | **473** | 21 | **54,744** | 2,984 |
| Staybridge Suites | **80** | 9 | **8,728** | 1,184 |
| Candlewood Suites | **80** | 2 | **6,914** | 172 |
| Hotel Indigo | **51** | 4 | **6,807** | 938 |
| EVEN Hotels | **5** | 4 | **880** | 650 |
| HUALUXE | **21** | 6 | **6,804** | 1,900 |
| Other | **1** | 1 | **114** | 17 |
| Total | **1,120** | 67 | **180,461** | 11,431 |
| **Analysed by ownership type** | | | | |
| Franchised | **778** | 34 | **86,785** | 3,884 |
| Managed | **339** | 30 | **93,176** | 7,047 |
| Owned and leased | **3** | 3 | **500** | 500 |
| Total | **1,120** | 67 | **180,461** | 11,431 |
| **Global pipeline signings** | **444** | 88 | **65,461** | 11,649 |

[1] Includes 1 Holiday Inn Club Vacations (120 rooms) and 14 Holiday Inn Resort properties (3,163 rooms) (2012: Includes nil Holiday Inn Club Vacations (nil rooms) and 12 Holiday Inn Resort properties (2,390 rooms)).

At the end of 2013, the global pipeline totalled 1,120 hotels (180,461 rooms), an increase of 67 hotels (11,431 rooms) on 31 December 2012. The IHG pipeline represents hotels where a contract has been signed and the appropriate fees paid.

The continued global demand for IHG brands is demonstrated by the Group signing hotels in 38 different countries and territories in 2013, 40% of which were in developing markets. 51% of the closing pipeline at 31 December 2013 was in developing markets, up by one percentage point compared to the previous year, including 30% in Greater China. More than 45% of the pipeline is under construction.

Excluding 35 hotels (4,118 rooms) signed as part of the US government s PAL initiative, signings increased from 356 hotels (53,812 rooms) to 409 hotels (61,343 rooms) in 2013. This included 280 hotels (39,555 rooms) in the Holiday Inn brand family, up by 22.7% compared to 2012. More than half of this growth was contributed by Greater China, with signings increasing by 4,121 rooms to 7,343 rooms. The Greater China region signed a further 27 hotels (8,005 rooms) across other IHG brands, including the 1,002-room Holiday Inn Express Changbaishan, whilst the pipeline for HUALUXE Hotels & Resorts increased to 21 hotels (6,804 rooms). Four EVEN Hotels (644 rooms), of which three are owned and leased, were signed in The Americas, with the pipeline for this brand standing at five hotels (880 rooms) at the end of 2013. Active management out of the pipeline of deals that have become dormant or no longer viable reduced the pipeline by 18,563 rooms, compared to 31,344 rooms in 2012.

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*Performance continued*

*The Americas*

Maximise the performance and growth of our portfolio of preferred brands, focusing on our core upper midscale and upscale segments, mostly through franchise agreements, over the next three years.

**2014 priorities**

- Strengthen Holiday Inn brand family leadership position by focusing the mixing business with pleasure and family time guest occasion segments;
- continue to grow the Holiday Inn Express brand through innovations which meet the needs of the smart traveller target guest;
- continue to execute the multi-year programme to strengthen the Crowne Plaza Hotels & Resorts brand by increasing quality and consistency and enhancing the guest experience in the business productivity guest occasion segment;
- build on the pipeline of the EVEN Hotels brand and support the opening of our first hotels for the brand; and
- drive high-quality revenues at our hotels by continuing to embed our operational tools, strengthening hotel-level capabilities through certifications, and driving revenue through our direct channels.

| Americas comparable RevPAR movement on previous year | | | 12 months ended 31 December 2013 |
|---|---|---|---|
| **Franchised** | | **Managed** | |
| Crowne Plaza | 4.8% | InterContinental | 12.6% |
| Holiday Inn | 2.6% | Crowne Plaza | 13.9% |
| Holiday Inn Express | 3.4% | Holiday Inn | 10.6% |

| | | | |
|---|---|---|---|
| All brands | 3.2% | Staybridge Suites | 19.8% |
| | | Candlewood Suites | 19.3% |
| | | All brands | 13.9% |
| | | **Owned and leased** | |
| | | All brands | 6.0% |

**Americas results**

| | 12 months ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2013** | **2012** | 2013 vs 2012 % | 2011 | 2012 vs 2011 % |
| | **$m** | **$m** | change | $m | change |
| **Revenue** | | | | | |
| Franchised | **576** | **541** | 6.5 | 502 | 7.8 |
| Managed | **128** | **97** | 32.0 | 124 | (21.8) |
| Owned and leased | **212** | **199** | 6.5 | 204 | (2.5) |
| Total | **916** | **837** | 9.4 | 830 | 0.8 |
| Percentage of Group Revenue | **48.1** | **45.6** | 2.5 | 46.9 | (1.3) |
| **Operating profit before exceptional items** | | | | | |
| Franchised | **499** | **466** | 7.1 | 431 | 8.1 |
| Managed | **74** | **48** | 54.2 | 52 | (7.7) |
| Owned and leased | **30** | **24** | 25.0 | 17 | 41.2 |
| | **603** | **538** | 12.1 | 500 | 7.6 |
| Regional overheads | **(53)** | **(52)** | (1.9) | (49) | (6.1) |
| Total | **550** | **486** | 13.2 | 451 | 7.8 |
| Percentage of Group Operating profit before central overheads and exceptional items | **66.8** | **63.4** | 3.4 | 64.2 | (0.8) |

Highlights for the year ended 31 December 2013

In The Americas, the largest proportion of rooms is operated under the franchise business model (91% of rooms in The Americas operate under this model) primarily in the upper midscale segment (Holiday Inn brand family). Similarly, in the upscale segment, Crowne Plaza is predominantly franchised, whereas the majority of the InterContinental branded hotels are operated under franchise and management agreements. With 3,616 hotels (451,424 rooms), The Americas represented 66% of the Group s room count and 67% of the Group s operating profit before central overheads and exceptional operating items during the year ended 31 December 2013. The key profit producing region is the US, although the Group is also represented in each of Latin America, Canada, Mexico and the Caribbean.

In 2013, the Group focused on the continued development of its preferred brands and the deployment of IHG operational tools across the estate. 13 Crowne Plaza hotels left the Americas System partly reflecting the impact of the Crowne Plaza repositioning programme, and for our newest brand, EVEN Hotels, four new hotels were added to the pipeline, with the first expected to open in 2014. For Holiday Inn the focus on quality continued and 57 hotels were removed from the Americas System whilst 115 new Holiday Inn brand family hotels were opened.

Revenue and operating profit before exceptional items increased by $79m (9.4%) to $916m and by $64m (13.2%) to $550m respectively. On an underlying basis, revenue and operating profit increased by $52m (6.5%) and $36m (7.5%) respectively. Revenue and operating profit were adversely impacted by $8m lower fees on the exit of eight Holiday Inn hotels owned by FelCor Lodging Trust but were positively impacted by the benefit of a $31m liquidated damages receipt in 2013 in the managed business, compared to $3m in 2012.

The franchise business drove most of the growth in the region (excluding the liquidated damages in the managed estate). Franchised revenue increased by $35m (6.5%) to $576m. Royalties growth of 4.7% was driven by RevPAR growth of 3.2%, including 3.4% for Holiday Inn Express, together with a 0.7% increase in available rooms. Operating profit increased by $33m (7.1%) to $499m. Fees from initial franchising, relicensing and termination of hotels also increased by $6m compared to 2012.

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Managed revenue increased by $31m (32.0%) to $128m and operating profit increased by $26m (54.2%) to $74m. Revenue and operating profit included $34m (2012 $34m) and $nil (2012 $nil) respectively from one managed lease property. Excluding results from this hotel, as well as the benefit of the $31m liquidated damages in 2013 and the $3m in 2012, revenue grew by $4m (6.7%) and operating profit decreased by $2m (4.4%) on a constant currency basis.

Owned and leased revenue increased by $13m (6.5%) to $212m and operating profit grew by $6m (25.0%) to $30m. The increase in revenue was driven by RevPAR growth of 6.0%.

## Highlights for the year ended 31 December 2012

Revenue and operating profit before exceptional items increased by $7m (0.8%) to $837m and by $35m (7.8%) to $486m respectively. RevPAR increased 6.1%, with 4.1% growth in average daily rate. US RevPAR was up 6.3% in 2012 despite uncertainty regarding the presidential election and the fiscal cliff in the latter part of the year.

Franchised revenue increased by $39m (7.8%) to $541m. Royalties growth of 8.7% was driven by RevPAR growth of 6.0%, including 6.1% for Holiday Inn Express, together with 2.3% Americas System size growth. Operating profit increased by $35m (8.1%) to $466m.

Managed revenue decreased by $27m (21.8%) to $97m and operating profit decreased by $4m (7.7%) to $48m. Revenue and operating profit included $34m (2011 $59m) and $nil (2011 $1m) respectively from managed leases. Excluding properties operated under this arrangement, as well as the benefit of a $3m liquidated damages receipt in 2012 and a $10m liquidated damages receipt in 2011, revenue and operating profit grew by $5m (9.1%) and $4m (9.8%) respectively. Growth was driven by a RevPAR increase of 7.3%, including 9.6% for Holiday Inn.

Owned and leased revenue declined by $5m (2.5%) to $199m and operating profit grew by $7m (41.2%) to $24m. Excluding the impact of disposals, revenue increased by $4m (2.1%) and operating profit increased by $8m (50.0%). The increase in revenue was driven by RevPAR growth of 6.3%, offset by the impact of the partial closure of an owned hotel in the Caribbean. The operating profit increase of $7m included a $1m year-on-year benefit from lower depreciation recorded for the InterContinental New York Barclay since the hotel was categorised as held for sale in the first quarter of 2011, after which no depreciation was charged, and a $3m year-on-year benefit relating to one-off reorganisation costs at one hotel in 2011.

| **Americas hotel and room count** | | Hotels | | Rooms |
|---|---|---|---|---|
| At 31 December | **2013** | Change over 2012 | **2013** | Change over 2012 |
| **Analysed by brand** | | | | |
| InterContinental | **51** | (2) | **17,453** | (303) |
| Crowne Plaza | **176** | (7) | **47,057** | (1,673) |
| Holiday Inn[1] | **786** | (34) | **138,830** | (7,831) |
| Holiday Inn Express | **1,985** | 54 | **174,431** | 6,033 |
| Staybridge Suites | **188** | 5 | **20,309** | 522 |
| Candlewood Suites | **312** | 13 | **29,778** | 1,103 |
| Hotel Indigo | **37** | | **4,344** | 37 |
| Other | **81** | 32 | **19,222** | 3,919 |
| Total | **3,616** | 61 | **451,424** | 1,807 |

| | | | | |
|---|---|---|---|---|
| **Analysed by ownership type** | | | | |
| Franchised | **3,394** | 40 | **408,875** | 1,026 |
| Managed | **217** | 21 | **40,147** | 564 |
| Owned and leased | **5** | | **2,402** | 217 |
| Total | **3,616** | 61 | **451,424** | 1,807 |
| Percentage of Group hotel and room count | **77.0** | (0.2) | **65.7** | (0.8) |

[1] Includes 10 Holiday Inn Club Vacations (3,701 rooms) and 18 Holiday Inn Resort properties (4,438 rooms) (2012: 10 Holiday Inn Club Vacations (3,701 rooms) and 17 Holiday Inn Resort properties (4,240 rooms)).

The Americas System size increased by 61 hotels (1,807 rooms) to 3,616 hotels (451,424 rooms) during 2013. 173 hotels (19,775 rooms) opened in the year, compared to 148 hotels (16,618 rooms) in 2012 and included 33 hotels (4,061 rooms) as part of the US government s PAL initiative. Openings included 115 hotels (12,448 rooms) in the Holiday Inn brand family, representing more than 60% of the region s openings. 19 hotels (1,705 rooms) opened as Staybridge Suites hotels and Candlewood Suites hotels, IHG s extended-stay brands.

