

INTERCONTINENTAL HOTELS GROUP PLC /NEW/  
Form 20-F  
February 26, 2015  
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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 20-F**

(Mark One)

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

b **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2014

**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,**

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**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 15 <sup>265</sup> / <sub>329</sub> 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:**

<b>Ordinary Shares of 15 <sup>265</sup>/<sub>329</sub> pence each</b>	<b>236,117,256</b>
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes  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

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

Indicate by check mark whether the registrant 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  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Item 17  Item 18

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

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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

Other    "

the International Standards Accounting Board þ

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*Strategic Report*

The Strategic Report on pages 2 to 51 was approved by the Board on 16 February 2015

**George Turner, Company Secretary**

*Dream*

Guest Journey Step One

The **Dream** phase of the Guest Journey is one of the most exciting parts of travel for many of our guests as they research, seek inspiration, and dream, about their future trip.

Front cover: EVEN Hotel, Rockville, Maryland, US

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**IHG** Annual Report and Form 20-F 2014  
*IHG at a glance*

*Our strategy for high-quality growth*

We focus on strengthening our portfolio of preferred and differentiated brands, building scale in key markets, creating a long-lasting relationship with our guests and delivering revenue to hotels through the lowest cost, direct channels. Our proposition to owners is highly competitive and drives superior returns.

We execute our asset-light strategy in the most attractive, high-growth markets and industry segments. We take a disciplined approach to capital allocation, investing for the future growth of our brands. This enables us to drive sustainable growth in our profitability and deliver superior shareholder returns over the long term.

*Our strategy is detailed on pages 14 to 33.*

*Our business model*

We predominantly franchise our brands to, and manage hotels on behalf of, third-party owners; our focus is therefore on building preferred brands and strong revenue delivery systems.

Franchised:

4,096 hotels (514,984 rooms)\*

2013: 3,977 hotels (502,187 rooms)

*Group highlights\**

+6%: \$23bn

*Total gross revenue in IHG's System (2013: \$21.6bn)*

*Group Revenue down 2% to \$1,858m (2013 : \$1,903m<sup>\$</sup>)*

-3%: \$651m

*Total operating profit before exceptional items (2013: \$668m<sup>\$</sup>)*



Managed:

+10%: 77¢ (48.6p)

735 hotels (192,121 rooms)\*

2014 Full-year dividend <sup>¶</sup> (2013: 70.0¢ (43.2p))

2013: 711 hotels (180,724 rooms)

+6.1%

Revenue per available room\*\* (2013: +3.8%)

Owned and leased:

710,295 rooms (4,840 hotels) operating in the IHG System

9 hotels (3,190 rooms)\*

2013: 9 hotels (3,962 rooms)

+7%

Fee revenue (2013: + 4%). Driven by 6.1% (2013: 3.8%) of RevPAR growth and 3.4% (2013: 1.6%) net IHG System size growth

*Our business model is detailed on pages 12 and 13.*

*Our portfolio of brands is detailed on pages 4 and 5.*

*Our revenue delivery systems are detailed on pages 17 and 22.*

*Our global and regional performance is set out on pages 34 to 51.*

### **Hotels in the IHG System pay IHG:**

\* Unless otherwise stated, all facts and figures as at 31 December 2014.

management and/or franchise fees; and

assessments and contributions which are collected for specific use within the System Fund (this does not result in profit or loss for IHG).

This comprises total rooms revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels. It is not revenue attributed to IHG.

Includes two liquidated damages receipts in 2014: \$7m, both in The Americas.

*Information on the System Fund is detailed on page 49.*

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

¶ Subject to shareholder approval of 2014 final dividend.

\*\* 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.

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*Where we operate*

We operate in nearly 100 countries globally.

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**IHG** Annual Report and Form 20-F 2014

### ***Our preferred brands***

Each of the brands in our portfolio are complementary and differentiated to meet the changing, multifaceted needs of our guests and be commercially compelling to third-party hotel owners.

Supported by the IHG brand and IHG Rewards Club (our loyalty programme), our portfolio of hotel brands is aimed at meeting evolving guests' needs.

#### **Driving brand preference for our guests**

Each of our brand strategies revolves around guest research and insight, allowing us to develop each brand to deliver unique guest experiences against specific needs, occasions and price points.

To drive brand preference, our brands must deliver a truly holistic experience for our guests, from the moment travel plans are conceived, across the planning and booking experience, throughout the hotel stay and thereafter we call this the Guest Journey (see pages 17 and 22).

In January 2015, we acquired Kimpton Hotels & Restaurants, the world's largest independent boutique hotel operator. This, alongside Hotel Indigo and EVEN Hotels, strengthens our brand portfolio and creates a leading boutique and lifestyle hotel business in one of the fastest growing industry segments (see page 21).

#### **Delivering preferred brands by our people**

We recognise that our people deliver the brand experience for our guests and we therefore invest heavily in our talented people (see page 23).

#### **Having preferred brands for owners**

Given our asset-light business model, strong owner relationships are vital to building scale (see pages 16 and 17). Integral to this, is a portfolio comprising strong, clearly defined brands enabling third-party hotel owners to choose the right IHG brand for their hotel.

	<b>InterContinental® Hotels &amp; Resorts</b>		<b>HUALUXE® Hotels and Resorts</b>
180		24	
<i>Hotels open</i>	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 to our guests to make their world feel bigger.	<i>Hotels in the pipeline</i>	Launched in March 2012, it was 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 etiquette, the importance of rejuvenation, status recognition, local customs and heritage.
61,235		7,551	
<i>Rooms open</i>		<i>Rooms in the pipeline</i>	
50			
<i>Hotels in the pipeline</i>			
15,664			
<i>Rooms in the pipeline</i>			
	<b>Crowne Plaza® Hotels &amp; Resorts</b>		<b>Hotel Indigo®</b>
406		61	
<i>Hotels open</i>	With hotels in major business centres around the world, Crowne Plaza is our modern business hotel dedicated to business travel that is ever more flexible, more connected, and more mobile. We enable our guests to be their most productive by simply making business travel work.	<i>Hotels open</i>	Hotel Indigo artfully combines the unique design and authentic local experiences of a boutique hotel, with the ease and peace of mind of a recognised brand name. Each hotel reflects the local culture, character and history of the surrounding area.
113,562		6,731	
<i>Rooms open</i>		<i>Rooms open</i>	
92		63	
<i>Hotels in the pipeline</i>		<i>Hotels in the pipeline</i>	
25,336		9,096	
<i>Rooms in the pipeline</i>			

*Rooms in the  
pipeline*

4

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	<b>Holiday Inn®</b>		<b>Holiday Inn Express®</b>
<p>1,212 *</p> <p><i>Hotels open</i></p>	<p>At Holiday Inn, we believe the joy of travel is for everyone. Warm and friendly, Holiday Inn has been opening its doors to guests since 1952, affordably blending the familiar with the new, and putting everyone at ease no matter the reason for their stay.</p>	<p>2,365</p> <p><i>Hotels open</i></p>	<p>Holiday Inn Express champions smart and simple travel for everyone. We support guests without hassle, without complication, without extravagance but always with a warm smile. Our mantra is everything you need, nothing you don't .</p>
<p>225,159 *</p> <p><i>Rooms open</i></p>	<p>At Holiday Inn, we believe the joy of travel is for everyone. Warm and friendly, Holiday Inn has been opening its doors to guests since 1952, affordably blending the familiar with the new, and putting everyone at ease no matter the reason for their stay.</p>	<p>229,110</p> <p><i>Rooms open</i></p>	<p>Holiday Inn Express champions smart and simple travel for everyone. We support guests without hassle, without complication, without extravagance but always with a warm smile. Our mantra is everything you need, nothing you don't .</p>
<p>269 §</p> <p><i>Hotels in the pipeline</i></p>	<p>Holiday Inn Resort® properties offer great value, warm and friendly service and the peace of mind of a trusted brand name. The Holiday Inn Resort brand champions the family holiday.</p>	<p>522</p> <p><i>Hotels in the pipeline</i></p>	<p>Holiday Inn Express champions smart and simple travel for everyone. We support guests without hassle, without complication, without extravagance but always with a warm smile. Our mantra is everything you need, nothing you don't .</p>
<p>52,713 §</p> <p><i>Rooms in the pipeline</i></p>	<p>Holiday Inn Club Vacations® is a vacation ownership club that opens the door to the joy of owning a vacation home. The portfolio is a collection of resorts in the US, offering spacious villa accommodation for families in great vacation destinations.</p>	<p>62,954</p> <p><i>Rooms in the pipeline</i></p>	<p>Holiday Inn Express champions smart and simple travel for everyone. We support guests without hassle, without complication, without extravagance but always with a warm smile. Our mantra is everything you need, nothing you don't .</p>

\* Includes 12 Holiday Inn Club Vacations properties (4,027 rooms) and 42 Holiday Inn Resort properties (9,904 rooms).

§ Includes 18 Holiday Inn Resort properties (4,412 rooms).

**Candlewood Suites®**

322

*Hotels open*

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

205

*Hotels open*

**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.

30,708

*Rooms open*

22,409

*Rooms open*

89

*Hotels in the pipeline*

99

*Hotels in the pipeline*

7,717

*Rooms in the pipeline*

10,908

*Rooms in the pipeline*

**EVENT™ Hotels**

2

*Hotels open*

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.

62

*Hotels open*

**Kimpton® Hotels & Restaurants**

Acquired by IHG in January 2015, this is a leading collection of boutique hotels and award-winning destination restaurants in the US. The brand is renowned for its distinctive design and personal approach to guest service, using thoughtful perks and amenities and a sense of fun to make them feel truly at

296

*Rooms open*

11,300

*Rooms open*



home.

3

*Hotels in the pipeline*

584

*Rooms in the pipeline*

As at 31 December 2014.

These were part of the acquisition which completed on 16 January 2015.

16

*Hotels in the pipeline*

3,000

*Rooms in the pipeline*

*IHG System size of 4,840 hotels (710,295 rooms) includes 87 hotels (21,085 rooms) that are unbranded.*

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**IHG** Annual Report and Form 20-F 2014

*Chairman's statement*

We have continued to execute our strategy to deliver high-quality growth. Our strong performance was underpinned by our successful Winning Model, which is our framework for delivering value for our shareholders and owners through our portfolio of preferred brands, talented people and leading revenue delivery systems.

*We made excellent progress against our well-established strategy to deliver high-quality growth and returned over \$1 billion to shareholders.*

Our highlights in 2014 included the opening of the first two hotels under the EVEN Hotels brand, and the progress made in both strengthening our digital offer and enhancing our loyalty programme, IHG Rewards Club, with the aim of building lifetime loyalty with our guests and enhancing their experience with our brands before, during, and after, their stay. We also continued our strong track record of delivering attractive returns for shareholders, with over \$1 billion (including ordinary dividends) returned in the year.

One of IHG's greatest strengths is our ability to adapt and evolve in a changing global landscape. We are a dynamic business. In 2014, we saw some of the world's biggest economies return to growth and others faced uncertainty in the shape of natural, economic and political upheaval. In this context, our expertise and discipline was critical to us delivering consistently good results.

**Patrick Cescau**

**Shareholder returns**

Chairman

We ended the year on a high, with the announcement that we had agreed to acquire Kimpton Hotels & Restaurants, making IHG the clear market leader in the boutique segment.

We remain committed to delivering long-term shareholder value, returning surplus funds to our shareholders and thereby maintaining an efficient balance sheet with an investment grade credit rating. In the 11 years since IHG became a standalone business, we have consistently delivered superior and sustainable returns for our shareholders. In May 2014, we announced a \$750 million special dividend with share consolidation which we paid on 14 July 2014. During the year, we also successfully completed our \$500

I have seen, first hand, this momentum in the business. I have visited many hotels in our established markets, as well as our growth markets, and I continue to be enormously impressed. Our

continued success is testament to our strong relationship with our owners and the passion and commitment our 350,000 colleagues globally bring to the business on a daily basis.

million share buyback programme. In total, we have now returned \$10.4 billion (including ordinary dividends) to shareholders since our 2003 demerger.

**Views on the year as a whole**

With hotels in nearly 100 countries around the world, our scale position has been a key driver of our consistently strong performance. It allowed us to allocate resources in a focused way to grow in our attractive markets (described on page 18), whilst ensuring we maintain a strong presence in growth markets of the future.

I am pleased to announce that the Board is recommending a final dividend of 52 cents (33.8 pence) per ordinary share, an increase of 11 per cent on the final dividend for 2013, resulting in a full-year dividend of 77 cents (48.6 pence) per share, up 10 per cent on 2013.

Total Shareholder Return was 32 per cent in the year; the 10<sup>th</sup> best performance in the FTSE 100.

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InterContinental Paris - Le Grand, France  
California, US

Crowne Plaza Costa Mesa Orange County,

**The Board and its areas of focus**

IHG is an ambitious company with an impressive scale position and a proven strategy for high-quality growth. Ensuring we have the right balance of skills, style and expertise at both the Board level and across the business is an important factor in supporting our future growth (see pages 57 to 62).

In last year's Annual Report, I said how impressed I was by the strength and diversity of the IHG Board. This continues to be the case. I also stressed the importance of evolving the composition of the Board to best support the business as it grows and develops.

In 2014, a key priority for me was to appoint a Non-Executive Director with a strong background in consumer-facing technology. On 1 September 2014, we were therefore delighted to welcome Jo Harlow to the Board and as a member of the Audit, Nomination and Remuneration Committees. Jo has a wealth of experience and knowledge, particularly on the role digital technology plays in driving consumer behaviour.

On 31 December 2014, Jonathan Linen retired from the Board and I would like to thank him for his tremendous contribution to IHG. In December 2014, we announced that Kirk Kinsell would step down from the Board and his role as President of our Americas business on 13 February 2015. Kirk was succeeded by Elie Maalouf as Chief Executive Officer, The Americas, who became a member of IHG's Executive Committee. We are also pleased that, effective from 1 March 2015, Anne Busquet will be joining the Board as a Non-Executive Director and she will also sit on the Audit, Nomination and Corporate Responsibility Committees. Anne has an impressive breadth of experience in digital commerce, hospitality, finance and marketing.

During the year, the Board remained focused on IHG's strategy and the execution of our Winning Model, as well as on maintaining our deep understanding of both the risks facing the business and the controls we have in place. These are further described on pages 14 to 33.

**Governance**

High standards of corporate governance are fundamental to the way IHG operates and reflect our values and commitment to being a truly responsible business. In last year's Annual Report, we explained how we had

commissioned a formal evaluation of the Board from an external independent consultant. This year we undertook an internal Board effectiveness evaluation and internal performance evaluations of each Director. The Board also considered the performance of each of its Committees. It was confirmed that the Board and its Committees were operating effectively, and that each Director continues to bring relevant knowledge, diversity of perspective, an ability and willingness to challenge and retains a strong commitment to the role. The progress against our 2013 evaluation, and details of our 2014 evaluation and action plan, can be found on pages 63 and 64.

Detailed information on our Board and governance processes, including the Directors Remuneration Report, can be found on pages 54 to 91.

In line with our commitment to responsible business practices (see pages 24 and 25), this year, we have decided to produce a broader Responsible Business Report in place of the Corporate Responsibility Report, which can be downloaded at [www.ihgplc.com/responsiblebusiness](http://www.ihgplc.com/responsiblebusiness).

## **Outlook**

We continue to remain confident in the long-term growth prospects of the hotel industry. There are some major structural tailwinds and socio economic trends which mean that the hotel industry will experience significant growth into the future. Our proven strategy for high-quality growth means that we are well placed to continue to outperform.

## **Patrick Cescau**

### **Chairman**

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**IHG** Annual Report and Form 20-F 2014

### ***Chief Executive Officer's review***

2014 was an excellent year for IHG. We made significant progress in delivering our winning strategy for high-quality growth, and reported strong financial and operational performance. We also made good progress with our asset-light strategy.

***IHG is in a position of strength, a position which has been enhanced by another year of delivery against our strategic priorities.***

### **Richard Solomons**

Chief Executive Officer

IHG is in a position of strength, a position which has been enhanced by another year of excellent delivery against our strategic priorities. We remained focused on building our compelling scale position in what is a growing global marketplace, as we continued to build, develop, and shape our business and our brands for the future. We achieved strong RevPAR performance, opened the highest number of hotels since 2009 and reported growth in net System size.

We also made good progress with our asset-light strategy with the sale of InterContinental Mark Hopkins San Francisco and the disposal of 80 per cent of our interest in InterContinental New York Barclay, as well as the acceptance of a binding offer for InterContinental Paris Le Grand.

### **Our Winning Model**

The Winning Model is our framework for delivering value for our shareholders and owners through our portfolio of preferred brands, talented people and leading revenue delivery systems. We are focused on delivering against all components of this model, combining it with a targeted approach to building our portfolio and disciplined execution, all underpinned by our commitment to being a responsible business. On pages 16 and 17, we have set out why each element of the model is so critical to our business and have provided more detail on the excellent progress we made during the course of 2014. This includes our superior owner proposition. On our website, [www.ihgplc.com/ihgowners](http://www.ihgplc.com/ihgowners), you will find a message from Buggsi Patel, 2014 Chairman of the IHG Owners Association, on his highlights from the year.

Our acquisition of Kimpton Hotels & Restaurants (see page 21), which completed in January 2015, is an example of how each element of the model came into play and will help support our ambitions for the brand in the medium term.

### **Our Winning Model in action**

Kimpton Hotels & Restaurants is a well-established and highly successful business that has grown to become the world's leading boutique hotel business with a portfolio of world-class hotels and destination restaurants. This distinctive and innovative brand fits perfectly into our brand family, alongside our highly successful Hotel Indigo and EVEN Hotels brands, creating the world's largest boutique hotel business. We will use our scale, network of owner relationships and powerful digital platforms to accelerate its growth both within the US and globally (see page 21).

### **Our scale**

With a five per cent share of the global industry supply of rooms and 13 per cent of the active industry pipeline, IHG enjoys significant scale advantages in what is a competitive industry. During 2014, we continued to build our scale, focusing on our priority markets such as the United States and Greater China (see page 18). This resulted in us achieving a series of milestones in the year, including our highest ever number of hotel openings in Greater China (see pages 19 and 46 to 48).

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Epic Miami, A Kimpton Hotel, Florida, US  
Hotels and Resorts, People's Republic of China

EVEN Hotel Rockville, Maryland, US

HUALUXE

### **Our brands**

Our award-winning preferred brands continued to go from strength to strength. InterContinental Hotels & Resorts is twice the size of any other luxury hotel brand and the Holiday Inn brand family is the largest global mainstream brand. We also opened the 400<sup>th</sup> Crowne Plaza hotel and 200<sup>th</sup> Staybridge Suites hotel during the year.

The number of awards our brands receive externally is remarkable, reflecting the work we have been doing to build awareness, recognition and guest satisfaction. In 2014 alone, our brands won over 300 global, regional and hotel level awards.

For the sixth consecutive year, InterContinental Hotels & Resorts was named 'World's Leading Hotel Brand' at the 2014 World Travel Awards; and for the tenth consecutive year, IHG Rewards Club has been recognised as 'Best Hotel Rewards Programme in the World' by Global Traveler magazine. IHG as a company also had a successful year – we were listed as one of FORTUNE Magazine's 'World's Most Admired Companies', named as the 'Best British Business' in China and came third in The Sunday Times' 25 Best Big Companies to Work For' list.

### **Innovating for the future**

We have continued to build on our long history of innovation to help us both navigate and evolve our business for success in what is a changing world. This is supported by our focus on delivering preferred brands, building lifetime relationships with our guests and developing our strong direct channels.

In 2014, we opened the first two EVEN Hotels (see page 20) to critical acclaim, and in February 2015, we opened the first hotel for the HUALUXE Hotels and Resorts brand. Both of these new brands address previously unmet guests needs.

We have also taken an innovative approach to evolving our loyalty and digital offer around the 'Guest Journey' with the launch of initiatives such as Mobile Check-in and Check-out and further improvements to our number one rated mobile app. Continuing to evolve and enhance our digital capabilities will be a key area of focus for us over the coming years.

### **Trust**

In the context of this changing landscape, the theme of 'Trust' was more important than ever and was the main theme of our 2015 Trends Report (see page 10 for more details). The report argues that 'Trust Capital' is now the C4 of



organisational value alongside Human, Financial and Intellectual Capital and is a key factor for consumers in making brand choices. Our people play a critical role in building trust with our guests and owners. They are responsible for delivering a differentiated brand experience for our guests (see pages 16 and 23) and as such we work hard to build our winning culture and our employer brand and maintain our high Employee Engagement survey scores (see page 32).

### **Responsible Business**

Operating as a Responsible Business underpins each of our strategic priorities and is a commitment everyone working at IHG is responsible for delivering (see page 24 and 25). We made excellent progress with each of our three corporate responsibility programmes during the course of the year. We announced the global roll-out of our environmental sustainability tool, IHG Green Engage, as a brand standard, which was a powerful demonstration of our commitment to protecting the environment. More recently, we announced the opening of our 600<sup>th</sup> IHG Academy. Launched in 2006, the programme provides local people with bespoke skills-development and employment opportunities. Finally,

our disaster relief programme, IHG Shelter in a Storm, responded to 18 disasters in nine countries.

Finally, I would like to take this opportunity to thank those who work across IHG and its brands globally for the energy and enthusiasm they bring to the business. With their support, and together with our owners, we can look forward to another excellent year ahead.

**Richard Solomons**

**Chief Executive Officer**

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**IHG** Annual Report and Form 20-F 2014

***Industry overview***

*Where the industry is now*

**The global hotel industry**

The global hotel industry comprises approximately 15.5 million rooms and is 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 the globalisation of travel.

Over the long term, the lodging industry has grown broadly in line with Gross Domestic Product (GDP). In the US market (which is the largest market in terms of number of rooms), growth in consumer spend on lodging has exceeded GDP growth by two percentage points per annum over the last 50 years.

There are a number of industry metrics that are widely recognised and used to track performance and we actively monitor these. These include revenue per available room (RevPAR), average daily rate and rooms supply growth.

**Global industry RevPAR growth (2014 v 2013)**

*IHG's Key performance indicators (KPIs) are set out on pages 30 to 33.*

**The branded hotel market**

The branded hotel market is estimated to account for 53 per cent of the total hotel market. We benchmark our performance against the largest branded players that we consider to be our peer group, with a similar system size and pipeline to ours and who operate in similar market segments to us (as explained on page 18).

Five of the leading branded hotel companies (IHG, Accor, Hilton, Marriott and Starwood) account for approximately 30 per cent of the total branded hotel market in terms of open rooms, and 65 per cent of the development pipeline (hotels in planning and under construction but not yet open).

In the US, around 70 per cent of the industry supply is branded. In fast developing markets, such as China and India, penetration of international brands is, however, lower, at around 45 to 55 per cent. This level of international brand penetration is expected to increase significantly over the coming decades, as large global branded hotels gain traction due to the advantages of reliability, guest safety and security, consistency of standards and the ability to invest in customer experience and technology. IHG has measures in place for all of these – see Our Strategy and Managing Risks on pages 14 to 29.

*Source: Smith Travel Research for all of the above industry facts.*

### **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 and 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 uses a third-party manager to operate the hotel on its behalf and pays 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 pays a brand licensing fee to the brand owner.

Other models, such as pay-for-performance or commission-based, are sometimes used by independent hotels to benefit from a brand's booking distribution system (for example, hotel collections).

Whilst an owner-operated hotel enables the owner to have full control over the 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. As a franchisor and manager, we therefore recognise that our owner proposition is a key part of our strategy.

*IHG's business model, which is a predominantly managed and franchised model, is set out on pages 12 and 13.*

**IHG's 2015 Trends Report: Building Trust Capital: The new business imperative in the Kinship Economy released in January 2015**

The third in our series of Trends Reports focused on consumer insights impacting the hospitality industry and business in general.