112 hotels (17,968 rooms) were removed from the Americas System in 2013, compared to 66 hotels (9,199 rooms) in 2012. More than 60% of 2013 removals were Holiday Inn hotels in the US (53 hotels, 10,933 rooms). 13 Crowne Plaza hotels (3,326 rooms) were removed in 2013, partly reflecting the impact of the Group s Crowne Plaza repositioning programme. The increase in removals reflects the Group s ongoing focus on improving the quality of the estate, particularly Holiday Inn.

## Americas pipeline

| | Hotels | | Rooms | |
|---|---|---|---|---|
| At 31 December | **2013** | Change over 2012 | **2013** | Change over 2012 |
| **Analysed by brand** | | | | |
| InterContinental | **6** | 2 | **1,437** | 512 |
| Crowne Plaza | **16** | | **3,228** | (509) |
| Holiday Inn[1] | **139** | | **19,344** | 517 |
| Holiday Inn Express | **358** | 13 | **33,488** | 1,100 |
| Staybridge Suites | **71** | 7 | **7,495** | 847 |
| Candlewood Suites | **80** | 2 | **6,914** | 172 |
| Hotel Indigo | **23** | | **3,118** | 42 |
| EVEN Hotels | **5** | 4 | **880** | 650 |
| Other | **1** | 1 | **114** | 114 |
| Total | **699** | 29 | **76,018** | 3,445 |
| **Analysed by ownership type** | | | | |
| Franchised | **678** | 19 | **72,019** | 1,729 |
| Managed | **18** | 7 | **3,499** | 1,216 |
| Owned and leased | **3** | 3 | **500** | 500 |
| Total | **699** | 29 | **76,018** | 3,445 |

[1] Includes 1 Holiday Inn Club Vacations (120 rooms) and 5 Holiday Inn Resort properties (694 rooms) (2012: nil Holiday Inn Club Vacations (nil rooms) and 5 Holiday Inn Resort properties (640 rooms)).

The Americas pipeline totalled 699 hotels (76,018 rooms) as at 31 December 2013, representing an increase of 29 hotels (3,445 rooms) over 31 December 2012. Strong signings of 305 hotels (33,884 rooms), demonstrating the continued demand for IHG brand hotels, were ahead of last year by 79 hotels (8,348 rooms) and included 35 hotels (4,118 rooms) signed as part of the US government s PAL initiative. The majority of 2013 signings were within the Holiday Inn brand family (193 hotels, 20,544 rooms), up by 8.9% compared to 2012. Four more hotels (644 rooms) were added for the EVEN Hotels brand, taking the total pipeline to five hotels (880 rooms), with the first hotel for the brand expected to open in 2014. Staybridge Suites and Candlewood Suites, IHG s extended stay hotel brands, also contributed signings of 57 hotels (5,406 rooms), up by 50.2% compared to 2012.

103 hotels (10,664 rooms) were terminated from the pipeline in 2013, significantly down from terminations in 2012 (183 hotels, 20,795 rooms).

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*Performance continued*

*Europe*

Continue to grow in priority markets and across key cities, and improve underlying margin through operational excellence over the next three years.

**2014 priorities**

- Accelerate growth in our priority markets and in key gateway cities across the region;
- continue to expand Hotel Indigo across the region in key gateway cities and launch the Holiday Inn Express brand in the Commonwealth of Independent States (CIS);
- continue to improve guest experience and satisfaction by creating a culture focused on quality, accelerating the rollout of innovation and building a suite of tools that enable hotels to deliver operational excellence; and
- deliver topline outperformance at our hotels by embedding our revenue and sales tools, and driving our commercial delivery and people platforms.

| Europe comparable RevPAR movement on previous year | 12 months ended 31 December 2013 |
|---|---|
| **Franchised** | |
| All brands | 1.5% |
| **Managed** | |
| All brands | 2.0% |
| **Owned and leased** | |
| InterContinental | 5.3% |

| Europe results | 12 months ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2013** | **2012** | 2013 vs 2012 % | 2011 | 2012 vs 2011 % |
| | **$m** | **$m** | change | $m | change |
| **Revenue** | | | | | |
| Franchised | **104** | **91** | 14.3 | 86 | 5.8 |

| | | | | | |
|---|---|---|---|---|---|
| Managed | **156** | **147** | 6.1 | 118 | 24.6 |
| Owned and leased | **140** | 198 | (29.3) | 201 | (1.5) |
| Total | **400** | **436** | (8.3) | 405 | 7.7 |
| Percentage of Group Revenue | **21.0** | **23.8** | (2.8) | 22.9 | 0.9 |
| **Operating profit before exceptional items** | | | | | |
| Franchised | **79** | **65** | 21.5 | 65 | |
| Managed | **30** | **32** | (6.3) | 26 | 23.1 |
| Owned and leased | **30** | **50** | (40.0) | 49 | 2.0 |
| | **139** | **147** | (5.4) | 140 | 5.0 |
| Regional overheads | **(34)** | **(35)** | 2.9 | (40) | 12.5 |
| Total | **105** | **112** | (6.3) | 100 | 12.0 |
| Percentage of Group Operating profit before central overheads and exceptional items | 12.8 | **14.6** | (1.8) | 14.2 | 0.4 |

Highlights for the year ended 31 December 2013

In Europe, the largest proportion of rooms is operated under the franchise business model primarily in the upper midscale segment (Holiday Inn and Holiday Inn Express). Similarly, in the upscale segment, Crowne Plaza is predominantly franchised whereas the majority of the InterContinental branded hotels are operated under management agreements. Comprising 629 hotels (102,066 rooms) at the end of 2013, Europe represented 15% of the Group s room count and 13% of the Group s operating profit before central overheads and exceptional operating items during the year ended 31 December 2013. Profits are primarily generated from hotels in the UK and Continental European gateway cities.

Economic conditions across Europe in 2013 remained challenging but the industry and the Group remained relatively resilient to this, especially in the main markets and in 2013 good progress was made on key priorities for the region. Three new Hotel Indigo hotels were opened and there are now 15 in the pipeline, an increase of two over 2012. In line with a focus on growth in priority markets and key gateway cities, new signings totalled 50 hotels with 18 in the UK, six in Germany and ten in the CIS. Additionally, new openings included the InterContinental Marseille Hotel Dieu and the InterContinental Davos. Hotel openings were down, year on year, but the pipeline grew and new signings increased over 2012 levels. Continued progress was made on the Group s asset-light strategy with the sale of the InterContinental London Park Lane in May.

Revenue and operating profit before exceptional items decreased by $36m (8.3%) to $400m and by $7m (6.3%) to $105m respectively. On an underlying basis, revenue and operating profit increased by $9m (3.4%) and $8m (10.4%) respectively. Overall, RevPAR in Europe increased by 1.7%. The UK achieved RevPAR growth of 3.0%, with particularly strong performance in the final quarter of 2013 with RevPAR increasing 7.3%. RevPAR in Germany increased by 0.8% despite a weaker year-on-year trade fair calendar, whilst IHG hotels in the CIS collectively achieved RevPAR growth of 2.7%.

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Franchised revenue increased by $13m (14.3%) to $104m, whilst operating profit increased by $14m (21.5%) to $79m. Excluding the benefit of a $9m liquidated damages receipt in 2013, revenue and operating profit increased by $4m (4.4%) and $5m (7.7%) respectively. Growth was mainly driven by an increase in royalties of 7.0% (6.3% at constant currency) reflecting RevPAR growth of 1.5%, partly offset by a 0.2% decline in available rooms.

Managed revenue increased by $9m (6.1%) to $156m and operating profit decreased by $2m (6.3%) to $30m. Revenue and operating profit included $89m (2012 $80m) and $2m (2012 $2m) respectively from managed leases. Excluding properties operated under this arrangement and on a constant currency basis, revenue was flat and operating profit decreased by $1m (3.3%).

In the owned and leased estate, revenue decreased by $58m (29.3%) to $140m and operating profit decreased by $20m (40.0%) to $30m. At constant currency and excluding the impact of the disposal of the InterContinental London Park Lane, the Group s remaining owned hotel in Europe, the InterContinental Paris Le Grand, delivered a revenue increase of $5m (4.6%) with RevPAR growth of 5.3%. Operating profit increased by $4m (23.5%), benefiting from a one-off $3m property tax recovery in the year.

## Highlights for the year ended 31 December 2012

Revenue and operating profit before exceptional items increased by $31m (7.7%) to $436m and by $12m (12.0%) to $112m respectively. RevPAR increased 1.7%, with 1.2% growth in average daily rate despite challenging economic conditions across Europe.

Franchised revenue increased by $5m (5.8%) to $91m, whilst operating profit was flat at $65m. At constant currency, revenue increased by $8m (9.3%) and operating profit increased by $3m (4.6%). Growth was mainly driven by an increase in royalties of 2.7% (7.5% at constant currency) reflecting RevPAR growth of 1.8%, together with Europe System size growth of 4.0%.

Managed revenue increased by $29m to $147m (24.6%) and operating profit increased by $6m (23.1%) to $32m. Revenue and operating profit included $80m (2011 $46m) and $2m (2011 $nil) respectively from managed leases. Excluding properties operated under this arrangement and on a constant currency basis, revenue decreased by $1m (1.4%) reflecting a 4.3% decrease in System size partially offset by RevPAR growth of 1.0%. On the same basis, operating profit grew by $5m (19.2%).

In the owned and leased estate, revenue decreased by $3m (1.5%) to $198m and operating profit increased by $1m (2.0%) to $50m. At constant currency and excluding the impact of disposals, revenue increased by $10m (5.1%) and operating profit increased by $4m (8.3%). The InterContinental London Park Lane and the InterContinental Paris Le Grand delivered year-on-year RevPAR growth of 8.0% and 2.5% respectively.

| **Europe hotel and room count** | | Hotels Change | | Rooms Change |
|---|---|---|---|---|
| At 31 December | **2013** | over 2012 | **2013** | over 2012 |
| **Analysed by brand** | | | | |
| InterContinental | **31** | 1 | **9,525** | 131 |
| Crowne Plaza | **83** | (1) | **19,522** | (44) |

| | | | | |
|---|---|---|---|---|
| Holiday Inn[1] | **282** | (6) | **45,621** | (989) |
| Holiday Inn Express | **215** | 3 | **25,371** | 468 |
| Staybridge Suites | **5** | 1 | **784** | 179 |
| Hotel Indigo | **13** | 3 | **1,243** | 294 |
| Total | **629** | 1 | **102,066** | 39 |
| **Analysed by ownership type** | | | | |
| Franchised | **528** | | **79,517** | (382) |
| Managed | **100** | 2 | **22,079** | 868 |
| Owned and leased | **1** | (1) | **470** | (447) |
| Total | **629** | 1 | **102,066** | 39 |
| Percentage of Group hotel and room count | **13.4** | (0.2) | **14.9** | (0.2) |

[1] Includes 2 Holiday Inn Resort properties (212 rooms) (2012: 3 Holiday Inn Resort properties (362 rooms)).

During 2013, Europe System size increased by one hotel (39 rooms) to 629 hotels (102,066 rooms). The Group opened 21 hotels (3,528 rooms) in Europe in 2013, compared to 39 hotels (5,477 rooms) in 2012. 2013 openings included two InterContinental hotels, the 194-room InterContinental Marseille Hotel Dieu, the fourth for the brand in France, and the 216-room InterContinental Davos in Switzerland. Three further Hotel Indigo properties (293 rooms) were opened in 2013, comprising a third hotel for the brand in Germany and first openings in Spain and Israel.