Our 2015 Report identifies the importance for companies to build brand and organisational trust. It demonstrates how to build Trust Capital with different demographics and across different geographies, unveiling a blueprint of seven principles for making it the core driver of an organisation.

*Further details about all three Trends Reports can be found at [www.ihgplc.com/trends\\_report](http://www.ihgplc.com/trends_report)*

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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 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 approximately 3.6 per cent 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.

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

*Our growth strategy focuses on 10 priority markets comprising both developed and emerging ones.*

## **Demographic**

Traveller demographics are continuously evolving. Many travellers travel for a variety of reasons and no longer for a singular purpose, such as only business or leisure. Across the globe, the types 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 can cater for flexible working arrangements. A growing ageing population with the desire, and means, to travel is also expected to significantly increase travel flows and lead to an overall increase in demand for travel services.

*Having a portfolio of distinct and complementary brands enables IHG to meet a range of guests' needs and occasions at differing price points.*

## **Social**

Other trends also provide new opportunities for increased travel. Growing competition and capacity amongst airlines, lower air fares and more relaxed travel restrictions in many regions have made international travel a viable option for an increasing number of people. Worldwide, international tourist travel is expected to increase by 3.3 per cent a year from 2010 to 2030 reaching 1.8 billion by 2030, according to the UNWTO.

Increasingly, travellers are concerned about the sustainability of hotels and their impact on the environment and local communities.

*We are committed to responsible business practices from environmental sustainability to supporting our local communities.*

## **Technology**

Technology is playing an increasingly important role in both shaping the travel industry and in guests' appreciation of their entire travel experience. The internet, increasingly accessed through mobile devices, has established itself as the preferred method to research, plan and book travel. In emerging markets, consumers are bypassing desktop PCs and going straight to mobile – there are twice as many smartphone users in China than internet users in the US.

The development of social networking has changed the way in which people think about travel, with the sharing of experiences, reviews and recommendations influencing research and decision-making. Travellers can make more informed decisions, and book their travel options with greater control and immediacy, leading to an increase in travel to a variety of destinations.

The Internet of Things is an emerging trend that offers enormous potential. 75 billion devices are forecast to be internet-enabled by 2020 offering the potential to transform the in-hotel guest experience.

*We focus on delivering across the entirety of the Guest Journey and invest in developing strong technology platforms.*

### **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 also include companies offering alternative lodging solutions and search options, providing inspiration for travel ideas and aggregating a range of travel solutions. The consumer peer-to-peer rental market, which is largely unbranded, has also opened up a large supply of travel accommodation. However, many of these businesses are not subject to regulations such as fire and life safety, food safety and local industry regulations, which apply to traditional hotel operators.

For booking and distribution, hotel companies also compete with the increasingly sizeable travel intermediaries.

*Our channel management strategic priority considers both direct and indirect booking and distribution channels.*

### **What is IHG doing in light of these trends?**

See Our Strategy on pages 14 to 33

**Table of Contents****IHG** Annual Report and Form 20-F 2014***Our business model***

We predominantly franchise our brands to, and manage hotels on behalf of, third-party owners. Our asset-light strategy enables us to grow our business whilst generating high returns on invested capital.

We franchise and/or manage hotels depending largely on market maturity, owner preference and, in certain cases, on the particular brand. For example, in the US, a mature market, we operate a largely franchised business, working together with our owners to deliver preferred brands. By contrast, in Greater China, an emerging market, we operate a predominantly managed business where we are responsible for operating the hotel on behalf of our owners. We adapt this business model by market as necessary, for example, we also have managed leases (properties structured for legal reasons as operating leases but with the same characteristics as management contracts), partnerships and joint ventures.

The key differences in our three main models are summarised below:

	<b>Number of hotels</b>	<b>% of our portfolio</b>	<b>Hotel ownership</b>	<b>IHG capital intensity</b>	<b>Employees*</b>	<b>Brand ownership, marketing and distribution</b>
<b>Franchised</b>	4,096	84.6%	Third party	Low	Third party	
<b>Managed</b>	735	15.2%	Third party	Low	IHG and third party	IHG
<b>Owned and leased</b>	9	Less than 1%	IHG	High	IHG	

\* For information on who are our employees and how we invest in our talent, see page 23.

We are committed to delivering a compelling and preferred offer to our hotels owners through our owner proposition see page 17.

In 2014, over 90 per cent of our operating profit was generated from our asset-light management and franchise contracts. In addition, approximately 85 per cent of our fee-based income was derived from hotel revenues, and 15 per cent was principally from management fees linked to hotel profits.

The asset-light approach, and franchised and managed business model:

is highly cash-generative, with a high return on capital employed; and

means IHG benefits from the reduced volatility of fee-based income streams and allows us to focus on growing our fee revenues and fee margins with limited requirements for IHG's capital.



*IHG Revenue and the System Fund*

Third-party hotel owners pay: (i) fees to IHG in relation to licensing of our brands and/or our hotel management services; and (ii) assessments and contributions which are collected by IHG for specific use within the System Fund.

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*Disciplined approach to allocation of capital*

Our focus on an asset-light business model is supported by a disciplined, long-term approach to allocating capital and reducing the asset intensity of the business. We seek to maintain an efficient balance sheet with an investment grade credit rating.

Our business is highly cash-generative, and we have three primary uses of the cash we generate:

**Invest in the business to drive growth:** This includes acquisitions of businesses and our day-to-day capital expenditures (see below).

**Maintain sustainable growth in the ordinary dividend:** Our 2014 full-year dividend will be 77 cents (48.6 pence) per share (subject to shareholder approval of the 2014 final dividend) up 10 per cent on 2013 (see page 50).

**Return surplus funds to shareholders:** During 2014, we announced a \$750 million return to shareholders via special dividend with share consolidation, and completed our \$500 million share buyback (see page 50).

In support of our asset-light strategy, during 2014 we:

**Disposals**

completed the disposal of 80 per cent of our interest in InterContinental New York Barclay for \$274 million;

sold InterContinental Mark Hopkins San Francisco for \$120 million; and

announced a binding offer in respect of InterContinental Paris Le Grand for 330 million (\$406 million).

**Acquisitions**

announced the acquisition of Kimpton Hotels & Restaurants for \$430 million a fully asset-light business. This acquisition completed in January 2015.

## **IHG's philosophy to capital expenditure**

Capital expenditure incurred by IHG can be summarised as follows:

### **Capital expenditure**

### **Examples**

Maintenance capital expenditure and key money to access strategic growth, particularly into high-quality and sought-after opportunities

Maintenance of our owned and leased hotels, which will reduce as we become increasingly asset-light.

Corporate infrastructure maintenance, for example, in respect of our offices and systems.

Deployment of key money, which is used to access strategic opportunities, particularly in high-quality and sought-after locations when returns are financially and/or strategically attractive.

Recyclable investments to drive the growth of our brands and our expansion in priority markets

Through the acquisition of real estate, investment through joint ventures or via an equity stake.

We aim to seek to recycle this capital by selling these assets when the time is right and to reinvest elsewhere in the business and across our portfolio – we are currently doing this for our EVEN Hotels brand, just as we previously did for the Staybridge Suites and Hotel Indigo brands.

System funded capital investments for strategic investment to drive growth at hotel level

The development of tools and systems that hotels use to drive performance.

*For definitions, please refer to the Glossary on pages 184 and 185.*



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**IHG** Annual Report and Form 20-F 2014

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

We focus on strengthening our portfolio of preferred and differentiated brands, building scale in key markets, creating a long-lasting relationship with our guests and delivering revenue to hotels through the lowest cost, direct channels. Our proposition to owners is highly competitive and drives superior returns.

We execute our asset-light strategy in the most attractive, high-growth markets and industry segments. We take a disciplined approach to capital allocation, investing for the future growth of our brands. This enables us to drive sustainable growth in our profitability and deliver superior shareholder returns over the long term.

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***Winning Model***

Our Winning Model is our framework for delivering value for our shareholders and owners through our portfolio of preferred brands, talented people and leading revenue delivery systems.

**Key performance indicators (KPIs) and What we have done in 2014**

See pages 30 to 33

**How we manage principal risks**

See pages 28 to 29

**Our portfolio of preferred brands**

See pages 4 and 5

**Where we operate and detailed global and regional Performance**

See pages 34 to 51

*Preferred brands delivered through our people*

### **Why we think this is important**

Having a strong portfolio of preferred brands is fundamental to our success. In a highly competitive industry, powerful well-defined, consistent and well-known brands assist both guests and owners in choosing an IHG brand over a competitor's, as well as deciding which IHG brand meets their specific needs. Our people are critical in providing the guest experience, and our winning culture encourages and empowers them to bring each of our differentiated brand experiences to life and provide high standards of guest service.

The value of building strong preferred brands results in increased RevPAR, as occupancy will be higher and guests will pay a higher rate to stay at their preferred brand, which, in turn, delivers better returns for our owners through an increase in total gross revenue.

### **What we are doing**

We build brand preference by defining each of our brands so that they can provide a differentiated experience to meet both the targeted guest need and occasion and be consistent in the experience they deliver.

We have sharpened each of our brand strategies looking at a number of areas, from the brand ambition and position to the brand platform and strategic brand pillars, to ensure our portfolio meets the needs of the evolving guest and owner. We are also refreshing the brand standards for each of our brands to ensure they are up to date and relevant to drive consistency.

We invest in our talented people who are the face of our brands and help us build brand preference (see page 23).

### **How we measure it**

KPIs Guest HeartBeat, RevPAR, Employee engagement, Total gross revenue

*Build and leverage scale*

### **Why we think this is important**

Scale provides significant advantages in the hotel industry at the global, national and city level. The size of the IHG System, and our concentration on priority markets and key gateway cities, allows us to benefit from economies of scale, which lead to higher margins and operating leverage. With scale, we can invest in our brands and the technology required to support their continued growth, and deliver efficient sales and marketing and procurement practices, thereby increasing the advantages an IHG brand brings to owners. Scale also enables us to invest in, and grow, new brands and take them global, for example Hotel Indigo.

### **What we are doing**

IHG already benefits from substantial scale advantages. With over 710,000 rooms open at the end of 2014, we delivered our strongest net IHG System size growth since 2009 of 3.4 per cent, opening over 41,000 rooms. Our brand portfolio also reached some significant milestones in 2014 – opening the 400<sup>th</sup> Crowne Plaza hotel, the 200<sup>th</sup> Staybridge Suites hotel and the 60<sup>th</sup> Hotel Indigo hotel in its 10<sup>th</sup> anniversary year. Our scale has also enabled us to



commit \$150 million of investment behind the EVEN Hotels brand, opening the first two properties in 2014. We focus on developing our scale in 10 priority markets, where we currently have 85 per cent of our open rooms (see page 18). Benefiting from the strong growth in these markets, Group fee margins were up 1.5 percentage points to 44.7 per cent in 2014 and total gross revenue was up 6 per cent to \$23 billion.

*For details on how we maximise the scale and efficiency of our operations, see page 22.*

### **How we measure it**

KPIs Net rooms supply, Fee revenues, Total gross revenue, Fee margin

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*Strong brand portfolio and loyalty programme*  
*Effective channel management*  
*Superior owner proposition*

### **Why we think this is important**

A portfolio of strong, complementary brands allows us to offer solutions for each guest need, which increases cross-selling across different brands. Combined with a strong loyalty programme, it also increases awareness and recognition of the IHG brand, and of each of the individual hotel brands, helping us to drive business. Guests who have an increased loyalty to IHG and its portfolio have also proven to have a higher spend per stay. Both of these result in higher RevPAR premiums, thereby increasing total gross revenue and strengthening our owner proposition.

### **What we are doing**

Our brands are complementary across the segments in which they operate (midscale, upscale and luxury), catering to different guest needs and occasions. One of our newest brands, EVEN Hotels, caters to an identified guest need for maintaining wellness while travelling and the acquisition of the Kimpton brand has a strong strategic fit with our Hotel Indigo and EVEN Hotels brands (see pages 20 and 21). Recognising the importance of a strong loyalty programme, we encourage guests to stay across the portfolio and build lifetime relationships through the IHG Rewards Club programme, which has 84 million members. We continue to evolve our loyalty programme to ensure that it is not just the largest in the market, but also the most preferred – refreshing and reviewing the rewards and benefits available to increase its attractiveness to our guests. We recognise our loyal guests and aim to personalise their experiences.

### **How we measure it**

KPIs Total gross revenue, RevPAR, System contribution to revenue, Guest HeartBeat

### **Why we think this is important**

As a franchisor and manager of hotels, we aim to drive demand to our hotel brands and reduce distribution costs for our owners through strong brand awareness and effective yield-management practices, delivering better returns for our

owners. Our direct channels (digital and voice) are less costly to owners than third-party intermediaries. Our strong brands are a significant driver of bookings through indirect channels (online travel intermediaries (OTIs) and business and leisure travel agents). We therefore aim to drive demand for our hotels through our direct channels and manage revenue per booking, thereby delivering the highest quality revenues to IHG hotels at the lowest possible cost, increasing RevPAR and owner returns.

### **What we are doing**

Our direct and indirect channels delivered 71 per cent of total rooms revenue to our hotels in 2014. Our digital business has significant scale and is growing fast, accounting for \$4 billion in revenue in 2014. We continue to invest in features that enhance the digital experience, with branded and personalised offerings to encourage guests to book via our direct channels.

We recognise the impact of OTIs as an indirect booking channel, mainly used by comparison-site shopping leisure travellers searching for a competitive deal. We have therefore leveraged our global footprint to secure better terms with the OTIs on behalf of our owners, whilst leveraging OTIs as a complementary distribution channel.

*For details on our investment in developing strong technology platforms, see page 22.*

### **How we measure it**

KPIs System contribution to revenue, RevPAR

### **Why we think this is important**

We recognise that hotel owners have a choice of brand, if any, to choose for their property. A strong owner proposition, preferred brands and effective operational support, play a vital part in making us the brand choice for owners. Relationships with new and existing owners therefore have a significant impact on our ability to build scale. A strong owner proposition and relationships with our owners also enable us to deliver the brand promise for our guests and continue building preferred brands.

### **What we are doing**

We are committed to delivering a compelling and preferred owner offer. We continually review and enhance our owner proposition in many ways, including:

- ensuring a profitable return on investment for our owners, assisting them along the lifecycle of their investment, from identifying the right site to operating a profitable business;

providing a range of revenue-driving tools and services, including booking and distribution channels;

seeking to price our fees to reflect our services, tools and brand value;

having strong owner relationship management and working with the IHG Owners Association (which represents the interests of our hotel owners globally) to deliver joint initiatives [www.ihgplc.com/ihgowners](http://www.ihgplc.com/ihgowners);

recognising the importance of responsible business practices to all stakeholders, and developing tools which support both our commitment to doing business responsibly and delivering superior returns to our owners (see pages 24 and 25).

### **How we measure it**

KPIs All KPIs measure the strength of our owner proposition

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***Targeted Portfolio***

Our Targeted Portfolio means we operate in the most attractive markets for IHG and in the highest opportunity segments based on guests' occasion needs, with an asset-light business model—franchising and managing hotels rather than owning them.

**Key performance indicators (KPIs) and What we have done in 2014**

See pages 30 to 33

**How we manage principal risks**

See pages 28 and 29

**Where we operate and detailed global and regional Performance**

See pages 34 to 51

**Managed and franchised model (our asset-light business model)**

See pages 12 and 13

*\*Source: Smith Travel Research.*

*Attractive markets*

**Why we think this is important**

Achieving scale and driving growth requires us to focus on those markets that are most attractive and where there is the best fit with our strategy and business model. These markets have large inbound and domestic demand for branded

hotels or show great potential to have this in the future.

### **What we are doing**

Whilst we operate in nearly 100 countries and territories and continue to expand our presence globally, we primarily focus our efforts on 10 priority markets in which we either have a strong existing competitive position or have a compelling opportunity to build one. These include a number of key emerging and more developed markets – US, Middle East, Germany, UK, Canada, Greater China, India, Russia and the Commonwealth of Independent States, Mexico and Indonesia. These currently represent 85 per cent of the IHG System and 89 per cent of the pipeline. We focus our brand building efforts and prioritise the investment in infrastructure in these markets, for instance, by adapting our websites to the local language and deploying dedicated sales teams. Depending on the market, we will adapt our model and proposition to owners to take into account local market characteristics.

The Performance section provides details of how we have performed in each of our regions and priority markets.

### **How we measure it**

KPIs – Net rooms supply, Total gross revenue

### *Highest opportunity segments*

### **Why we think this is important**

Typically, the traditional hotel industry is segmented according to price point, and IHG is focused on the three segments that generate over 66 per cent\* of branded hotels revenue – namely, midscale, upscale and luxury. We believe these segments have the highest growth opportunity and strongest resilience to the industry/economic cycle. However, we also recognise that guests choose a hotel based on their needs and the occasion, resulting in the possibility of the same guest staying across multiple hotel segments.

### **What we are doing**

Our portfolio of brands is targeted around differing occasion segments. We tailor each of our brands to meet guests needs, looking at the differing occasion they are travelling for and their need for travelling.

We used this segmentation analysis to develop the brand proposition for both the HUALUXE Hotels and Resorts and EVEN Hotels brands (see page 20). It was also a consideration in the acquisition of Kimpton Hotels & Restaurants (see page 21).

### **How we measure it**

KPIs Guest HeartBeat, RevPAR

Holiday Inn Manhattan Financial District, New York, US

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HUALUXE Hotels and Resorts, People's Republic of China

Crowne Plaza Beijing Lido, People's Republic of China

**Our Targeted Portfolio in action:**

**Greater China – a priority market**

In 2014, IHG celebrated our 30<sup>th</sup> anniversary of operating in Greater China, one of our priority markets. We were the first international hotel company to enter the country in 1984, and we have developed a leading business in the region with 78,194 rooms open (241 hotels) and a further 54,338 rooms (189 hotels) in our development pipeline. In 2014, Greater China contributed 11 per cent of our Group operating profit before central overheads and exceptional items.

We originally developed our business in China's tier 1 cities and along the eastern seaboard, and have more rooms today in tier 1 cities than our major international competitors. However, our more recent growth has focused on tier 2 and 3 cities, which are expected to generate significant long-term demand growth and, by 2022, nearly 80 per cent of the fast growing Chinese middle-class are expected to live in these cities. We achieved several key milestones for our Greater China business in 2014, for example, we:

opened Crowne Plaza Beijing Lido with the same owner as our first hotel in the region (Holiday Inn Beijing Lido), demonstrating our established track record and the strength of our owner relationships in the region;

opened 10,648 rooms (34 hotels), our highest number of room openings since we started our business in the region, growing the IHG System size by 14 per cent;

signed 15,754 rooms (64 hotels), our best year for hotel signings since 2007; and

opened our 50<sup>th</sup> Holiday Inn Express hotel and signed our 50<sup>th</sup> pipeline hotel, making Holiday Inn Express the largest international limited-service brand in China.



In February 2015, we opened our first hotel for the HUALUXE Hotels and Resorts brand in Yangjiang, slightly later than expected. As at 31 December 2014, we had 24 hotels (7,551 rooms) in the pipeline for the brand, which we will continue to build.

In addition to driving growth in Greater China, we are focused on establishing hotels that cater for Chinese guests in other locations outside China. Our China-Ready programme ensures we will be able to cater for the growing number of Chinese guests around the world through cultural and food and beverage training for hotel teams. We currently have 84 hotels in AMEA, The Americas and Europe that have signed up for the programme.

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*Our Winning Model and*

*Targeted Portfolio in action*

EVENT<sup>TM</sup> Hotels

*The EVEN Hotels brand allows owners to diversify their portfolio in a unique guest occasion segment.*

We announced the launch of a new hotel brand, EVEN Hotels, in February 2012. In June 2014, we opened our first hotels under the brand in Norwalk, Connecticut and in Rockville, Maryland.

*Winning Model*

**Preferred brands delivered through our people**

As part of having a portfolio of preferred brands, we continually review our portfolio of brands in light of the evolving needs and preferences of our guests. As part of this, EVEN Hotels was launched in 2012 as the first wellness lifestyle hotel brand. We developed the brand based on a large and growing traveller need for maintaining wellness routines while travelling. More than two years of research into consumer insights showed that there are 17 million wellness-minded travellers in the US alone who struggle to maintain healthy eating and exercise habits, get proper sleep and be productive when they are travelling away from home. Therefore, the brand was developed to meet a guest's holistic wellness needs in the areas of exercise, food, work and rest. For example, an EVEN branded hotel offers nutritious menus and amenities, such as guest rooms designed for in-room workouts.

**Build and**

**leverage scale**

IHG has committed up to \$150 million of its own capital to the development of the EVEN brand over the next few years. In the future, we will look to recycle this capital, just as we did for both the Staybridge Suites and Hotel Indigo brands. As part of matching the brand to the right location, we are looking at core urban areas, dense office parks and suburban markets as well as considering the expansion of the brand beyond the US. As at 31 December 2014, we had three hotels (584 rooms) signed into our development pipeline and two hotels (296 rooms) open.

**Strong brand portfolio**

**and loyalty programme**

We have been using our loyalty programme, IHG Rewards Club, to introduce our members to the EVEN Hotels brand, specifically targeting our communications at those guests who travel to, or have expressed an interest in, the locations of our first hotels, wellness or the brand itself.

**Effective channel**

**management**

As with our other brands, we have leveraged our existing booking platforms to create a brand-specific webpage targeted via the app. We have specifically customised it to be brand specific to EVEN Hotels, focusing on wellness needs with relevant content and healthy lifestyle features such as fitness videos, ambient sounds, a diary of wellness-focused events organised by the hotel, and wellness travel tips .

**Superior owner**

**proposition**

The EVEN Hotels brand allows owners to diversify their portfolio with a new IHG brand in a unique guest occasion segment. IHG, through its own capital investment, currently owns and manages the first two open EVEN hotels. Three additional hotels are currently in development. Owning and operating our first hotels enables us to showcase the brand to other potential owners.

*Targeted Portfolio*

**Attractive markets**

The US is one of our priority markets, and we opened the first EVEN hotels in cities where we have existing brand presence.

**Highest opportunity segments**

The EVEN Hotels brand has a strategic fit in our brand portfolio alongside Hotel Indigo, and now Kimpton, in the boutique and lifestyle segment. The brand is targeted at the unique segment of wellness and lifestyle.

**Managed and franchised**

We have used our own capital to develop the brand and will look to recycle this in the future. We will seek to accelerate growth for the brand through our managed and franchising model.

EVEN Hotel Rockville, Maryland, US



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Acquisition of Kimpton® Hotels & Restaurants

*We believe the Kimpton brand has enormous potential for growth.*

Our acquisition of Kimpton Hotels & Restaurants, the world's largest independent boutique hotel operator, completed in January 2015. Kimpton is a highly successful business with a US-based portfolio comprising 62 managed hotels (11,300 rooms) and a further 16 hotels (3,000 rooms) in the pipeline (as at 16 January 2015). A sophisticated food and beverage operator, Kimpton also runs 71 hotel-based destination restaurants and bars.

*Winning Model*

**Preferred brands delivered through our people**

The Kimpton brand is renowned for having distinctive and innovative hotels located in attractive urban and resort locations. Each hotel aims to deliver a deeply personal, genuine and authentic service for guests and, whilst each hotel is unique, the brand has a number of common design and service principles and hallmarks. The Kimpton brand caters for a broad and varied range of guest needs.

The Lumen, A Kimpton Hotel, Dallas, Texas, US

**Build and**

**leverage scale**

The boutique segment, in which Kimpton operates, is the fastest growing in our industry over the last five years, and there is significant opportunity for future growth based on high levels of demand growth. We also believe the brand has enormous potential for growth outside the US and plan to capitalise on our scale, powerful distribution systems and owner networks to support its growth globally. We did this previously for our Hotel Indigo brand which started with a well-established base in the US and has now been expanded globally to 21 countries (including hotels in the pipeline).