20 hotels (3,489 rooms) left the Europe System in the period, compared to 23 hotels (3,335 rooms) in the previous year.

| Europe pipeline | | Hotels | | Rooms |
|---|---|---|---|---|
| | | Change | | Change |
| At 31 December | **2013** | over 2012 | **2013** | over 2012 |
| **Analysed by brand** | | | | |
| InterContinental | **2** | | **653** | 249 |
| Crowne Plaza | **12** | | **2,624** | (145) |
| Holiday Inn | **35** | 15 | **6,612** | 2,345 |
| Holiday Inn Express | **43** | | **6,016** | (268) |
| Staybridge Suites | **3** | 2 | **298** | 130 |
| Hotel Indigo | **15** | 2 | **1,576** | 284 |
| Total | **110** | 19 | **17,779** | 2,595 |
| **Analysed by ownership type** | | | | |
| Franchised | **97** | 14 | **14,119** | 1,933 |
| Managed | **13** | 5 | **3,660** | 662 |
| Total | **110** | 19 | **17,779** | 2,595 |

The Europe pipeline totalled 110 hotels (17,779 rooms) as at 31 December 2013, representing an increase of 19 hotels (2,595 rooms) over 31 December 2012. New signings of 50 hotels (7,542 rooms), compared to 48 hotels (7,023 rooms) in 2012, included 18 hotel signings in the UK (2,436 rooms), including signings for six different brands in London, notably the 453-room InterContinental London The O2. The Group also signed six new hotels (1,116 rooms) in Germany and ten new hotels (1,737 rooms) in countries in the CIS.

10 hotels (1,419 rooms) were removed from the pipeline in 2013, compared to 16 hotels (3,044 rooms) in 2012.

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*Performance continued*

*Asia, Middle East and Africa (AMEA)*

Execute our strategic plans to strengthen our brands and increase our revenue share through operational excellence and outperformance over the next three years.

**2014 priorities**

Build preferred brands and strengthen our position in priority markets and key gateway cities;

accelerate growth of our core brands across the region with a particular focus on emerging markets;

expand our portfolio of brands, including continuing to accelerate the growth of the Holiday Inn Express brand; and

continue to deliver operational excellence to improve guest satisfaction and deliver high-quality revenues by embedding our revenue tools, system delivery platforms, responsible business practices and People Tools built upon high performance winning culture.

| **AMEA comparable RevPAR movement on previous year** | 12 months ended 31 December 2013 |
| --- | --- |
| **Franchised** | |
| All brands | 9.6% |
| **Managed** | |
| All brands | 5.6% |

| **AMEA results** | 12 months ended 31 December | | | | |
| --- | --- | --- | --- | --- | --- |
| | **2013 $m** | **2012 $m** | 2013 vs 2012 % change | 2011 $m | 2012 vs 2011 % change |
| **Revenue** | | | | | |
| Franchised | **16** | **18** | (11.1) | 19 | (5.3) |
| Managed | **170** | **152** | 11.8 | 151 | 0.7 |

| | | | | | |
|---|---|---|---|---|---|
| Owned and leased | 44 | **48** | (8.3) | 46 | 4.3 |
| Total | 230 | **218** | 5.5 | 216 | 0.9 |
| Percentage of Group Revenue | 12.1 | **11.9** | 0.2 | 12.2 | (0.3) |
| **Operating profit before exceptional items** | | | | | |
| Franchised | 12 | **12** | | 12 | |
| Managed | 92 | **90** | 2.2 | 87 | 3.4 |
| Owned and leased | 4 | **6** | (33.3) | 5 | 20.0 |
| | 108 | **108** | | 104 | 3.8 |
| Regional overheads | (22) | **(20)** | (10.0) | (20) | |
| Total | 86 | **88** | (2.3) | 84 | 4.8 |
| Percentage of Group Operating profit before central overheads and exceptional items | 10.4 | **11.5** | (1.1) | 12.0 | (0.5) |

Highlights for the year ended 31 December 2013

In AMEA, 81% of rooms are operated under the managed business model. The region s hotels are in the luxury, upscale and upper midscale segments. Comprising 244 hotels (64,838 rooms) at 31 December 2013, AMEA represented 9% of the Group s room count and 10% of the Group s operating profit before central overheads and exceptional operating items during the year ended 31 December 2013.

The number of hotels open in the region increased by 12 in 2013 reflecting delivery against the key priorities of growing the distribution of our core brands and strengthening our position in key strategic markets. The openings included the InterContinental in Osaka and five hotels in India overall openings totalled 20 hotels against 16 in 2012. Signings into the pipeline remained at 2012 levels which should provide a strong growth platform.

Revenue increased by $12m (5.5%) to $230m and operating profit decreased by $2m (2.3%) to $86m. On an underlying basis, revenue and operating profit decreased by $6m (2.8%) and $7m (8.0%) respectively. The results included a $6m benefit from liquidated damages in 2013. RevPAR increased by 6.1%, with 3.0% growth in average daily rate. AMEA is a geographically diverse region and performance is impacted by political and economic factors affecting different countries. The Middle East delivered RevPAR growth of 2.9%, driven by strength in the United Arab Emirates and Saudi Arabia, though continuing political uncertainty impacted some of our other markets in the region, particularly Egypt and Lebanon. Performance in Japan was strong, with RevPAR increasing by 9.6%, whilst Australia also achieved solid RevPAR growth of 2.8%. RevPAR growth in developing markets remained buoyant, led by 12.2% RevPAR growth in Indonesia. Revenue and operating profit growth were muted by a $6m negative year-on-year impact from the renewal of a small number of long-standing contracts onto current commercial terms. In addition, there was a $4m negative impact from similar contracts that were not renewed.

Franchised revenue decreased by $2m (11.1%) to $16m, whilst operating profit was flat at $12m.

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Managed revenue and operating profit increased by $18m (11.8%) to $170m and by $2m (2.2%) to $92m respectively. During 2013, a new property opened under an operating lease structure, with the same characteristics as a management contract, contributing revenue of $21m and operating profit of $1m. Excluding this property together with the benefit of the $6m liquidated damages receipt in 2013, revenue and operating profit decreased by $4m (2.6%) and $4m (4.4%) respectively at constant currency. RevPAR increased by 5.6%, with AMEA System size up 2.6%.

In the owned and leased estate, revenue and operating profit decreased by $4m (8.3%) to $44m and by $2m (33.3%) to $4m respectively, driven by a 7.3% RevPAR decline.

## Highlights for the year ended 31 December 2012

Revenue and operating profit before exceptional items increased by $2m (0.9%) to $218m and by $4m (4.8%) to $88m respectively. RevPAR increased 4.9%, with 1.2% growth in average daily rate, with robust trading in Southeast Asia and Japan, partly offset by continuing uncertainty impacting some markets in the Middle East.

On both a constant and actual currency basis, franchised revenue decreased by $1m (5.3%) to $18m and operating profit was flat at $12m.

Managed revenue and operating profit increased by $1m (0.7%) to $152m and by $3m (3.4%) to $90m respectively. At constant currency, excluding the benefit of a $6m liquidated damages receipt in 2011 and after adjusting for the disposal of a hotel asset and partnership interest in Australia, which contributed $3m to operating profit in 2011, revenue and operating profit increased by $7m (4.8%) and $11m (14.1%) respectively. RevPAR growth was 4.6% and although year-end AMEA System size was 7.1% higher than at the end of 2011, due to the phasing of openings towards the end of the year, rooms available during the year grew by only 2.2%. Operating profit in 2012 benefited from a $1m increase in profit from an associate and $2m lower year-on-year bad debt expense.

In the owned and leased estate, revenue and operating profit increased by $2m (4.3%) to $48m and by $1m (20.0%) to $6m respectively.

| **AMEA hotel and room count** | | Hotels | | Rooms |
|---|---|---|---|---|
| At 31 December | **2013** | Change over 2012 | **2013** | Change over 2012 |
| **Analysed by brand** | | | | |
| InterContinental | **67** | 2 | **21,383** | 592 |
| Crowne Plaza | **67** | 2 | **19,078** | 519 |
| Holiday Inn[1] | **81** | 6 | **18,464** | 1,024 |
| Holiday Inn Express | **16** | 4 | **3,500** | 623 |
| Staybridge Suites | **3** | 1 | **425** | 121 |
| Other | **10** | (3) | **1,988** | (778) |
| Total | **244** | 12 | **64,838** | 2,101 |
| **Analysed by ownership type** | | | | |
| Franchised | **51** | 3 | **11,611** | 751 |
| Managed | **191** | 9 | **52,640** | 1,350 |
| Owned and leased | **2** | | **587** | |

| | | | | |
|---|---|---|---|---|
| Total | **244** | 12 | **64,838** | 2,101 |
| Percentage of Group hotel and room count | **5.2** | 0.2 | **9.4** | 0.1 |

[1] Includes 14 Holiday Inn Resort properties (2,965 rooms) (2012: 14 Holiday Inn Resort properties (3,311 rooms)).

The AMEA hotel and room count in the year increased by 12 hotels (2,101 rooms) to 244 hotels (64,838 rooms). The level of openings increased from 16 hotels (4,243 rooms) in 2012 to 20 hotels (4,495 rooms) in 2013. This included two hotel openings (624 rooms) for the InterContinental brand, including the 272-room InterContinental Osaka, and five hotels in India (818 rooms) in 2013, including Crowne Plaza and Holiday Inn conversions in New Delhi s emerging business district of Mayur Vihar.

Eight hotels (2,394 rooms) were removed from the AMEA System in 2013, compared to 12 hotels (2,589 rooms) in 2012.

| **AMEA pipeline** | | Hotels Change | | Rooms Change |
|---|---|---|---|---|
| At 31 December | **2013** | over 2012 | **2013** | over 2012 |
| **Analysed by brand** | | | | |
| InterContinental | **21** | 1 | **5,378** | 12 |
| Crowne Plaza | **14** | (4) | **4,048** | (1,297) |
| Holiday Inn[1] | **49** | 2 | **12,341** | 1,446 |
| Holiday Inn Express | **39** | 4 | **7,980** | 889 |
| Staybridge Suites | **6** | | **935** | 207 |
| Hotel Indigo | **8** | 2 | **1,392** | 460 |
| Total | **137** | 5 | **32,074** | 1,717 |
| **Analysed by ownership type** | | | | |
| Franchised | **3** | 1 | **647** | 222 |
| Managed | **134** | 4 | **31,427** | 1,495 |
| Total | **137** | 5 | **32,074** | 1,717 |

[1] Includes 6 Holiday Inn Resort properties (1,579 rooms) (2012: 4 Holiday Inn Resort properties (900 rooms)).

The AMEA pipeline totalled 137 hotels (32,074 rooms) as at 31 December 2013, compared to 132 hotels (30,357 rooms) as at 31 December 2012. Signings of 36 hotels (8,687 rooms) were broadly in line with last year and included 26 hotels (6,546 rooms) in the Holiday Inn brand family, notably the 1,230-room Holiday Inn Makkah Al Aziziah in Saudi Arabia, which is set to be the largest Holiday Inn in the world when it opens. Three InterContinental hotels (671 rooms) were signed during 2013, including the 140-room InterContinental Sydney Double Bay in Australia.

11 hotels (2,475 rooms) were removed from the pipeline in 2013, compared to 10 hotels (2,850 rooms) in 2012.

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*Performance continued*

## *Greater China*

Maximise scale and strength and establish multi-segment local operating expertise to drive margin and expand our strong portfolio of brands over the next three years.

**2014 priorities**

Grow quality distribution and further expand our portfolio of brands especially Holiday Inn and Holiday Inn Express in tier 2 and 3 cities to cater to evolving market needs;

build upon the successful launch of the HUALUXE Hotels & Resorts brand and continue to drive growth and fine-tune brand standards and standard operating procedures;

grow talent and build a strong local talent pipeline; and

continue to localise IHG brands, systems, tools, processes and responsible business practices to increase efficiency and margin performance.

| Greater China comparable RevPAR movement on previous year | 12 months ended 31 December 2013 |
|---|---|
| **Managed** | |
| All brands | 0.6% |
| **Owned and leased** | |
| InterContinental | (0.1)% |

| Greater China results | 2013 $m | 2012 $m | 2013 vs 2012 % change | 2011 $m | 2012 vs 2011 % change |
|---|---|---|---|---|---|
| | 12 months ended 31 December | | | | |
| **Revenue** | | | | | |
| Franchised | 3 | 3 | | 2 | 50.0 |
| Managed | 92 | 89 | 3.4 | 77 | 15.6 |
| Owned and leased | 141 | 138 | 2.2 | 126 | 9.5 |

| | | | | | |
|---|---|---|---|---|---|
| Total | **236** | **230** | 2.6 | 205 | 12.2 |
| Percentage of Group Revenue | **12.4** | **12.5** | (0.1) | 11.6 | 0.9 |
| **Operating profit before exceptional items** | | | | | |
| Franchised | **5** | **4** | 25.0 | 3 | 33.3 |
| Managed | **51** | **51** | | 43 | 18.6 |
| Owned and leased | **47** | **45** | 4.4 | 37 | 21.6 |
| | **103** | **100** | 3.0 | 83 | 20.5 |
| Regional overheads | **(21)** | **(19)** | (10.5) | (16) | (18.8) |
| Total | **82** | **81** | 1.2 | 67 | 20.9 |
| Percentage of Group Operating profit before central overheads and exceptional items | **10.0** | **10.6** | (0.6) | 9.5 | 1.1 |

Highlights for the year ended 31 December 2013

In Greater China, 96% of rooms are operated under the managed business model. The majority of hotels are in the upscale and upper midscale segments. Comprising 208 hotels (68,545 rooms) at 31 December 2013, Greater China represented 10% of the Group s room count and 10% of the Group s operating profit before central overheads and exceptional operating items during the year ended 31 December 2013.