**Strong brand portfolio**

### **and loyalty programme**

The Kimpton brand has a strong strategic fit within our existing brand portfolio at the upper upscale price point. It is also highly complementary with our Hotel Indigo and EVEN Hotels brands, creating a leading boutique and lifestyle hotel business, with over 200 open and pipeline hotels across 21 countries.

We plan to leverage Kimpton's market-leading insight and strong track record in operational excellence, food and beverage, and design, to add value across our brand portfolio. Kimpton's loyalty programme (Kimpton Karma) members account for 25 per cent of its room bookings.

### **Effective channel**

#### **management**

A large proportion of Kimpton's business already comes through direct channels, driven by its most loyal guests. Each hotel has a dedicated website with engaging content, reflecting the boutique nature of the brand. We will leverage our digital platforms to accelerate Kimpton's growth, whilst maintaining the uniqueness of Kimpton's existing channels.

### **Superior owner**

#### **proposition**

The addition of Kimpton to IHG's brand portfolio offers owners another attractive option in the boutique segment and access to a brand with a strong track record at the upper upscale price point. Its presence in the most attractive markets in the US has delivered excellent financial performance for both the business and its hotel owners. It also enables IHG to raise awareness of other IHG brands among owners of Kimpton branded hotels. Kimpton's strong brand, combined with our scale and booking and distribution channels, will drive superior returns for owners.

### *Targeted Portfolio*

#### **Attractive markets**

The US is one of our priority markets and Kimpton hotels currently have presence in the most attractive urban and resort locations, as well as the highest RevPAR markets such as San Francisco and New York.

#### **Highest opportunity segments**

The boutique hotel segment has been the fastest growing in our industry over the last five years, with demand, supply and RevPAR growth in boutique hotels in the US each significantly outperforming the overall industry.

#### **Managed and franchised**

Kimpton is a fully asset-light brand, operating hotels under management contracts.

More information on the acquisition of Kimpton Hotels & Restaurants can be found at [www.ihgplc.com/kimpton](http://www.ihgplc.com/kimpton)



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***Disciplined Execution***

We recognise that successful delivery of our strategy for high-quality growth requires Disciplined Execution. We prioritise investment in our technology platforms and our people as well as delivering operational efficiencies.

*Scale and efficiency  
of operations*

*Investment in developing strong technology platforms*

**Why we think it is important**

Driving efficient operational processes and managing our costs allows us to contribute to hotel performance through efficient practices, tools and systems. It also helps us strengthen our revenue delivery systems which means an increase in system contribution to hotel revenue, supporting our owner proposition and maximising our investment in building preferred brands. Careful cost management, leveraging our scale and focusing on productivity improvements also allows us to drive continued improvement in our margin.

**What we are doing**

To maximise the scale and efficiency of our operations, we:

focus on spending in a way which enables further investment in our strategic priorities. Our procurement team has tools and processes which allow us to monitor and control spend and use our scale to deliver buying advantage. Our focus on cost efficiency and continuous improvement ensures we deploy our resources effectively, concentrating on the key priorities and activities that drive our business;

introduced a new human resources system to streamline and improve the automation of our human resources processes in 2014 – see page 32; and

continue to benefit from off-shoring our Business Service Centre in Gurgaon, India. This provides centralised accounting services for IHG corporate offices, and owned and managed hotels.



## How we measure it

KPI Fee margins

See page 32 for the KPI and  
What we have done in 2014

## Why we think it is important

As identified on page 11, technology, as used by travellers, is playing an increasingly important role in shaping the travel industry. The internet, which is now more than ever accessed through mobile devices, is used extensively to research, plan and book travel. In emerging markets, consumers are going straight to mobile devices, and there are now twice as many mobile internet users in China than internet users in the US. Guests are also seeking greater levels of personalisation, and are sharing their experiences instantly via social media.

We believe that keeping abreast of the evolving traveller trends and investing in technology systems will assist us in building brand preference, strengthen our loyalty programme and deliver compelling and engaging digital content across the Guest Journey (which comprises five steps Dream, Plan, Book, Stay and Share), thereby enabling us to build lifetime relationships with our guests.

## What we are doing

To deliver the highest quality digital content for our guests, we are ensuring that we have the right technology foundations and infrastructure in place. In 2014, we:

- standardised on property hardware for all IHG hotels in the US, providing a consistent platform that allows us to develop solutions such as Mobile Check-in and Check-out (now available in over 500 hotels);

- piloted enhanced customer relationship management capability that allows us to utilise our IHG Rewards Club members' profiles to drive personalisation and guest recognition in our hotels;

- implemented new digital marketing capabilities that allow us to target potential guests more effectively through the internet; and

- announced our strategic partnership with Amadeus, the leading provider of advanced technology solutions for the global travel industry, to explore technology solutions.

Improving our technology infrastructure gives us the foundation to transform the guest experience and make it more interactive through digital content. In 2014, we:

increased mobile bookings by 50 per cent to \$900 million and downloads of the IHG app grew by 80 per cent;

made numerous improvements to our award-winning mobile app, including the launch of IHG translator, a learning tool which engages our guests and drives greater interaction; and

created benefits for our IHG Rewards Club members, including multi-brand campaigns that include over one million automatically tailored offers generated using specific insights from each guest's profile and stay history. \$360 million in revenue was generated by the 2014 Big Win IHG Rewards Club promotion.

### How we measure it

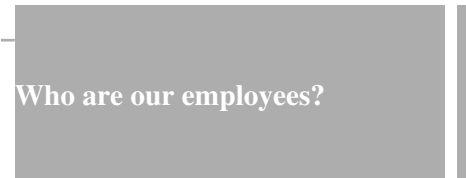
KPI System contribution to delivery

See page 30 for the KPI and  
What we have done in 2014

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InterContinental Sydney Double Bay, Australia

*Investment in developing great talent*



**Why we think it is important**

Our people bring our brands to life on a daily basis, delivering on each individual brand promise to enhance the guest experience. They are, therefore, a critical part of our success. Accordingly, we recognise the importance of attracting, retaining and developing the very best talent in the industry to service our guests and bring our brands to life.

to ensure IHG meets expectations and delivers on its commitments this is formally done twice a year through the Employee Engagement survey, the results of which are a KPI.

**Room to grow:** Our people are given access to the required support, experience and training and provided with development opportunities.

Having a predominantly managed and franchised estate means that not all of those people who work at our hotels are our employees. 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 IHG's brands as at 31 December 2014.

**What we are doing**

To achieve this, the four pillars of our people strategy have consistently been:

**Room for you:** We recognise achievements and communicate these throughout our business.

IHG employed the following as at 31 December 2014:

**1. To develop a BrandHearted culture**

**3. To deliver world-class People Tools to our owners and hotels**

Our People Tools are industry-leading best practices tailored specifically for our brands, and assist hotel management and

7,797 people worldwide (including those in our corporate offices, central reservations offices and owned hotels (excluding those in a category below)), whose costs were borne by the Group;

Each of our brands delivers a differentiated guest experience dependent upon the brand's strategy. This is delivered by our people who place brands at the centre of this helping to drive guest satisfaction and brand preference, which we measure through Guest HeartBeat a KPI.

human resources teams to hire, train, involve and recognise our colleagues. By working to increase employee retention and performance, guest satisfaction and drive efficiencies, they help increase revenue for our owners (helping us with our owner proposition).

4,975 people who worked directly on behalf of the System Fund and whose costs were borne by the System Fund;

602 General Managers who work in our managed hotels and whose costs were borne by those hotels; and

**2. To make IHG a great place to work**

Building a strong employer brand assists us in attracting the best possible talent to meet our strategic objectives:

we ask our people to live our Winning Ways (set out above) and act in a responsible way see pages 24 and 25 for how acting responsibly is part of our culture; and

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

Room to have a great start: This assists us in recruiting the right people for each brand and role. New recruits are offered a structured orientation programme to provide them with an understanding of IHG's strategy and values.

Room to be involved: We communicate with employees on matters relating to the Group's business and performance and share information on people, policies and

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

We have established a winning culture at IHG, this starts with building a strong leadership from the top see pages 57 to 69 for our Board and Executive Committee leadership.

For alignment of our performance culture with our strategic priorities and KPIs in our corporate offices for our senior executives, see the Directors Remuneration Report on pages 76 to 91.

11,848 other hotel workers who work in our managed hotels, who have contracts or letters of service with IHG and whose costs were borne by those hotels.

*See pages 120 and 152 for more information.*

**How we measure it**

KPIs Employee engagement, Guest HeartBeat

See pages 31 and 32 for KPIs and What we have done in 2014

**Diversity and inclusion**

news across IHG through various channels, including conferences, team meetings and our intranet site. We encourage employees to give regular feedback

As a global organisation operating in nearly 100 countries 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. As at 31 December 2014:

5 of the 13 Directors on the Board were female (38%);

32 out of 127 of the senior managers employed by the Group (including directors of subsidiaries) were female (25%); and

7,069 out of the 12,772 employed by the Group and whose costs were borne by the Group or the System Fund were female (55%).

See page 62 for further information on our approach to diversity (including our diversity policies) from the Board level and throughout the organisation.

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***Doing business responsibly***

A commitment to responsible business practices underpins our entire strategy and the way we work. We recognise the importance it has for all of our stakeholders in making IHG and its brands their preferred choice.

**Why we think it is important**

We believe that by ensuring our business is committed to responsible business practices we will enhance and protect the reputation of IHG and our brands. It provides us with the opportunity to protect the environment, create job opportunities, improve community resilience and make us more innovative. Doing the right thing in the right way enables us to make an even greater contribution to the locations where we operate. It also ensures we act in a manner that benefits all of our stakeholders, including employees, guests, corporate customers, owners and the local community, who are increasingly considering whether the businesses with which they interact share their values. This provides us with a competitive edge, assisting us to deliver profitable growth and create shared value for all stakeholders in the long term.

**How we measure it and**

**What we have done in 2014**

KPIs Employee engagement and all those KPIs set out on page 33

Our commitment to responsible business underpins our whole strategy and contributes to our success across all areas.

See pages 32 and 33 for progress against our KPIs.

### Five-year corporate responsibility targets

These were released in September 2013, and are centred on measuring our impact on the environment and community (at both global and local level) and demonstrating our commitment to doing business responsibly and creating shared value for IHG and its stakeholders:

some of these are KPIs; and

the progress against others can be found in our Responsible Business Report.

**Further information, including our Responsible Business Report, can be found at [www.ihgplc.com/responsiblebusiness](http://www.ihgplc.com/responsiblebusiness)**

### What we are doing

Our commitment to responsible business is part of our culture. Our responsible business practices include:

#### Governance and leadership

Our Chairman, the Board and its Committees provide a strong leadership and governance structure. They promote responsible business behaviour by maintaining high standards of corporate governance, internal controls and risk management and compliance with relevant laws and regulations.

*For information on our Board and governance processes, see pages 54 to 91.*

#### Commitment to responsible business practices

We have a reputation for delivering a consistent and superior guest experience, we provide a safe and secure environment and we actively engage with our communities. Our brands are valuable assets and doing business responsibly enhances their reputation and builds trust and brand preference.

#### Responsible procurement

Our Vendor Code of Conduct sets out standards to which we require our supply chain partners to operate. We are committed to promoting diversity across our responsible procurement agenda and have set targets to ensure corporate responsibility criteria are integrated into the selection and evaluation process for preferred suppliers.

#### Health, safety and security

A safe and secure environment for our guests, employees and those working at or visiting our hotels and corporate offices is important. IHG has therefore established a set of policies, procedures and measures, and complies with relevant legislation. We ensure the protection and well-being of those working for IHG through suitable work-based strategies, minimise the risk of injury from work activity, ensure that sufficient information is provided 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.

### **Risk management**

We have in place an effective system of internal controls and risk management to identify, assess, prioritise and mitigate risks to our business, guests and employees, which enables us to achieve our shared objectives. This is an essential part of being a responsible business.