Good progress was made in the year on the priorities for the region despite the challenging conditions experienced over the course of the year. Focusing on the distribution and expansion of the portfolio, a further six hotels were signed into the pipeline for HUALUXE and a further 11 for Crowne Plaza. The number of open Crowne Plaza hotels also increased by five in the year and the Holiday Inn portfolio expanded.

Despite good progress on the priorities, market conditions were challenging in the region in 2013. The hotel industry was impacted by a number of factors including the China-Japan territorial islands dispute, a series of natural disasters in Western China, particularly in the second quarter of the year, and slower macroeconomic conditions during 2013 than in prior years. Overall the region achieved RevPAR growth of 1.0% representing a significant decrease on the 5.4% growth achieved in 2012. IHG did, however, significantly outperform the industry in 2013.

Revenue and operating profit before exceptional items increased by $6m (2.6%) to $236m and by $1m (1.2%) to $82m respectively. On an underlying basis, revenue and operating profit increased by $6m (2.6%) and $2m (2.5%) respectively.

Franchised revenue was flat at $3m and operating profit increased by $1m (25.0%) to $5m.

Managed revenue increased by $3m (3.4%) to $92m and operating profit was flat at $51m. RevPAR increased by 0.6%, whilst the Greater China System size grew by 11.8%, driving a 9.2% increase in total gross revenue derived from rooms business. Total gross revenue derived from non-rooms business increased by 3.0%. Operating profit was partly offset by increased investment to drive future growth.

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Owned and leased revenue at the InterContinental Hong Kong increased by $3m (2.2%) to $141m, driven by a 4.5% increase in total gross revenue derived from non-rooms business, although this was partly offset by a RevPAR decline of 0.1%. Operating profit increased by $2m (4.4%) to $47m.

## Highlights for the year ended 31 December 2012

Revenue and operating profit before exceptional items increased by $25m (12.2%) to $230m and by $14m (20.9%) to $81m respectively. RevPAR increased 5.4% with 3.1% growth in average daily rate.

Franchised revenue increased by $1m (50.0%) to $3m and operating profit by $1m (33.3%) to $4m, boosted by the opening of the 1,224-room Holiday Inn Macao Cotai Central.

Managed revenue increased by $12m (15.6%) to $89m and operating profit increased by $8m (18.6%) to $51m. RevPAR growth of 5.6% reflected continued economic growth in the region, although the whole industry was affected in the latter part of the year by the Diaoyu/Senkaku islands territorial dispute and slower macroeconomic conditions. There was also continued significant Greater China System size growth for the managed estate (9.7% rooms growth in 2012 following 14.2% rooms growth in 2011).

Owned and leased revenue increased by $12m (9.5%) to $138m and operating profit increased by $8m (21.6%) to $45m, with RevPAR growth of 6.7% at the InterContinental Hong Kong.

Regional costs increased by $3m (18.8%) to $19m reflecting increased investment in operations and infrastructure in the region.

## Greater China hotel and room count

| At 31 December | 2013 | Hotels Change over 2012 | 2013 | Rooms Change over 2012 |
|---|---|---|---|---|
| **Analysed by brand** | | | | |
| InterContinental | **29** | 7 | **11,742** | 2,369 |
| Crowne Plaza | **65** | 5 | **23,234** | 1,782 |
| Holiday Inn[1] | **67** | 3 | **21,662** | 885 |
| Holiday Inn Express | **42** | 5 | **11,295** | 1,842 |
| Hotel Indigo | **5** | 2 | **612** | 207 |
| Other | | (1) | | (141) |
| Total | **208** | 21 | **68,545** | 6,944 |
| **Analysed by ownership type** | | | | |
| Franchised | **4** | | **2,184** | |
| Managed | **203** | 21 | **65,858** | 6,944 |
| Owned and leased | **1** | | **503** | |
| Total | **208** | 21 | **68,545** | 6,944 |
| Percentage of Group hotel and room count | **4.4** | 0.3 | **10.0** | 0.9 |

[1] Includes 4 Holiday Inn Resort properties (1,203 rooms) (2012: 3 Holiday Inn Resort properties (893 rooms)).

The Greater China hotel and room count in the year increased by 21 hotels (6,944 rooms) to 208 hotels (68,545 rooms). 23 hotels (7,669 rooms) opened during 2013, broadly in line with 2012. InterContinental System size increased by 7 hotels (2,369 rooms) to 29 hotels (11,742 rooms), with openings including the 294-room InterContinental Sanya Haitang Bay Resort, a second for the brand on the island resort destination of Sanya. The Group also celebrated its 200th opening in Greater China in 2013 with the opening of the 141-room InterContinental Shanghai Ruijin. A further two Hotel Indigo properties (208 rooms) were opened, including a first for the brand in Hong Kong.

Two hotels (725 rooms) were removed from the Greater China System in 2013.

| **Greater China pipeline** | | Hotels Change | | Rooms Change |
|---|---|---|---|---|
| At 31 December | **2013** | over 2012 | **2013** | over 2012 |
| **Analysed by brand** | | | | |
| InterContinental | **22** | | **9,392** | 374 |
| Crowne Plaza | **52** | | **18,469** | (863) |
| Holiday Inn[1] | **41** | 4 | **11,944** | 945 |
| Holiday Inn Express | **33** | 4 | **7,260** | 1,263 |
| Hotel Indigo | **5** | | **721** | 152 |
| HUALUXE | **21** | 6 | **6,804** | 1,900 |
| Other | | | | (97) |
| Total | **174** | 14 | **54,590** | 3,674 |
| **Analysed by ownership type** | | | | |
| Managed | **174** | 14 | **54,590** | 3,674 |
| Total | **174** | 14 | **54,590** | 3,674 |

[1] Includes 3 Holiday Inn Resort properties (890 rooms) (2012: 3 Holiday Inn Resort properties (850 rooms)).

The Greater China pipeline totalled 174 hotels (54,590 rooms) as at 31 December 2013, compared to 160 hotels (50,916 rooms) as at 31 December 2012. Signings of 53 hotels (15,348 rooms) increased from 46 hotels (13,387 rooms) in 2012. Seven InterContinental hotels (2,129 rooms) were signed, together with 11 Crowne Plaza hotels (3,528 rooms), whilst the total pipeline for the HUALUXE Hotels & Resorts brand increased to 21 hotels (6,804 rooms). 26 hotels (7,343 rooms) were signed in the Holiday Inn brand family, including the 1,002-room Holiday Inn Express Changbaishan, which subsequently opened as the Group s largest Holiday Inn Express in 2013.

16 hotels (4,005 rooms) were removed from the pipeline in 2013.

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*Performance continued*

*Central*

**Central results**

| | 2013 $m | 2012 $m | 12 months ended 31 December 2013 vs 2012 % change | 2011 $m | 2012 vs 2011 % change |
|---|---|---|---|---|---|
| Revenue | **121** | **114** | 6.1 | 112 | 1.8 |
| Gross central costs | **(276)** | **(276)** | | (266) | (3.8) |
| Net central costs | **(155)** | **(162)** | 4.3 | (154) | (5.2) |

Highlights for the year ended 31 December 2013

Central revenue, mainly comprising technology fee income, increased by $7m (6.1%) to $121m, driven by increases to both RevPAR and IHG System size over 2013. Gross central costs were flat at $276m in 2013, reflecting continued tight cost control.

Highlights for the year ended 31 December 2012

Net central costs increased by $8m (5.2%) from $154m in 2011 to $162m in 2012. At constant currency, net central costs increased by $10m (6.5%). The movement was driven by investment in infrastructure and capabilities to support the growth of the business. Central revenue mainly comprised technology fee income.

*System Fund*

**System Fund results**

| | 2013 $m | 2012 $m | 12 months ended 31 December 2013 vs 2012 % change | 2011 $m | 2012 vs 2011 % change |
|---|---|---|---|---|---|
| Assessment fees and contributions received from hotels | **1,154** | **1,106** | 4.3 | 1,025 | 7.9 |
| Proceeds from sale of IHG Rewards Club points | **153** | **144** | 6.3 | 128 | 12.5 |
| **Total** | **1,307** | **1,250** | 4.6 | 1,153 | 8.4 |

In addition to management or franchise fees, hotels within the IHG System pay assessments and contributions which are collected by IHG for specific use within the System Fund. The System Fund also receives proceeds from the sale of IHG Rewards Club points. The System Fund is managed for the benefit of hotels in the IHG System with the objective of driving revenues for the hotels.

The System Fund is used to pay for marketing, the IHG Rewards Club loyalty programme and the global reservation system. The operation of the System Fund does not result in a profit or loss for the Group and consequently the revenues and expenses of the System Fund are not included in the Group Income Statement.

## Highlights for the year ended 31 December 2013

In the year to 31 December 2013, System Fund income increased by 4.6% to $1,307m primarily as a result of growth in hotel room revenues due to increases in RevPAR and IHG System size. The increase in proceeds from the sale of IHG Rewards Club points mainly reflects the continued strong performance of co-brand credit card schemes.

## Highlights for the year ended 31 December 2012

In the year to 31 December 2012, System Fund income increased by 8.4% to $1,250m primarily as a result of growth in hotel room revenues. The increase in proceeds from the sale of IHG Rewards Club points mainly reflects the strong performance of co-brand credit card schemes.

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*Other financial*

*information*

## Exceptional operating items

Exceptional operating items totalled a net profit of $5m. Exceptional gains included $166m from the sale of the InterContinental London Park Lane on 1 May 2013 and $6m in relation to the sale of a hotel by an associate in The Americas. Exceptional charges included $147m arising from the buy-in of the Group s UK funded pension benefit obligations with the insurer, Rothesay Life, on 15 August 2013, $10m relating to an agreed settlement in respect of a commercial claim and $10m relating to costs incurred in support of the worldwide rebranding of IHG Rewards Club.

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

## Net financial expenses

Net financial expenses increased by $19m to $73m reflecting an increase in average net debt levels and the issuance of the 10-year £400m public bond in November 2012 with a coupon of 3.875%.

Financing costs included $2m (2012 $2m) of interest costs associated with the IHG Rewards Club where interest is charged on the accumulated balance of cash received in advance of the redemption of points awarded. Financing costs in 2013 also included $19m (2012 $19m) in respect of the InterContinental Boston finance lease.

## Taxation

The effective rate of tax on operating profit excluding the impact of exceptional items was 29% (2012 27%). Excluding the impact of prior year items, the equivalent tax rate would be 32% (2012 30%). This rate is higher than the average UK statutory rate of 23.25% (2012 24.5%) due mainly to certain overseas profits (particularly in the US) being subject to statutory rates higher than the UK statutory rate, unrelieved foreign taxes and disallowable expenses.

Taxation within exceptional items totalled a charge of $51m (2012 credit of $142m). In 2013 the charge comprised $6m relating to the exceptional operating items and $64m consequent upon the disposal of the InterContinental London Park Lane, offset by a credit of $19m relating to an internal restructuring. In 2012 this represented, primarily, the recognition of $104m of deferred tax assets whose value had become more certain as a result of a change in law and the resolution of prior period tax matters, together with the associated release of $37m of provisions.