*For information on our risk management practices and systems of internal controls, see pages 26 to 29.*

### **People**

Being a responsible business cannot be achieved without the support and active engagement of our people. They are fundamental to ensuring we operate an ethical business. Our Winning Ways (see page 23) are a set of behaviours that we internally promote to assist with how we interact with our guests and colleagues.

As part of acting responsibly and putting in place a responsible business ethos, we have policies and training in place to ensure our people are kept aware of and understand the key legal and regulatory areas affecting them in their roles, such as competition, anti-bribery and data privacy laws and procedures, crisis management and brand safety standards. We do this through 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.

Our Code of Conduct consolidates and clarifies expected standards of behaviour and communicates the ethical values of the Group. It is applicable to all Directors, officers and employees and is available at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under corporate governance.

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

*For information on our investment in developing our talent and who are our employees, see page 23.*



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IHG Academy - Holiday Inn Express Stoke On Trent, UK

### Human rights

We focus on those areas of human rights most relevant to our business, 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 through embedding it as a brand standard, and will continue to develop our training materials. We are a signatory to 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 part of the Business in the Community cross industry working group on human rights as well as the International Tourism Partnership's Human Trafficking Working Group. We are also working with our internal procurement team to embed further our human rights approach into our contracts.

### Corporate responsibility

Our global scale provides us with an opportunity to make a positive impact on the environment and communities in which we operate. Our five-year corporate responsibility targets, released in September 2013, focus on measuring this impact.

Each one of our hotels is a central part of its community, from creating jobs and stimulating local economic opportunities, to managing their environmental impact in a responsible way and providing shelter in times of need. We work to develop new and better ways to assist owners to build and operate IHG branded hotels, creating sustainable value for our brands, business and stakeholders, as well as addressing social and environmental challenges. Our three bespoke corporate responsibility programmes are a key part of this and we

work very closely with our owners and colleagues to maximise the positive impact of these initiatives:

**IHG Green Engage™ system:** Helps us minimise our impact on the environment by tracking and managing the use of energy, carbon and water and waste in our hotels. This assists us in delivering both more environmentally sustainable hotels and cost efficiencies for owners.

**IHG® Academy:** A collaboration between our hotels and local schools, colleges and community organisations to help people develop the skills they need to improve their employability and secure a job in the hotel industry.

**IHG® Shelter in a Storm:** Empowers our hotels to support guests, colleagues and local communities in times of disaster with financial support, vital supplies and accommodation.

## IHG's global greenhouse gas (GHG) emissions

By delivering more environmentally sustainable hotels, we can drive cost efficiencies for owners as well as meet the expectations of all our stakeholders. We recognise the importance of reducing our global greenhouse gas emissions for corporate offices and hotels – our target is to reduce our carbon footprint per occupied room by 12% across our entire estate by 2017 (against a 2012 baseline). See page 33 for progress.

Reporting boundary	Measure	2014 <sup>1</sup>	2013 <sup>1</sup>
Global corporate offices and managed, franchised, owned and leased hotels <sup>2</sup> (a KPI and part of our five-year targets)	Scope 1 Direct emissions	1,365,883	1,280,973
	Scope 2 Indirect emissions	3,792,771	3,683,737
	Total GHG emissions (tCO <sub>2</sub> e)	5,158,654	4,964,710
	IHG's chosen intensity measurement GHG emissions per occupied room (kgCO <sub>2</sub> e per occupied room)	32.3	33.4
Global corporate offices and managed, owned and leased hotels <sup>2</sup> (as required under the Companies Act 2006)	Scope 1 Direct emissions	496,316	486,086
	Scope 2 Indirect emissions	1,921,077	1,847,304
	Total GHG emissions (tCO <sub>2</sub> e)	2,417,393	2,333,390
	IHG's chosen intensity measurement GHG emissions per occupied room (kgCO <sub>2</sub> e per occupied room)	59.2	62.2

## Scope

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 external consultants to give us an up-to-date picture of IHG's carbon footprint and assess the performance over the past few years. The external consultants use a sampling and extrapolation methodology to estimate our GHG emissions.

For 2014, in line with the methodology set out in the GHG Protocol Corporate Standard, the sample covered 1,402 of our 4,840 hotels. As IHG System size is continually changing and the hotels reporting data to the IHG Green

<sup>1</sup> Reporting period commencing on 1 October and ending on 30 September 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.

<sup>2</sup> Includes all of our branded hotels but does not include emissions from 88 hotels. We do not have sufficient data to estimate their emissions and believe them to be immaterial.

Engage system increases annually, we are restating the impacts for all years from the baseline year 2012 annually to enable comparisons to be made.

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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.

### **IHG's approach to risk management**

The Board is ultimately accountable for risk management across the organisation. It is supported by the Audit Committee, the Executive Committee and other delegated committees who collectively set the tone and appetite for risk management at IHG.

This is cascaded down to the day-to-day activities of IHG corporate offices and hotels through well-established and continuously improving policies, processes, systems and controls which set out clear accountability, and are supported by tools, training and communication to ensure risks are effectively managed.

Risks are further identified, assessed, mitigated and monitored by functional specialists and, where deemed necessary, periodically reviewed by internal and external auditors. These activities are typically grouped into Three Lines of Defence as shown on the right. IHG's Global Risk Management team provide subject matter expertise, leadership and support across all these activities.

### **Embedded risk management processes**

IHG has in place a Major Risk Review process to:

- enable the business to identify, assess, manage and monitor the principal risks and uncertainties affecting the Group (the Major Risks); and

- support the Executive Committee, Audit Committee and the Board to monitor, review and reflect upon the progress of risk management activities across the portfolio of Major Risks on a biannual basis.

The Major Risks align closely with our strategy and business priorities, and also identify those issues which are most likely to significantly affect other operational, commercial or reputational matters and, as such, are regularly discussed at senior leadership team and committee meetings.

Our Risk Working Group (RWG) ensures there is sufficient focus and effective management of the Major Risks, and seeks 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.

Underpinning the Group's Major Risk Review process, each of the regions and functions have their own risk profiles that are updated quarterly in line with the activities of the strategic planning cycle. During the interim periods, continuous dialogue takes place between risk owners and risk subject-matter experts to develop, execute and monitor detailed risk assessments, risk mitigation strategies, controls and key risk indicators.

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**Holistic approach to risk assessment**

IHG conducts risk assessments to identify, prioritise and inform decisions on risk mitigation. Risks are first assessed from an inherent or gross risk perspective (unmitigated risk). Then, internal controls and mitigation activities are identified and developed resulting in a residual or net risk assessment (mitigated risk, net of controls). This is informed by the performance monitoring of internal key risk indicators, which provide objective evidence as to how effectively the risk is being managed. IHG and its Board think broadly and holistically about potential risks to the business, across the following categories:

<b>Risk</b>	<b>What are these?</b>	<b>Who manages them?</b>
<b>Strategic</b>	<p>Risks arising from IHG’s relationship with the external environment that can impact on IHG’s ambition and strategy over the long term.</p> <p>Include major market and environmental changes or events that could impact our reputation across key stakeholder groups.</p>	<p>Leadership is provided by the Board, the Executive Committee, the Regional Operating Committees and functional leadership teams.</p> <p>Expertise, co-ordination and oversight is provided by Global Strategy in conjunction with Global Risk Management to drive IHG’s leadership to make decisions around its portfolio of brands, key markets, business model and approach to ethics and other reputational matters.</p>
<b>Tactical</b>	<p>Risks that could impact the delivery of IHG’s one to three-year commitments.</p> <p>Include, but are not limited to, factors influencing IHG’s ability to sign and open new hotels, the performance of existing hotels and</p>	<p>Performance and delivery risks are managed by senior leaders and reported to the Regional Operating Committees and functional leadership teams.</p>

the delivery of projects that align with strategic planning processes.

Project risks are managed by project management teams with oversight provided by our internal Programme Office and supported by Global Risk Management.

**Operational**

Risks which include a wide spectrum of day-to-day risks that frontline hotel colleagues and corporate teams face when dealing with guests or ensuring corporate systems and processes are running smoothly.

Operational risks are managed by frontline hotel colleagues.

Include, but are not limited to, those managing the safety and security of our people and assets, the continuity of the business, third-party service providers and the wider supply chain.

Oversight is provided, in the context of the managed and franchised business models, by specialist functional teams, with leadership provided by the Regional Operating Committees.

Due to the nature of operational risks, IHG typically mitigates these through policies, operational and business processes and other internal controls supported by systems, tools and training. Subject-matter expertise, leadership and co-ordination is provided by Global Risk Management and functional specialists.

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*Risk management continued*

**Managing risks in a changing environment**

We continue to experience an increasingly risk aware and dynamic external risk environment with changes in political, economic, social, technological, legal and environmental risks. However, the Group’s asset-light business model, diversity of brand portfolio and wide geographical spread contribute to IHG’s resilience to events that could affect specific hotels or local areas.

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 14 to 25). Whilst the external risk environment is increasingly volatile, uncertain and competitive, this is offset by our decision-making and strengthening risk culture, and efforts to continuously improve controls and mitigation actions (some of which is summarised below). These Major Risks align to our strategic priorities and are therefore proactively managed and monitored by senior management. They complement the wider comprehensive risk factors set out on pages 162 to 165.

<b>Risk description</b>	<b>Controls and mitigations</b>
<p><b>Preferred brands</b></p> <p>Having a portfolio of brands with a clear, distinct brand proposition aimed at meeting increasingly personalised guest needs and the occasions they are travelling for, and delivering a consistent experience, is crucial to creating brand preference, loyalty and advocacy.</p>	<p>Each of the brands in our portfolio of brands is designed to meet specific guest needs and occasions through distinct and complementary brand propositions (see pages 4, 5 and 18). Our recent acquisition of Kimpton Hotels &amp; Restaurants adds to the strength of our portfolio and, together with EVEN and Hotel Indigo, enhances our boutique and lifestyle business (see pages 20 and 21).</p> <p>We will continue to deliver on the growth of the Kimpton brand, running it as a standalone business to preserve its uniqueness.</p> <p>We continually review ways to increase awareness and loyalty towards our brands through our loyalty programme, IHG Rewards Club, as well as a blend of global and local marketing promotions, sponsorships and brand initiatives to</p>



Failure to achieve this could impact on IHG's competitive position and our reputation with guests, owners and investors.

create synergies across the brand portfolio.

We manage brand consistency through the entire hotel life cycle supported by clear contractual terms, new hotel opening processes, brand standard requirements and compliance processes. This is supported by tools, training and guidance to assist those working at our hotels and owners to enable them to deliver brand consistency.

### Leadership and talent

IHG must recruit and retain the right people and give them the tools, guidance and support to be successful in order to deliver a preferred brand promise. Recruiting and retaining people to work in its hotels, especially in rapidly growing emerging markets, is a particular challenge and ensuring we have the right leadership is crucial.

We have in place a comprehensive global people strategy (see page 23) to ensure we are able to recruit, retain and develop talent at our hotels, corporate offices and central reservations offices. This includes our Room to be yourself commitment underpinned by a set of globally consistent policies, guidance, systems and tools, with localisation where appropriate.

Supplementing the global strategy, we have developed local people strategies for some of our priority markets to ensure we are best placed to be the employer of choice in these markets. These strategies make necessary adjustments to meet local languages, laws, customs and cultural nuances and to effectively leverage local recruitment channels.

IHG Academy assists us to fill our talent pipeline whilst supporting the local communities (see page 25).

Failure to manage these could impact on IHG's service delivery and IHG's brands, result in increased cost of recruitment and have a broader impact on performance and delivery.

Our leadership framework, support tools, and training and development programmes help our people grow their careers, thereby managing internal talent. We proactively manage and monitor succession planning at all levels. We consider the diversity (more broadly than gender) of our people and leadership, reviewing it in light of our guests and the local communities in which we operate (see page 62).

### How each Major Risk links to our strategic priorities (described on pages 16 to 25)

Winning Model

Targeted Portfolio

Disciplined Execution

Responsible Business

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Risk description	Controls and mitigations
<p><b>Channel management and technology platforms</b></p>	
<p>Booking and distribution channels and technological systems are a key part of delivering across 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 intermediaries and travel agents impacting guests booking direct.</p>	<p>We recognise that technological advances and changing guest expectations mean that we must continually invest in, and improve, our technological systems (see page 22) to deliver across the Guest Journey to build lifetime relationships with our guests. Our focus is on encouraging guests to use direct booking channels. However, recognising that some travellers use online travel agencies and intermediaries, IHG seeks to secure better terms with them on behalf of our owners.</p>
<p>Threats to information security, from payment card information and other information held in IT systems, paper format and other formats, is a growing concern which could impact our operations, result in fines and other incremental costs, and undermine stakeholder trust in our business.</p>	<p>Our 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 .</p>
<p>Failure to effectively manage and keep under review our channels</p>	<p>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. We manage data security to contain the risk and reduce the Group’s exposure, tightly controlling sensitive data through limited and monitored access.</p>
	<p>We continue 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.</p>

and information technology infrastructure to optimise performance and resilience could impact on IHG's revenue delivery systems, guest experience, return for our owners and investors, and IHG's future performance.

### **Owner proposition**

As a result of IHG's predominantly franchised and managed business model and the increasingly competitive market for deals, maintaining strong relationships with owners, having a compelling value proposition, and demonstrating attractive returns on investment for our existing, new and potential owners is critical to sustaining IHG's growth.

Failure to manage the owner proposition may result in the poor retention of hotels, and impact on IHG's System size and development pipeline.

### **Reputation and brand protection**

IHG's regional teams build relationships with owners through a variety of methods, including formal and informal communications and owner conferences. We continually review and update our central support tools and systems, to offer a compelling owner proposition (see page 17).

IHG works closely with the IHG Owners Association, to ensure we have an understanding and insight into owners' perspectives, particularly with respect to new programmes and initiatives (see [www.ihgplc.com/ihgowners](http://www.ihgplc.com/ihgowners) for a message from the 2014 Chairman of the IHG Owners Association).

The System Fund (described on page 49) is managed by IHG for the benefit of all our hotels with the objective of driving revenue for them, and its use is reviewed annually in collaboration with the IHG Owners Association.

Long-term franchise and management contracts, owner due diligence, new hotel opening teams and processes, Hotel Solutions (our internal online portal which provides tools and guidance to hotels across a number of operational areas) and the wider corporate infrastructure are put in place to leverage scale, support our hotels and maintain relationships with owners throughout the life cycle of the hotel.

Our commitment to responsible business underpins our strategy and is embedded in our culture throughout the organisation (see pages 24 and 25).

IHG recognises the importance of its brands and reputation as important assets for the business. Societal and legal changes are increasingly holding organisations accountable for activities associated with their extended enterprise. With digital technology, news and the media, including social media, heighten the need for IHG, all those working in our hotels and corporate offices, owners and business partners to behave responsibly. Reputation is a complex matter that involves all areas of business.

Failure to safeguard the reputation of IHG and our brands could have a severe impact on the Group's future performance.

We have in place a comprehensive set of internal policies, processes and other internal controls supported by tools, training, monitoring and reporting.

Leadership in this area is provided by IHG's Business Reputation and Responsibility function comprising lawyers, brand standard compliance managers, chartered secretaries, corporate responsibility specialists, risk managers and internal auditors who work together with the rest of the business to champion and protect the trusted reputation of IHG and our brands.

Our proactive risk-based approach to safety and security, intellectual property, regulatory compliance, litigation, crisis management and human rights are examples of the activities in place to manage reputational risk.

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***Key performance indicators (KPIs)***

We measure our performance through a set of carefully selected KPIs which monitor our success in achieving our strategy and the progress of our Group to deliver high-quality growth. The KPIs are organised around the framework of our strategy – our Winning Model and Targeted Portfolio, underpinned by Disciplined Execution and Doing Business Responsibly.

***Winning Model and Targeted Portfolio***

<b>KPIs</b>	<b>2014 progress</b>	<b>2015 priorities</b>
<b>Net rooms supply<sup>1,2</sup></b>	In line with our 2014 priorities, in relation to:  growth, particularly in priority markets (as at 31 December 2014):	⚡ Continue to accelerate growth strategies in priority markets, and key locations in agreed scale markets, and continue to leverage scale.
Net total number of IHG rooms in the IHG System.	- IHG System size 710,295 rooms (4,840 hotels), reflecting 3.4% net IHG System size growth in 2014, the strongest since 2009;	⚡ Continue to support the growth of the EVEN and HUALUXE brands.
<b>Growth in fee revenues<sup>1,2</sup></b>	- 610,274 rooms (4,351 hotels) of the IHG System are in our priority markets 85%;	Drive growth of the Kimpton brand in the US and create the foundation to establish the brand globally.
	- IHG's pipeline 193,772 rooms (1,221 hotels), with 2014 having the highest signings in six years; and	

At constant currency

- 173,252 rooms (1,117 hotels) of our pipeline are in our priority markets 89%.

Group revenue excluding revenue from owned and leased hotels, managed leases and significant liquidated damages.

supporting the growth of the HUALUXE Hotels and Resorts and EVEN Hotels brands, we:

- opened our first 2 EVEN hotels in 2014 (see page 20) and, in February 2015, the first HUALUXE hotel (see page 19); and

- had 3 EVEN hotels (one of which is owned) and 24 HUALUXE hotels in the pipeline (as at 31 December 2014).

**Total gross revenue from hotels in IHG's System**

In line with our 2014 priorities, in relation to:

Continue to drive adoption and impact of our performance tools, systems and processes amongst our owners.

continuing to drive loyalty to our portfolio of brands and driving awareness of IHG Rewards Club, we:

Continue to enhance the functionality and performance of our direct channels to make these the preferred way to book.

Actual \$bn

- enrolled 7m new IHG Rewards Club members (up 9% on 2013), taking the total to 84m members;

Total rooms revenue from franchised hotels and total hotel revenue from managed, owned and leased hotels. It is not revenue attributable to IHG, as it is derived from hotels owned by third parties. It is an indicator of the scale and reach of IHG's brands.

- continued to win awards including the Best Hotel Rewards Programme in the World by Global Traveler magazine (see [www.ihgplc.com/ourbrands](http://www.ihgplc.com/ourbrands));

Drive preference for IHG Rewards Club and leverage this to build deeper, lifetime relationships with our guests.

- extended free internet access for all IHG Rewards Club members across our hotels globally;

Continue with investment in technology systems and platforms and embed leading-edge digital technology and enhanced capabilities.

- launched the first global promotion by IHG Rewards Club, Big Win, aimed at encouraging members to stay at more hotels within IHG's portfolio; and

**System contribution to revenue<sup>1,2</sup>**

- enhanced our ancillary programmes such as Business Rewards, Dining Rewards and co-branded credit cards to extend our relationship with guests.

The per cent of room revenue delivered through IHG's direct and indirect systems and channels.

continuing with investment in technology systems and platforms:

- we launched Mobile Check-in and Check-out at more than 500 hotels; and

- see page 22 for further initiatives undertaken in 2014.

continuing to strengthen our revenue delivery, we delivered 71% system contribution to revenue, including \$4bn of digital revenues with 50% growth in mobile bookings to over \$900m.

continuing to drive the adoption and impact of our performance tools, systems and processes amongst our owners there was an increase of over 20% in the adoption of Revenue Management for Hire.



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**Link between KPIs and Directors remuneration**

KPIs which could have an impact on the performance measures for remuneration plans:

<sup>1</sup> Annual incentive plan (Annual Performance Plan)

<sup>2</sup> Long-term incentive plan (Long Term Incentive Plan)

*For more information see Directors Remuneration Report pages 76 to 91.*

**Explanation as to how 2015 priorities have evolved from 2014 priorities:**

↳ Same priority as 2014

Specific progress made in 2014 against 2014 priority, the priority has accordingly been updated for 2015

New priority for 2015 in line with changes to our business

KPIs	2014 progress	2015 priorities
<b>Global RevPAR growth<sup>1,2</sup></b>	In line with our 2014 priorities, in relation to:  strengthening the quality and consistency of the brand experience, delivering guest journeys that are differentiated by brands, we:	↳ Strengthen frontline training and capabilities to consistently deliver great guest experiences that build brand preference.
Comparable hotels, at constant currency		Continue to strengthen the quality and consistency of the brand experience, delivering guest journeys that are differentiated by

<p>Revenue per available room: Rooms revenue divided by the number of room nights that are available (can be mathematically derived from occupancy rate multiplied by average daily rate).</p>	<ul style="list-style-type: none"> <li>- clarified each of the brand propositions (see pages 4, 5 and 16);</li> <li>- recorded improvements in guest satisfaction scores in every region for our brands, leading to a global Guest HeartBeat score of 83.83%; and</li> <li>- received external recognition for our brands and hotels through winning over 300 global, regional and hotel level awards see <a href="http://www.ihgplc.com/ourbrands">www.ihgplc.com/ourbrands</a>.</li> </ul>	<p>brand and building long-term brand preference across our brands.</p> <p>Embed refreshed brand standards across our brands.</p> <p>Continue to operate the Kimpton brand successfully as part of the IHG portfolio.</p>
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**Guest HeartBeat<sup>1</sup>**

continuing to progress with our standards refresh across the brands, we launched the Holiday Inn Express, Holiday Inn, EVEN, Crowne Plaza and InterContinental standards manuals online.

IHG's guest satisfaction measurement tool to measure brand preference and guest satisfaction.

supporting the openings of the first EVEN and HUALUXE hotels (see pages 19 and 20).

continuing to invest in building long-term brand preference across our brands in line with segmentation by guest needs and occasions:

- for the Crowne Plaza Hotels & Resorts brand, we introduced a new, innovatively designed guest room focused on meeting the changing needs of today's modern business traveller;

- for the InterContinental Hotel & Resorts brand, we rolled out the new signature InterContinental Planet Trekkers menu, created exclusively for children, across our properties;

- to deliver the Holiday Inn brand experience, we continued to roll out the Open Lobby concept across

the brand, having opened five in the UK;

- we further delivered on meeting guests' changing needs by introducing a new Holiday Inn Express prototype design, which was co-created with hotel owners and through guest insights; and

- we acquired Kimpton Hotels & Restaurants in January 2015 (see page 21).

empowering our frontline teams with the tools and training to consistently deliver great guest experiences that build brand preference:

- 2,000 hotel General Managers globally have participated in our Journey to Brand Manager programme; and

- we embedded the IHG General Manager Programme for new hotel General Managers, with nearly 1,200 hotel General Managers having participated.

*Our regional priorities and progress in each of the regions are set out on pages 37, 40, 43 and 46.*



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**IHG** Annual Report and Form 20-F 2014

*Key performance indicators (KPIs) continued*

*Disciplined Execution*

**KPIs**

**Fee margins<sup>1</sup>**

**2014 progress**

In line with our 2014 priority to continue to focus on sustainable fee margin progression over the medium term, we delivered Group fee margins of 44.7%, up 1.5 percentage points on 2013, benefiting from slightly higher than usual strong growth in our scale markets.

**2015 priorities**

Continue to focus on sustainable fee margin progression over the medium term.

\* Restated for IAS19R  
Employee Benefits

Operating profit as a percentage of revenue, excluding revenue and operating profit from owned and leased hotels, managed leases and significant liquidated damages.

Through leveraging our scale and focusing on productivity improvements, we intend to continue growing fee margins over the medium term. However, we will balance this with investing behind critical business capabilities to maximise top-line growth as well.

**Employee Engagement survey scores<sup>1</sup>**

In line with our 2014 priorities, in relation to:

delivering our people strategy (see page 23), we increased our Employee Engagement survey score by 3 percentage points on 2013 and we continue to be recognised externally as an employer of choice see page 9 and [www.ihgplc.com/aboutus](http://www.ihgplc.com/aboutus) under our

Continue to focus on developing our winning culture through our leaders, in particular on how we build a higher level of feedback and coaching to drive performance.

Average of a twice-yearly awards. employee engagement survey, completed by employees and those who work in our managed hotels (excluding our joint ventures).

strengthening our approach to developing leaders and investing in tools and training that build leadership capabilities we:

Review our learning practices across our corporate and hotel operations to shape the way we leverage learning over the next five years in line with business priorities.