Net tax paid in 2013 totalled $97m (2012 $122m) including $5m paid (2012 $3m) in respect of disposals. Tax paid represents an effective rate of 16% (2012 22%) on total profits and is lower than the effective income statement tax rate of 29% primarily due to the impact of deferred taxes (including the realisation of assets such as tax losses), the receipt of refunds in respect of prior years and provisions for tax for which no payment of tax has currently been made.

IHG pursues a tax strategy that is consistent with its business strategy and its overall business conduct principles. This strategy seeks to ensure full compliance with all tax filing, payment and reporting obligations on the basis of communicative and transparent relationships with tax authorities. Policies and procedures related to tax risk management are subject to regular review and update and are approved by the Board.

Tax liabilities or refunds may differ from those anticipated, in particular as a result of changes in tax law, changes in the interpretation of tax law, or clarification of uncertainties in the application of tax law. Procedures to minimise risk include the preparation of thorough tax risk assessments for all transactions carrying tax risk and, where appropriate, material tax uncertainties are discussed and resolved with tax authorities in advance.

IHG s contribution to the jurisdictions in which it operates includes a significant contribution in the form of taxes borne and collected, including taxes on its revenues and profits and in respect of the employment its business generates.

IHG earns approximately 65% of its revenues in the form of franchise, management or similar fees, with almost 90% of IHG branded hotels being franchised. In jurisdictions in which IHG does franchise business, the prevailing tax law will generally provide for IHG to be taxed in the form of local withholding taxes based on a percentage of fees rather than based on profits. Costs to support the franchise business are normally incurred regionally or globally and therefore profits for an individual franchise jurisdiction cannot be separately determined.

## Earnings per ordinary share

Basic earnings per ordinary share in 2013 was 140.9¢, compared with 187.1¢ in 2012. Adjusted earnings per ordinary share was 158.3¢, against 139.0¢ in 2012.

## Dividends

The Board has proposed a final dividend per ordinary share of 47.0¢ (28.1p). With the interim dividend per ordinary share of 23.0¢ (15.1p), the full-year dividend per ordinary share for 2013 will total 70.0¢ (43.2p), an increase of 9% over 2012. On 4 October 2013, a special dividend of 133.0¢ (87.1p) per ordinary share amounting to $355m was paid to shareholders.

## Share price and market capitalisation

The IHG share price closed at £20.13 on 31 December 2013, up from £17.07 on 31 December 2012. The market capitalisation of the Group at the year end was £5.4bn.

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*Performance continued*

*Liquidity and*

*capital resources*

## Sources of liquidity

The Group is financed by a $1.07bn syndicated bank facility which expires in November 2016 (the Syndicated Facility), £250m of public bonds which are repayable on 9 December 2016 and £400m of public bonds which are repayable on 28 November 2022. The $1.07bn Syndicated Facility was undrawn at the year end. The bonds are issued under the Group s £750m Medium Term Notes programme. Short-term borrowing requirements are met from drawings under bilateral bank facilities. Additional funding is provided by the 99-year finance lease (of which 92 years remain) on the InterContinental Boston. In the Group s opinion, the available facilities are sufficient for the Group s present liquidity requirements.

The Syndicated Facility contains two financial covenants; interest cover and net debt divided by earnings before interest, tax, depreciation and amortisation. The Group is in compliance with all of the financial covenants in its loan documents, none of which is expected to present a material restriction on funding in the near future.

Net debt of $1,153m and available facilities at 31 December 2013 are analysed as follows:

| | 2013 | 2012 |
|---|---|---|
| | $m | $m |
| **Borrowings** | | |
| Sterling | 654 | 638 |
| US dollar | 629 | 626 |
| Other | 4 | 5 |
| Cash and cash equivalents | (134) | (195) |
| Net debt[1] | 1,153 | 1,074 |
| Average debt levels | 985 | 651 |

[1] Including the impact of currency derivatives.

| **Facilities at 31 December** | 2013 | 2012 |
|---|---|---|
| | $m | $m |
| Committed | 1,074 | 1,075 |
| Uncommitted | 80 | 96 |
| Total | 1,154 | 1,171 |

The Group had net liabilities of $74m at 31 December 2013 reflecting that its brands are not recognised in the Group statement of financial position. At the end of 2013 the Group was trading significantly within its banking covenants and facilities.

## Cash from operating activities

Net cash from operating activities totalled $624m for the year ended 31 December 2013 up $152m on the previous year largely due to increased operating profit before exceptional items of $63m and a $76m reduction in the payment of the additional company contributions to the UK pension plan.

Cash flow from operating activities is the principal source of cash used to fund the ongoing operating expenses, interest payments, maintenance capital expenditure and normal 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 external finance expected to be available to it.

## Cash from investing activities

Net cash inflows due to investing activities totalled $175m, compared to an outflow of $128m in 2012, reflecting the sale of the InterContinental London Park Lane for gross proceeds of $469m during the year. Of these proceeds, $52m has been placed in ring-fenced bank accounts which are subject to a charge in favour of the unfunded UK pension arrangements. Capital expenditure on property plant and equipment of $159m (2012 $44m) included a significant investment in hotel properties that are in the process of being converted to the Group s EVEN Hotels brand.

The Group had committed contractual capital expenditure of $83m at 31 December 2013 (2012 $81m).

## Cash used in financing activities

Net cash used in financing activities totalled $857m, which was $528m higher than in 2012 as last year the Group raised a net $533m from new borrowings. Returns to shareholders of $816m, comprising ordinary dividends, special dividends and share buybacks, were $30m higher than in 2012. $44m (2012 $84m) was spent on share purchases in order to fulfil share incentive awards.

Overall net debt increased during the year by $79m to $1,153m at 31 December 2013.

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## Off-sheet balance sheet arrangements

At 31 December 2013, the Group had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Group s financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

## Contractual obligations

The Group had the following contractual obligations outstanding as of 31 December 2013:

| | Total amounts committed | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
|---|---|---|---|---|---|
| | | | $m | | |
| Long-term debt obligations[1, 2] | 1,080 | | 419 | | 661 |
| Interest payable[2] | 308 | 52 | 103 | 51 | 102 |
| Finance lease obligations[3] | 3,380 | 16 | 32 | 32 | 3,300 |
| Operating lease obligations | 352 | 42 | 62 | 46 | 202 |
| Agreed pension scheme contributions[4] | 12 | 12 | | | |
| Capital contracts placed | 83 | 83 | | | |
| Total | 5,215 | 205 | 616 | 129 | 4,265 |

1 Repayment period classified according to the related bond maturity date.
2 Including the impact of derivatives.
3 Represents the minimum lease payments related to the 99-year lease (of which 92 years remain) on the InterContinental Boston. Payments under the lease step up at regular intervals over the lease term.
4 Largely relates to US pension obligations.

As explained in note 26 to the Group Financial Statements, the Group completed a buy-in of its UK defined benefit obligations on 15 August 2013. As a result of this transaction, the defined benefit section of the UK plan is now fully funded and the Company therefore has no further contributions to make in respect of this obligation.

## Contingent liabilities

Contingent liabilities include performance guarantees with possible cash outflows totalling $48m, guarantees over the debt of equity investments of $20m and outstanding letters of credit of $41m. See note 32 to the Group Financial Statements for further details.

***Market risk***

***disclosures***

The Group s risk management policies and additional information regarding the financial instruments used are included in notes 21, 22, 23 and 24 of the Group Financial Statements.

The following table provides information about the Group s borrowings and derivatives and their sensitivity to interest rates, although at both 31 December 2013 and 31 December 2012, 100% of borrowings in major currencies were fixed rate debt due to the low interest rate environment and current profile of the Group s debt. For long-term borrowings the table presents the debt principals and related weighted average interest rates by expected maturity dates. For currency swaps, the table presents notional amounts and weighted average interest rates by expected maturity dates. Weighted average variable rates are based on rates set on the last day of the period. The actual currencies of the debt principals are indicated in parentheses.

| | **Expected to mature before 31 December** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **Thereafter** | **Total** | **Fair value of liability** |
| | **(local currency million, except percentages)** | | | | | | |
| **Long term debt** | | | | | | | |
| Fixed rate public bonds (Sterling) | | | 250 | | 400 | 650 | 671 |
| Average fixed rate payable | | | 6.0% | | 3.9% | 4.7% | |
| Fixed rate lease debt (US dollar) | | | | | 215 | 215 | 233 |
| Fixed rate payable | | | | | 9.7% | 9.7% | |
| Variable rate bank debt (NZ dollar) | | 5 | | | | 5 | 5 |
| Variable interest rate payable | | 4.7% | | | | 4.7% | |
| **Currency swaps** | | | | | | | |
| Principal received (Sterling) | | | 250 | | | 250 | |
| Fixed rate payable | | | 6.0% | | | 6.0% | |
| Principal paid (US dollar) | | | 415 | | | 415 | 11 |
| Fixed rate payable | | | 6.2% | | | 6.2% | |

## Crowne Plaza® Hotels & Resorts

Crowne Plaza hotels are typically found in major urban centres, gateway cities and resort destinations around the globe. The brand appeals to business travellers providing facilities and services to support them, including Sleep Advantage®, a holistic sleep programme.

As part of IHG s commitment to strengthen the brand, five guest experience enhancements are currently being tested in selected hotels, including IHG Anywhere Check in, a mobile check-in service for IHG Rewards Club members.

***391 properties; 108,891 rooms open***

***94 properties in the pipeline***

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*Governance*

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## *Chairman s overview*



Dear Shareholder

We have a genuine commitment to conducting business responsibly and maintaining high standards of corporate governance. Our governance framework, led by the Board, supports our culture and values with strong and effective practices which permeate throughout the Group.

We keep the composition, diversity and the size of the Board under regular review to ensure that we have the right balance of skills and experience, and that it remains relevant to the business both today and in the future.

In May and August 2013, we announced the appointments of Jill McDonald and Ian Dyson to the Board. Jill and Ian joined the Audit and Nomination Committees, with Ian appointed as a member of the Remuneration Committee.

On 1 January 2014, following the resignation of Tom Singer, Paul Edgecliffe-Johnson was appointed to the Board as Chief Financial Officer. Paul joined IHG in August 2004 and has held a number of senior positions, most recently as Chief Financial Officer of IHG s Europe and Asia, Middle East and Africa regions. Succession planning is a matter we take very seriously and this appointment was an excellent demonstration of the strength and depth of our management team and our ability to promote from within.

David Kappler will retire from the Board on 31 May 2014, having served as a Director since June 2004. He will be stepping down as Chairman of the Audit Committee with effect from 1 April 2014 with Ian Dyson replacing him as Audit Committee Chairman. Following David s retirement, Dale Morrison will be appointed Senior Independent Non-Executive Director with effect from 31 May 2014. David has made a significant contribution to IHG over the last 9 years as a Non-Executive Director and we wish him well for the future.

Executive Committee

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Disclosure Committee

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General Purposes Committee

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My objectives for 2014 include enhancing the capabilities and competencies of the Board with an immediate objective to find a Non-Executive Director with consumer facing technology experience given the significance of this area in our strategy.

We continue to review our governance framework and processes to enhance the way we operate as a Board and deepen our strategic debate. We introduced a number of improvements to this effect in 2013. This included improving agenda setting processes, introducing more executive sessions and making more time to consider external perspectives on consumer and technology trends.

The Board performance evaluation conducted in 2013 by an external facilitator will inform further enhancements to our Board processes.

As a dual listed company with a secondary listing on the New York Stock Exchange (NYSE), we are required to file both an Annual Report in the UK, which complies with the UK Corporate Governance Code (Code), and an Annual Report on Form 20-F in the US, which complies with the NYSE rules, US securities laws and the rules of the Securities and Exchange Commission (SEC). For 2013, to ensure consistency of information provided to both UK and US investors, we have for the first time produced a combined Annual Report and Annual Report on Form 20-F.

As required by the SEC, a statement outlining the differences between the Company s UK corporate governance practices and those followed by US companies may be found on page 175.

Once again, I am pleased to report that, during 2013, we complied fully with all principles and provisions of the Code issued in September 2012, which is available at www.frc.org.uk.

**Patrick Cescau**

**Non-Executive Chairman**

17 February 2014

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*Board of Directors biographies*

**Patrick Cescau**

**Non-Executive Chairman**

Appointed to the Board: 1 January 2013

**Skills and experience:** From 2005 to 2008, Patrick was Group Chief Executive of Unilever Group, having previously been Chairman of Unilever PLC, Vice-Chairman of Unilever NV and Foods Director, following a progressive career with the Company, which began in France in 1973. Prior to being appointed to the Board of Unilever PLC and Unilever NV in 1999, as Finance Director, he was Chairman of a number of the Company s major operating companies and divisions, including in the US, Indonesia and Portugal.

**Board contribution:** Patrick has held Board positions for more than 13 years in leading global businesses and brings extensive international experience in brands, consumer products, as well as finance. As Chairman, Patrick is responsible for leading the Board and ensuring it operates in an effective manner and promoting constructive relations with shareholders.

**Other appointments:** Currently a Non-Executive Director of International Consolidated Airlines Group S.A. and the Senior Independent Non-Executive Director of Tesco PLC. Patrick is also a trustee of The Leverhulme Trust and Chairman of the St Jude India Children s Charity. He was formerly a Senior Independent Director and Non-Executive Director of Pearson PLC and a Director at INSEAD.

**Paul Edgecliffe-Johnson**

**Chief Financial Officer**

Appointed to the Board: 1 January 2014

**Skills and experience:** Paul is a chartered accountant and a fellow of the Institute of Chartered Accountants. He was previously Chief Financial Officer of IHG s Europe and Asia, Middle East & Africa regions, a position he held since September 2011. He joined IHG in August 2004 and has held a number of senior level finance positions including Head of Investor Relations, Head of Global Corporate Finance and Financial Planning & Tax and Head of Hotel Development, Europe. Paul also acted as Interim Chief Executive Officer of the Europe, Middle East and Africa regions.

**Board contribution:** Paul is responsible, together with the Board, for overseeing the financial operations of the Group and setting its financial strategy.

*Committee membership key*

Audit Committee member

Corporate Responsibility Committee member

Nomination Committee member

Remuneration Committee member

**Richard Solomons**

**Chief Executive Officer**

Appointed to the Board: 10 February 2003

**Skills and experience:** During his tenure as Chief Executive Officer, Richard has led the continued growth of IHG, including the launch of our two newest brands, HUALUXE Hotels & Resorts and EVEN Hotels. He has also overseen the recent relaunch of IHG s loyalty programme as IHG Rewards Club. Before being appointed Chief Executive Officer, Richard served as Chief Financial Officer and Head of Commercial Development at IHG. Richard was integral in shaping and implementing IHG s asset-light strategy, which has helped the business grow significantly since it was formed in 2003 as well as supporting the return of over £9 billion to shareholders. In 2008, he also served as Interim President of our Americas business.

**Board contribution:** Richard is responsible for the executive management of the Group and ensuring the implementation of Board strategy and policy.

**Kirk Kinsell**

**President, The Americas**

Appointed to the Board: 1 August 2010

**Skills and experience:** Kirk has 30 years experience in the hospitality industry, including senior franchise positions with Holiday Inn Corporation and ITT Sheraton. He joined the Group in 2002 as Senior Vice President, Chief Development Officer for The Americas region. He became an Executive Committee member in September 2007 and was previously President, Europe, Middle East and Africa until June 2011.

**Board contribution:** Kirk has vast experience in the hospitality industry and is responsible for the business development and performance of all the hotel brands and properties in The Americas region.

**Tracy Robbins**

**Executive Vice President,**

**Human Resources and Group**

**Operations Support**

Appointed to the Board: 9 August 2011

**Skills and experience:** Tracy has over 28 years experience in human resources roles in service industries. She joined the Group in December 2005 from Compass Group PLC, a world-leading food service company, where she was Group Human Resources Leadership & Development Director. Previously Group HR Director for Forte Group plc, a hotel company. She also spent seven years at Tesco PLC as a Retail Human Resources Manager where she implemented a culture change and restructuring strategy across 150 stores.

**Board contribution:** Tracy has many years of experience in human resources and is responsible for global talent management, leadership development, employee reward strategy and implementation, organisational capability and operations support.

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*Board of Directors biographies*

**David Kappler**

**Senior Independent**

**Non-Executive Director**
Appointed to the Board: 21 June 2004
**Skills and experience:** David is a fellow of the Chartered Institute of Management Accountants. Formerly Chief Financial Officer of Cadbury Schweppes plc and Non-Executive Chairman of Premier Foods plc. He also served as a Non-Executive Director of Camelot Group plc and HMV Group plc.

**Board contribution:** David brings over 35 years knowledge and experience in financial reporting, risk management and internal financial controls. As Chairman of the Audit Committee he is responsible for leading the Committee to ensure effective internal controls and risk management systems are in place.

**Other appointments:** Currently a Non-Executive Director of Shire plc, a member of the Europe Advisory Council of Trilantic Capital Partners and Chairman of ADS2 Brands Limited.

**Ian Dyson**

**Independent**

**Non-Executive Director**
Appointed to the Board: 1 September 2013
**Skills and experience:** Ian has held a number of senior executive and finance roles including Group Finance & Operations Director for Marks & Spencer Group plc for 5 years from 2005 to 2010, where he oversaw significant changes in the business. In addition, Ian was Chief Executive Officer of Punch Taverns plc, Finance Director for the Rank Group, and Group Financial Controller and Finance Director for the hotels division of Hilton Hotels & Resorts.

**Board contribution:** Ian has gained significant experience from working in various senior finance roles predominantly in the hospitality sector.

**Other appointments:** Currently a Non-Executive Director of Punch Taverns plc, a Non-Executive Director and Chairman of the Audit Committee of Betfair Group plc and Senior Independent Non-Executive Director of ASOS plc.

**Jennifer Laing**

**Independent**

**Non-Executive Director**
Appointed to the Board: 25 August 2005
**Skills and experience:** Jennifer was Associate Dean, External Relations at London Business School, until 2007. A fellow of the Marketing Society and of the Institute of Practitioners in Advertising, she has over 30 years experience

in advertising including 16 years with Saatchi & Saatchi where she rose to Chairman of the London office and subsequently Chief Executive Officer and Chairman of Saatchi & Saatchi North America.

**Board contribution:** Jennifer has over 30 years experience in marketing and advertising and is Chairman of the Corporate Responsibility Committee, responsible for the Corporate Responsibility objectives and strategy.

**Other appointments:** Currently a Non-Executive Director of Hudson Global, Inc., a US human resources company and Premier Foods plc, a branded food producer.

**Jonathan Linen**

**Independent**

**Non-Executive Director**

Appointed to the Board: 1 December 2005

**Skills and experience:** Jonathan was formerly Vice Chairman of the American Express Company, having held a range of senior positions throughout his career of over 35 years with American Express.

**Board contribution:** Jonathan has over 25 years experience working in the financial and branded sectors and is a member of the Remuneration Committee.

**Other appointments:** Currently a Non-Executive Director of Yum! Brands, Inc. and Modern Bank, N.A., a US private banking company. Jonathan also serves on a number of US councils and advisory boards.

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**Luke Mayhew**

**Independent**

**Non-Executive Director**
Appointed to the Board: 1 July 2011

**Skills and experience:** Luke served for 12 years on the Board of John Lewis Partnership, including as Managing Director of the Department Store division. Luke also spent five years at British Airways Plc and seven years at Thomas Cook Group PLC in senior positions. He was also a Non-Executive Director of WHSmith PLC and Chairman of Pets at Home Group Limited.

**Board contribution:** Luke has over 30 years experience in senior roles in the branded sector and was Remuneration Committee Chairman at Brambles Limited from 2006 to 2013. As Chairman of the IHG Remuneration Committee he is responsible for setting the remuneration policy.

**Other appointments:** Currently a Non-Executive Director of Brambles Limited, a global provider of supply chain and information management solutions, and trustee of BBC Children in Need.

**Jill McDonald**

**Independent**

**Non-Executive Director**
Appointed to the Board: 1 June 2013

**Skills and experience:** Jill started her career at Colgate-Palmolive, spent 16 years with British Airways Plc and held a number of senior marketing positions in the UK and overseas.

**Board contribution:** Jill has over 26 years experience working with high-profile international consumer facing brands at both marketing and operational level.

**Other appointments:** Currently Chief Executive Officer UK and President for the North West Europe Division for McDonald s. Prior to that Jill was Chief Executive Officer UK and President for the Northern Division (2010 to 2013) and previously Senior Vice President, Chief Marketing Officer UK and Northern Division (2006 to 2010).

***Committee membership key***

Audit Committee member

Corporate Responsibility Committee member

Nomination Committee member

Remuneration Committee member

**Dale Morrison**

**Independent**

**Non-Executive Director**
Appointed to the Board: 1 June 2011

**Skills and experience:** Dale is a founding partner of TriPointe Capital Partners, a private equity firm. Dale was previously President and Chief Executive Officer of McCain Foods Limited and President and Chief Executive Officer of Campbell Soup Company.

**Board contribution:** Dale has over 10 years experience in sales and marketing positions, and over 25 years experience in general management, having held senior positions in the branded foods sector.

**Other appointments:** Currently a Non-Executive Director of International Flavors & Fragrances Inc., a producer of flavours and fragrances, and Chairman of Findus Group, a frozen food company.

**Ying Yeh**

**Independent**

**Non-Executive Director**
Appointed to the Board: 1 December 2007

**Skills and experience:** Ying was formerly Vice President and Chairman, Greater China Region, Nalco Company and Chairman and President, North Asia Region, President, Business Development, Asia Pacific Region and Vice President, Eastman Kodak Company. She was, for 15 years, a diplomat with the US Foreign Service in Hong Kong and Beijing until 1997.

**Board contribution:** Ying has over 20 years experience gained from working in senior positions in global organisations across a broad range of sectors.

**Other appointments:** Currently a Non-Executive Director of AB Volvo, a transportation related products and services company, ABB Ltd, a global leader in power and automation technologies, and Samsonite International S.A., a travel luggage company.

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*Executive Committee biographies*

**In addition to the Executive Directors on the Board, the Executive Committee comprises:**

**Keith Barr**

**Chief Commercial Officer**

Appointed to the Executive Committee:

April 2011 (Joined the Group: 2000)

**Skills and experience:** Keith has over 20 years experience in the hospitality industry. He has held senior appointments including Vice President of Sales and Revenue Management, Vice President of Operations, Chief Operating Officer, Australia, New Zealand and South Pacific, and Managing Director, Greater China. He became an Executive Committee member in April 2011 and was previously Chief Executive, Greater China until May 2013. Keith is currently a member of Leland C. and Mary M. Pillsbury Institute for Hospitality Entrepreneurship Advisory Board.

**Key responsibilities:** These include global sales, marketing and brand functions, to drive consistent brand strategies across all regions and leverage IHG s scale and systems to deliver continued industry outperformance.

**Angela Brav**

**Chief Executive, Europe**

Appointed to the Executive Committee:

August 2011 (Joined the Group: 1988)

**Skills and experience:** Angela has over 25 years experience in the hospitality industry, including hotel operations, franchise relations and technology solutions. She has held various senior roles in IHG s North American and European regions prior to becoming Chief Operating Officer, North America. She was appointed Chief Executive, Europe in August 2011.

**Key responsibilities:** These include business development and performance of all the hotel brands and properties in Europe.

**Kenneth Macpherson**

**Chief Executive, Greater China**

Appointed to the Executive Committee:

April 2013 (Joined the Group: 2013)

**Skills and experience:** Kenneth joined IHG as Chief Executive, Greater China in April 2013. Prior to joining the Group, he worked for Diageo plc, one of the UK s leading branded companies, for over 19 years and has held senior management positions including serving as Executive Managing Director of Diageo Greater China. Kenneth has extensive management experience, with a background in sales, marketing strategy, business development, and operations. Kenneth also brings substantial knowledge and expertise in Chinese and international business operations.

**Key responsibilities:** These include business development and performance of all the hotel brands and properties in the Greater China region.

**Eric Pearson**

**Executive Vice President**

**and Chief Information Officer**

Appointed to the Executive Committee:

February 2012 (Joined the Group: 1997)

**Skills and experience:** Eric has a background in engineering and technology and started his career at IHG over 17 years ago. Since then he has held various senior positions in the field of emerging technologies and global e-commerce. Eric most recently held the position of Chief Marketing Officer for The Americas region.

**Key responsibilities:** These include global technology, including IT systems and information management, throughout the Group.

**Jan Smits**

**Chief Executive, Asia,**

**Middle East and Africa**

Appointed to the Executive Committee:

August 2011 (Joined the Group: 2002)

**Skills and experience:** Jan has 32 years experience in the hospitality industry. He held various senior positions in the Asia and Australasia region. He became Managing Director, Asia Australasia in June 2009. Following the amalgamation of our Middle East and Africa region with our Asia Australasia region, he became Chief Executive, Asia, Middle East and Africa in August 2011.

**Key responsibilities:** These include business development and performance of all the hotel brands and properties in Asia, Middle East and Africa.

**George Turner**

**Executive Vice President, General**

**Counsel and Company Secretary**

Appointed to the Executive Committee:

January 2009 (Joined the Group: 2008)

**Skills and experience:** George is a solicitor and qualified to private practice in 1995. Prior to joining the Group, George spent 12 years with Imperial Chemical Industries where he held a number of key positions including Deputy Company Secretary. He was appointed Executive Vice President, General Counsel and Company Secretary in January 2009.

**Key responsibilities:** These include corporate governance, risk management, insurance, regulatory, internal audit, legal, corporate responsibility, public affairs and standards.

There are no family relationships between any of the Board or Executive Committee members (set out on pages 57 to 60). There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any of the Board or Executive Committee were selected as a Director or member of the Executive Committee.

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*Corporate Governance*

*Leadership*

## Board

### Board membership

During the year, Jill McDonald (1 June 2013) and Ian Dyson (1 September 2013) were appointed to the Board as independent Non-Executive Directors. On 1 January 2014, Paul Edgecliffe-Johnson was appointed to the Board as Chief Financial Officer following Tom Singer s resignation.

In 2014, David Kappler will retire from the Board (31 May 2014), Ian Dyson will become Audit Committee Chairman (1 April 2014) and Dale Morrison will become the Senior Independent Director (31 May 2014).

*Biographical details of each member of the Board, including their external commitments, can be found on pages 57 to 59.*

### Board and Committee structure

The Board has delegated authority to four committees:

- Audit Committee;
- Corporate Responsibility Committee;
- Nomination Committee; and
- Remuneration Committee.

See pages 66 to 69 and 74 to 97 for the Committee Reports. There are also three management committees, which together provide a sound governance framework, see page 65.

## Key responsibilities

### Board

- Leading the strategic direction and long-term objectives and success of the Group, approving strategic plans, and capital and revenue budgets;

- reviewing significant investment proposals;
- maintaining an overview and control of the Group s operating and financial performance;
- monitoring the Group s overall system of internal controls and risk management, governance and compliance, considering regulatory changes and developments; and
- ensuring that the necessary financial and human resources are in place for the Group to meet its objectives.

The Board has a schedule of matters reserved for it, which are available on the website at www.ihgplc.com/investors under corporate governance. Service contracts and letters of appointment set out in writing the roles of each of the Directors including the Chairman and Chief Executive Officer (see below).

### Chairman Patrick Cescau

- Leading the operation and governance of the Board and its Committees as well as building and maintaining an effective Board;
- overseeing corporate governance matters and ensuring they are addressed;
- leading the performance evaluations of the Chief Executive Officer, Non-Executive Directors and the Board;
- ensuring Directors receive timely, accurate and clear information on Company business and that all Directors are fully informed of relevant matters; and
- communicating effectively with shareholders and stakeholders.

Patrick Cescau, in conjunction with Richard Solomons and George Turner, ensure that Directors receive a full, formal and tailored induction to the Group and ongoing training as relevant. The roles of the Chairman and Chief Executive Officer are clearly established and separate.

### Chief Executive Officer Richard Solomons

- Leading the development of the Company s strategic direction and implementing the agreed strategy;
- communicating effectively with shareholders and stakeholders;
- overseeing business operations and managing risks; and
- building and leading an effective Executive Committee and management of the Group s business.

Richard Solomons is assisted in meeting his responsibilities by Paul Edgecliffe-Johnson, Chief Financial Officer, and the Executive Committee (who head up the Group s principal operations and functions).

Senior Independent Non-Executive Director David Kappler

Being available to liaise with shareholders who have concerns that they feel have not been addressed through the normal channels;

conducting the annual performance review of the Chairman; and

providing advice and judgement for the Chairman as necessary.

Independent Non-Executive Directors

Providing a strong source of advice and judgement;

constructively challenging and helping develop proposals on strategy; and

providing significant external commercial experience and a broad range of skills for the Board to draw on.

Company Secretary George Turner

Ensuring a good flow of information to the Board and its Committees and between the Executive Committee and the Non-Executive Directors;

facilitating all Director inductions; and

advising the Board on corporate governance and keeping the Board up-to-date on all legal, regulatory and other developments.

**Board composition**

The Board s current composition meets the requirement of the Code for at least half the Board, excluding Patrick Cescau, to be independent Non-Executive Directors. The Chairman was independent on appointment to the Board.

In the Board s view, all of the current Non-Executive Directors are independent including David Kappler who has served as a Director for over 9 years and who will be retiring from the Board on 31 May 2014.

Notwithstanding David s length of tenure, the Board is satisfied that David Kappler continues to demonstrate independence in character and judgement and that it remains appropriate to regard him as independent under provision B.1.1 of the Code. David therefore continues to serve on the Board as Senior Independent Non-Executive Director and Audit Committee Chairman.

At each AGM all Directors stand for re-election.

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*Corporate Governance continued*

## Length of Non-Executive Director tenure

The current Non-Executive Directors   lengths of tenure as at 31 December 2013 are illustrated below:

## Board balance of skills and experience

Collectively, the Board has an appropriate balance of skills, experience, independence, knowledge and diversity to enable it to discharge its duties and responsibilities effectively.

Below is a chart showing the Board   s balance of skills and experience:

## Diversity and inclusion

With a presence in nearly 100 countries and territories globally, we believe that our leadership should reflect the diversity of our employees, our guests and the local communities in which we operate. The Board recognises the benefits of diversity throughout our global business.

We continue to focus on providing an inclusive environment, in which employees are valued for who they are and what they bring to the Group, and in which talented individuals are retained through all levels of the organisation.

*Further details on our commitment to diversity and inclusion throughout the business together with statistics are set out on page 23.*

### Board diversity policy

Our Board diversity policy, introduced in 2013, aims to ensure that diversity in its broadest sense remains a key priority of the Board.

Our objectives are as follows:

whilst all appointments are made on merit, we seek to ensure that the Board maintains an appropriate balance through a diverse mix of experience, backgrounds, skills, knowledge and insight, to further strengthen the diversity of gender and experience already on the Board and improve it further;

we commit to having diverse and inclusive leadership which supports all colleagues in reaching their full potential, including the development of a pipeline of high-calibre candidates from within the business;

we will maintain a level of at least 25% female directors on the Board over the short to medium-term; and

we will report annually against these objectives and other initiatives taking place in the Group which promote gender and other forms of diversity.

We are currently in compliance with all of the above objectives. We firmly believe in the importance of a diverse Board membership and fully support the UK Lord Davies Report on Women on Boards . Currently, the Board includes four women (31%) and four nationalities.

Our current Board gender and nationality split is illustrated below:

Board gender

Board nationalities

## Board meetings

The Board meets eight times each year with additional meetings scheduled as necessary. One of the meetings is a two-day strategy meeting, in which the Board considers the Group s strategy and related issues. This provides an opportunity for the business to have a wide-ranging dialogue with the Board and for the Board to meet many of our senior management and gain a deeper understanding of different markets. In 2013, the Chairman and the Non-Executive Directors met without Executive Directors being present, and intend to continue this practise, before every Board meeting if possible.

Patrick Cescau, in conjunction with George Turner, plans the agenda for each Board meeting. This is a two tier process, combining our annual agenda of regular items, which ensures all critical topics and strategic updates are covered, with a detailed schedule of areas for presentation at Board meetings.

Directors are briefed on the Group s financial performance and its operations, key commercial matters and progress against key strategic plans and relations with investors, by means of comprehensive papers in advance of, and presentations at, Board meetings.

The Board also receives more in-depth presentations on a wide range of business issues in a more informal context the evening before formal Board meetings. Evening presentation topics during 2013 included:

- the IHG corporate brand and the loyalty programme relaunch IHG Rewards Club;
- the IHG Owners Association;
- technology trends; and
- the System Fund.

Should any Director be unable to attend a meeting, he or she would be provided with all the papers and information relevant to that meeting in advance and be able to discuss matters arising with Patrick Cescau and Richard Solomons.

### Board annual strategy meeting

During 2013, the Board held its two-day strategy meeting in Washington D.C., US, which enabled the Board to look in depth at the long-term strategic direction of the Group, understand progress against key strategic priorities and confirm those areas which require ongoing Board oversight. The discussion topics included: major trends in the industry, new business development opportunities, and an overview of the medium to long-term financial impacts of our strategic choices. There was also an opportunity to visit a cross-section of competitor hotels.

### Key issues discussed in 2013 meetings

At each meeting the Board has the following standing items on the agenda: Chairman s matters, Chief Executive Officer s matters, finance updates from the Chief Financial Officer, business updates from various members of the Executive Committee, risk management, secretariat updates (including corporate governance), media and investor relations updates and conflicts of interest review.

Key areas of focus for the Board in 2013 included:

| | |
|---|---|
| **Business strategy** | Commercial, geographic, technological, human resources |
| **Business performance** | Chief Financial Officer s report, 2013 budget, 2012 full-year results, 2013 half-year results and interim management statements |
| **Corporate governance** | Board performance evaluation, committee updates and reports, legal and regulatory compliance updates |
| **Responsible business** | Operational and strategic risk, safety and security, reputation |
| **Corporate responsibility** | IHG s three core programmes; IHG Green Engage, IHG Academy and IHG Shelter in a Storm Programme |
| **Investor relations** | Analyst reports, investor perceptions |

## Independent advice

All Directors have access to the advice and services of George Turner, the Company Secretary, the Company s external legal advisers and the external Auditor, who is currently Ernst & Young LLP. There is an agreed process by which Directors may seek independent professional advice at the Company s expense in the furtherance of their duties.

## Conflicts of interest and independence

The Board reviews potential conflicts of interest and independence as a standing agenda item at each Board meeting with a review conducted annually. As authorised by the Articles, the Board considers and approves all potential conflicts of interest as it deems appropriate. Directors have continuing obligations to update the Board on any changes to these conflicts or their independence.

## Directors and officers liability (D&O) insurance

The Company maintains D&O insurance which covers Directors and officers of the Company against defending civil proceedings brought against them in their capacity as a Director or officer of the Company. There were no indemnity provisions relating to the UK pension plan for the benefit of the Directors during 2013.

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## *Corporate Governance continued*

### *Effectiveness*

The Board believes that, in order to be most effective, it must have a mix of skills and experience, background and length of service. Further details can be found on page 62. The structure, size and composition of the Board and succession planning is continuously monitored by Patrick Cescau and the Nomination Committee. Further details can be found in the Nomination Committee Report on page 69.

A summary of each Director s attendance at meetings of the Board and its principal Committees during 2013 is shown below. Unless otherwise indicated, all Directors held office throughout the year:

| | | | Committees | | | |
|---|---|---|---|---|---|---|
| | Committee | | | Corporate | | |
| **Directors** | appointments | Board | Audit | Responsibility | Nomination | Remuneration |
| **Chairman** | | | | | | |
| Patrick Cescau | | 8/8 | n/a | n/a | 5/5 | n/a |
| **Chief Executive Officer** | | | | | | |
| Richard Solomons | | 8/8 | n/a | 3/3 | n/a | n/a |
| **Executive Directors** | | | | | | |
| Kirk Kinsell | n/a | 8/8 | n/a | n/a | n/a | n/a |
| Tracy Robbins | n/a | 8/8 | n/a | n/a | n/a | n/a |
| Tom Singer[1] | n/a | 7/7 | n/a | n/a | n/a | n/a |
| **Senior Independent Non-Executive Director** | | | | | | |
| David Kappler | | 7/8[5] | 5/5 | n/a | 5/5 | 5/6[5] |
| **Independent Non-Executive Directors** | | | | | | |
| Ian Dyson[2] | | 3/3 | 2/2 | n/a | 1/1 | 3/3 |
| Jennifer Laing | | 8/8 | 5/5 | 3/3 | 5/5 | n/a |
| Jonathan Linen | | 8/8 | n/a | n/a | 5/5 | 6/6 |
| Luke Mayhew | | 8/8 | n/a | 3/3 | 5/5 | 6/6 |
| Jill McDonald[3] | | 4/5[3] | 3/3 | n/a | 2/3[3] | n/a |
| Dale Morrison | | 8/8 | 5/5 | 3/3 | 5/5 | n/a |
| Ying Yeh | | 8/8 | n/a | 3/3 | 5/5 | 6/6 |
| **Total meetings held** | | 8 | 5 | 3 | 5 | 6 |

[1] Paul Edgecliffe-Johnson was appointed as a Director on 1 January 2014 and Tom Singer resigned.

[2] Appointed as an independent Non-Executive Director and member of the Audit, Nomination and Remuneration Committees on 1 September 2013.

[3] Appointed as an independent Non-Executive Director and member of the Audit and Nomination Committees on 1 June 2013. Jill McDonald missed one Board meeting and one Nomination Committee meeting (which were held

on the same day) due to a prior commitment known to the Board in advance.

[4] Chairman of the relevant Committee.

[5] David Kappler missed one Board meeting and one Remuneration Committee meeting (which were held on the same day) due to a prior commitment known to the Board in advance.

## Annual re-election of Directors

All Directors retire at each AGM and are subject to shareholder re-election in line with the Code recommendations. Details of Directors service contracts and appointment terms are set out on pages 85 and 86.

## Director induction, training and development

### Director induction

There is a tailored induction programme for all Director appointments which is designed to meet their individual needs and accords with best practice. Induction programmes were developed for Jill McDonald and Ian Dyson, and Paul Edgecliffe-Johnson has also received an appropriate induction to his role as Chief Financial Officer. All Directors are encouraged to request further information as they consider necessary to fulfil their role.

Key aspects of the induction are as follows:

- familiarisation with the Group, including areas such as the Board structure and its Committees, Group structure, principal activities and strategy and its approach to risk and risk management;
- meetings with both senior executives and regional and central management from various functions across the Group, including Business Reputation and Responsibility, Human Resources, Corporate Affairs, Global Strategy and Corporate Development, Global Internal Audit and Financial Planning and Analysis; and
- visits to our global corporate offices and hotels to provide a greater insight into the business.

On appointment, Directors are advised of, and requested to, make the necessary time commitment required to discharge their responsibilities effectively. Patrick Cescau reviews the time each Non-Executive Director has dedicated to the Company, as part of the annual Board performance evaluation.

### Ongoing Director training and development

The updating of all Directors skills and knowledge, ongoing training and development and understanding of the Group s business and operations is a progressive exercise.

During 2013, the Directors received briefings on a number of legal and regulatory developments, including updates on director remuneration legislation, regulatory changes to annual reporting and various ABI and PIRC corporate governance guidelines. Patrick Cescau regularly reviews and agrees training and development needs with each Director. In addition, George Turner regularly makes the Board aware of training opportunities and additional information to enable them to keep up-to-date and enhance their knowledge of the business.

## Board performance evaluation

IHG has always recognised the importance of evaluating the performance of the Board, its main Committees and its Directors in line with the Code recommendations.

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## 2013 Board performance evaluation

### Process

Boardroom Review, an independent external facilitator with no other connection to IHG, carried out the 2013 Board performance evaluation. This included confidential interviews with each Director to gain an understanding of our Board s performance and consider its effectiveness.

### Results

The results of the review were presented for discussion at the Board meeting in February 2014 and confirmed that the Board and each of its Committees continue to operate effectively, the composition of the Board is strong and that each Director brings relevant knowledge, diversity of perspective, an ability and willingness to challenge and retains a strong commitment to the role. Further strengths included the Board culture, use of time, increasingly strategic debate and the control and risk framework oversight at Board level.

### 2013 and 2012 external Board performance evaluation outcomes and action plan

| **2013 Observations** | **Action taken/to be taken** | **2012 Observations** | **Action taken** |
|---|---|---|---|
| **Increase the Board s oversight of new technology** | **Ensure the Board is regularly updated on developments** | Deepen the Board s focus on the Group s strategy | Retained focus on strategy with particular attention on the external environment |
| **Enhance the Board s use of time and gain a deeper understanding of priorities and risks** | **Provide the Board with more time to consider industry and consumer trends, further information on the competition and regular updates on major projects** | Ensure the smooth integration of the new Chairman | A tailored induction was completed with ongoing support |
| **Consider future Board composition and succession** | **Schedule regular Nomination Committee meetings** | Continue to improve the meeting process, including refining senior management presentations and papers to the Board | Senior management reviewed the optimum level of detail in presentations and papers |
| | **Prioritise the search for a Non-Executive Director with experience in consumer facing technology** | | More frequent sessions held with the Chief Executive Officer and Non-Executive Directors |

| | | |
|---|---|---|
| **Continually refresh the Board skills inventory** | | Provided the Board annual agenda of regular items to the Directors |
| | | Conducted deep dives into regions, functions and current issues |
| | | Balanced the time for presentations and discussion |
| | Consider growth opportunities for the Group | Continued to review growth opportunities for the Group |

## Individual Director internal performance evaluations

The internal performance evaluations of members of the Board are carried out by the following individuals:

| Director being appraised | Appraiser |
|---|---|
| **Chairman** | Reviewed by the Non-Executive Directors excluding the Chairman and facilitated by the Senior Independent Non-Executive Director |
| **Chief Executive Officer** | Chairman and all Non-Executive Directors meet to discuss performance |
| **Executive Directors** | Chief Executive Officer |
| **Non-Executive Directors** | Chairman |

## Board committees

*For the Board s four Committee Reports, see pages 66 to 69 and 74 to 97.*

Each Committee has written terms of reference which are approved by the Board and subject to review each year. Amendments to the terms of reference were made and approved for the Nomination, Remuneration and Audit Committees.

## Management committees

Details of our management committees are set out below and their terms of reference can be found on the Company s website at www.ihgplc.com/investors under corporate governance/committees or from the Company Secretary s office on request.

## Executive Committee

The Executive Committee considers and manages a range of strategic and business issues facing the Group. It monitors the performance of the business and is authorised to approve capital and revenue investment within levels agreed by the Board.

*Governance:* The Committee is chaired by Richard Solomons and usually meets monthly. Members of this Committee comprise the Executive Directors and the most senior executives from the Group (see page 60). The Committee recommends to the Board significant decisions which require its approval.

### Disclosure Committee

The Disclosure Committee is responsible for ensuring that there are procedures in place so 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.

*Governance:* The Committee is chaired by the Group s Financial Controller. Members of this Committee comprise of George Turner and other senior officers. The Committee reports to Richard Solomons, Paul Edgecliffe-Johnson and the Audit Committee.

### General Purposes Committee

The Committee attends to business of a routine nature and to the administration of matters, the principles of which have been agreed previously by the Board or an appropriate committee.

*Governance:* The Committee comprises any one Executive Committee member together with a senior officer from an agreed and restricted list. It is always chaired by an Executive Committee member and Patrick Cescau and Executive Directors are notified in advance of the business of the meeting.

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*Corporate Governance continued*

*Audit Committee Report*

Committee membership

**David Kappler Chairman**

Members

Ian Dyson, Jennifer Laing, Jill McDonald, Dale Morrison

*For full biographies see pages 57 to 59.*

Dear Shareholder

**Roles and responsibilities**

The Audit Committee s responsibilities fall in to five areas: (i) internal controls and risk management; (ii) financial reporting; (iii) internal audit; (iv) external audit and compliance; and (v) whistleblowing and fraud.

**Terms of reference (ToR)**

The Committee s main role and responsibilities are set out in its ToR which have been drafted to be fully compliant with the Code provisions. A copy of the ToR can be found on the Company s website at www.ihgplc.com/investors under corporate governance/committees or from the Company Secretary s office on request.

**Governance**

The Committee was in place throughout 2013 and all Committee members remained independent, as determined annually by the Board. During the year, Ian Dyson and Jill McDonald joined the Committee. Each member has been appointed as they have the experience and expertise necessary to meet the Committee s responsibilities.

The Board is satisfied that David Kappler continues to remain independent. Having served on the Board since June 2004, he will step down as Audit Committee Chairman on 1 April 2014 and Ian Dyson will be appointed Chairman of the Committee.

The Code requires the Committee to have at least one member with recent and relevant financial experience and the US Sarbanes-Oxley Act (SOX) necessitates a designated financial expert. The Board is satisfied that David Kappler and Ian Dyson meet the requirements of the Code and are financial experts  David is a qualified accountant and former Chief Financial Officer of Cadbury Schweppes plc and Ian is also a qualified accountant and former Group Finance and Operations Director at Marks & Spencer Group plc.

## Committee meetings

In 2013, the Committee met five times and the following regular papers were received: an analysis of the audit and non-audit fees; an update on items discussed by the Disclosure Committee; an update on material litigation; a report on significant incidents of fraud and whistleblowing; a report on risk management; an update on SOX compliance; a report from the external Auditor; and a quarterly report on Global Internal Audit (GIA) activities.

At each Committee meeting the internal and external Auditors meet without the presence of management. At the invitation of the Committee, the Chairman (Patrick Cescau), the Chief Executive Officer, Chief Financial Officer, Head of GIA, Group Financial Controller and external Auditor, Ernst & Young LLP (EY), attend meetings. EY attended each meeting in 2013 and provided a report on key activities. PwC, who provide co-assurance for global technology projects and processes, also present key findings at every meeting. Other attendees are invited to meetings as appropriate, to provide a deeper insight into, and understanding of, key decisions.

## Key issues discussed in 2013 meetings

The Committee discussed, amongst others, the following matters:

| Date | Key issues discussed |
|---|---|
| 14 February | Appraised EY and recommended their re-appointment<br>Examined an analysis of EY s audit and non-audit fees and assessed that fees incurred to date were in accordance with IHG s Audit and Non-Audit Services Pre-Approval Policy<br>Evaluated the 2013 Group Major Risk Review and Global Risk Management Report 2012<br>Assessed the annual SOX review concluding that no material weaknesses had been found in the internal control environment. One significant deficiency was discussed and noted<br>Considered recommendations on the preliminary announcement of the annual results, Annual Report and Review 2012 to the Board<br>Considered EY s Audit Results Report and made enquiries on key auditing and accounting items and control observations arising from the 2013 audit |
| 2 May | Received an update on the 2013 GIA strategy following external review |

| | |
|---|---|
| | Considered and made recommendations on the first quarter interim management statement to the Board<br>Discussed the principal areas of change for the 2013 SOX compliance review<br>Considered the regulations proposing audit tender and rotation, and agreed to conduct a full review of audit services in 2015<br>Received an update on treasury activities including the Group s funding strategy, credit rating strategy, the maturity and profile of the Group s facilities and the cashflow positions |
| 1 August | Received an update on the new accounting standards which were effective from 1 January 2013<br>Considered and recommended the Half-Year Results to the Board<br>Approved the EY 2013 Audit Planning Report<br>Received an update on PwC s approach to technology assurance, agreed a number of technology audits on information security and requested an update on the same at each meeting<br>Considered and made enquiries of EY on key matters arising from their interim review on the Group s Half-Year Results |
| 31 October | Received an overview of the System Fund accounting and IHG Rewards Club points liability<br>Considered and recommended the |