- launched new global leadership development programmes;

Review how we develop and retain talent and use our new human resources system to deliver better talent analytics and insight.

- increased leadership succession through new appointments and internal promotions at senior levels and internal organisational changes in line with business priorities; and

- improved our human resources systems and services through the introduction of a single system creating a streamlined, globally consistent approach to how we manage our people globally.

continuing to build a winning culture (a high performing culture) through strong leadership and performance management, we:

- introduced a new approach to performance management driving closer alignment of our global objectives, with stronger team collaboration and a simpler connection between achievement and reward;

- rolled out a global metrics approach which requires each area of the business to align to their highest priorities; and

- built a winning culture champions network from our senior leadership population, to shape and deliver this approach globally.

improving the leadership capability of our frontline managers and supervisors, we launched a new frontline manager and a supervisor programme aimed at building critical skills to drive performance within our hotels.

Responsible business activities continue to drive high levels of pride in our employees with 92% of respondents of our Employee Engagement survey saying overall they felt more positive about IHG as a result of its responsible business initiatives and/or programmes.

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*Doing business responsibly*

<b>KPIs</b>	<b>2014 progress</b>	<b>2015 priorities</b>
<p><b>Number of people participating in IHG Academy programmes</b></p>	<p>In line with our 2014 priorities to expand the IHG Academy:</p> <p>6,666 people benefited from our global IHG Academy programmes in 2014, taking the total to 13,057 people since 2013; and</p> <p>we expanded our IHG Academy to 626 programmes (as at 31 December 2014), which includes participation by 409 hotels in 58 countries – an increase of 325 programmes from 2013.</p>	<p>⌚ Provide skills and improved employability to a total of 20,000 people via the IHG Academy over a five-year period (2013-2017).</p> <p>⌚ Continue to expand the IHG Academy throughout our hotel estate and work to ensure the programmes deliver positive results for participants, IHG and our hotels.</p>
<p><b>Value of monetary donations and in-kind support to communities, including through IHG Shelter in a Storm</b></p>	<p>In line with our 2014 priorities to contribute to communities, we:</p> <p>contributed a total of \$6.18m in 2014, taking the total to \$8.10m since 2013, to communities through monetary donations and in-kind support, including through IHG Shelter in a Storm;</p> <p>have raised \$840,000 for the IHG Shelter Fund during 2014; and</p>	<p>⌚ Contribute a total of \$10m over a five-year period (2013-2017) to communities through monetary donations and in-kind support, including through IHG Shelter in a Storm.</p> <p>⌚ Further increase awareness of, and engagement with, IHG Shelter in a Storm, ensuring our hotels are prepared for disaster and</p>



responded to 18 disasters in 9 countries in 2014, including Mexico, China, Egypt and the UK, allocating funds to help with financial support, vital supplies and accommodation. able to respond quickly and effectively to help colleagues, guests and local communities when needed.

**Carbon footprint per occupied room**

In line with our 2014 priorities to reduce our carbon footprint and drive the IHG Green Engage™ system, we:

⚡ Reduce carbon footprint per occupied room by 12% across our entire estate (over a five-year period (2013-2017) using 2012 baseline).

reduced carbon footprint per occupied room to 32.3 kg CO<sub>2</sub>e (reduction of 3% on 2012 baseline) across our entire estate. Year-on-year, our carbon footprint increased by 0.6% per occupied room from 2012 to 2013 but reduced by 3.5% per occupied room from 2013 to 2014;

⚡ Continue to drive quality of use of the IHG Green Engage system to reduce impact on the environment, enable cost savings and drive revenue.

\* Restated

See page 25 for further information on scope and methodology.

reported a Carbon Disclosure Project disclosure rating of 92B (this represents a significant increase on our score from the previous year (85B)); and

introduced a brand standard for all IHG hotels to be enrolled in the IHG Green Engage system.

⚡ Support all our hotels to meet the IHG Green Engage standard.

**Water use per occupied room in water-stressed areas**

In line with our 2014 priorities to reduce water use per occupied room in water-stressed areas, we:

⚡ 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).

reduced water use per occupied room by 0.03m<sup>3</sup> (reduction of 4.2% on 2012 baseline) in water-stressed areas. Year-on-year, water use in water-stressed areas increased by 0.5% per occupied room from 2012 to 2013 and decreased by 4.2% per occupied room from 2013 to 2014; and

⚡ Launch phase two of the water stewardship programme.

\* Restated

launched a water stewardship programme to understand our risks and impacts allowing us to develop strategies to assist hotels at a local level.

⚡ Improve a hotel's understanding of water stress and pollution, and their relationship with local communities.

*Our regional priorities and progress in each of the regions are set out on pages 37, 40, 43 and 46.*

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**Performance****Group****Group results**

			12 months ended 31 December		
	<b>2014</b>	<b>2013</b>	2014 vs	2012 <sup>1</sup>	2013 vs
	<b>\$m</b>	<b>\$m</b>	2013 %		2012 %
			change	\$m	change
<b>Revenue</b>					
Americas	<b>871</b>	<b>916</b>	(4.9)	837	9.4
Europe	<b>374</b>	<b>400</b>	(6.5)	436	(8.3)
AMEA	<b>242</b>	<b>230</b>	5.2	218	5.5
Greater China	<b>242</b>	<b>236</b>	2.5	230	2.6
Central	<b>129</b>	<b>121</b>	6.6	114	6.1
Total	<b>1,858</b>	<b>1,903</b>	(2.4)	1,835	3.7
<b>Operating profit</b>					
Americas	<b>544</b>	<b>550</b>	(1.1)	486	13.2
Europe	<b>89</b>	<b>105</b>	(15.2)	112	(6.3)
AMEA	<b>84</b>	<b>86</b>	(2.3)	88	(2.3)
Greater China	<b>89</b>	<b>82</b>	8.5	81	1.2
Central	<b>(155)</b>	<b>(155)</b>		(162)	4.3
Operating profit before exceptional items	<b>651</b>	<b>668</b>	(2.5)	605	10.4
Exceptional operating items	<b>29</b>	<b>5</b>	480.0	(4)	225.0
	<b>680</b>	<b>673</b>	1.0	601	12.0
Net financial expenses	<b>(80)</b>	<b>(73)</b>	(9.6)	(54)	(35.2)
Profit before tax	<b>600</b>	<b>600</b>		547	9.7
<b>Earnings per ordinary share</b>					
Basic	<b>158.3¢</b>	<b>140.9¢</b>	12.3	187.1¢	(24.7)
Adjusted	<b>158.3¢</b>	<b>158.3¢</b>		139.0¢	13.9
<b>Average US dollar to sterling exchange rate</b>	<b>\$1:</b>	<b>\$1:</b>		\$1:	
			(4.7)		1.6
	<b>£0.61</b>	<b>£0.64</b>		£0.63	

With effect from 1 January 2013 the Group adopted IAS19 (Revised) Employee Benefits resulting in an additional charge to operating profit before exceptional items of \$9m for the year ended 31 December 2012.

### 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 112 and 113 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 121 of the Group Financial Statements.

### Highlights for the year ended 31 December 2014

Revenue decreased by \$45m (2.4%) to \$1,858m and operating profit before exceptional items decreased by \$17m (2.5%) to \$651m during the year ended 31 December 2014, due in part to the disposal of owned hotels in line with the Group's asset-light strategy.

On 27 March 2014, IHG completed the disposal of its freehold interest in InterContinental Mark Hopkins San Francisco for gross proceeds of \$120m and a long-term contract to manage the hotel. On 31 March 2014, IHG completed the disposal of 80% of its interest in InterContinental New York Barclay for gross proceeds of \$274m and a 30-year management contract with two 10-year extension rights, retaining the remaining 20% in a joint venture set up to own and refurbish the hotel (see page 49).

On 7 August 2014, the Group received a binding offer to acquire InterContinental Paris Le Grand for gross proceeds of \$330m and a 30-year management contract with three 10-year extension rights. The offer was subsequently accepted on 8 December 2014, with the transaction expected to complete by the end of the first half of 2015, subject to the satisfaction of certain standard conditions.

On an underlying<sup>1</sup> basis, revenue and operating profit increased by \$94m (6.0%) and \$57m (9.6%) respectively. The underlying results exclude InterContinental Mark Hopkins San Francisco and InterContinental New York Barclay whilst under IHG ownership, the results of managed lease hotels, and the benefit of \$7m liquidated damages receipts in 2014 and \$46m liquidated damages receipts in 2013.

Comparable Group RevPAR (see Glossary on pages 184 and 185) increased by 6.1% (including an increase in average daily rate of 2.7%), led by particularly strong growth of 7.4% in The Americas. Group System size increased by 3.4% to 710,295 rooms whilst Group fee revenue<sup>2</sup> increased by 6.7%.

At constant currency, net central overheads decreased by \$3m (1.9%) to \$152m compared to 2013 (but at actual currency remained flat at \$155m), helped by continued cost control, as well as additional technology fee income.

Group fee margin was 44.7%, up 1.5 percentage points on 2013, after adjusting for owned and leased hotels, managed leases and significant liquidated damages. Group fee margin benefited from strong growth in IHG's scale markets.

Profit before tax of \$600m was unchanged on 2013. Basic earnings per ordinary share increased by 12.3% to 158.3¢, whilst adjusted earnings per ordinary share remained flat at 158.3¢.



**Table of Contents****Highlights for the year ended 31 December 2013**

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 InterContinental London Park Lane for gross proceeds of \$469m and a 30-year management contract with three 10-year extension rights.

On an underlying<sup>1</sup> basis, defined as reported results, excluding those from the InterContinental London Park Lane whilst under IHG ownership, results from managed lease 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<sup>2</sup> increased by 4.3%, with comparable Group RevPAR 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.

Group fee 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¢.

**Global total gross revenue**

	12 months ended 31 December		
	2014 \$bn	2013 \$bn	% change
InterContinental	4.7	4.5	4.4
Crowne Plaza	4.2	4.0	5.0
Hotel Indigo	0.3	0.2	50.0
Holiday Inn	6.4	6.2	3.2
Holiday Inn Express	5.7	5.2	9.6
Staybridge Suites	0.7	0.6	16.7
Candlewood Suites	0.6	0.6	
Other	0.2	0.3	(33.3)

Total	<b>22.8</b>	21.6	5.6
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One measure of IHG System performance is the growth in total gross revenue, defined as total room revenue at franchised hotels and total hotel revenue at managed, owned and leased hotels. Total gross revenue is not revenue attributable to IHG, as it represents revenue generated mainly at hotels owned by third parties.

Total gross revenue increased by 5.6% (7.4% increase at constant currency) to \$22.8bn, primarily driven by strong comparable RevPAR growth across the Group of 6.1% compared to 2013, coupled with an increase in System size of 3.4%.

<sup>1</sup> Underlying excludes the impact of owned asset disposals, managed leases, significant liquidated damages and exceptional items translated at constant currency by applying prior year exchange rates.

<sup>2</sup> Fee revenue is defined as Group revenue excluding revenue from owned and leased hotels, managed leases and significant liquidated damages.

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*Performance continued***Global hotel and room count**

	2014	Hotels Change over 2013	2014	Rooms Change over 2013
At 31 December				
<b>Analysed by brand</b>				
InterContinental	180	2	61,235	1,132
Crowne Plaza	406	15	113,562	4,671
Hotel Indigo	61	6	6,731	532
EVEN Hotels	2	2	296	296
Holiday Inn <sup>1</sup>	1,212	(4)	225,159	582
Holiday Inn Express	2,365	107	229,110	14,513
Staybridge Suites	205	9	22,409	891
Candlewood Suites	322	10	30,708	930
Other	87	(4)	21,085	(125)
<b>Total</b>	<b>4,840</b>	<b>143</b>	<b>710,295</b>	<b>23,422</b>
<b>Analysed by ownership type</b>				
Franchised	4,096	119	514,984	12,797
Managed	735	24	192,121	11,397
Owned and leased	9		3,190	(772)
<b>Total</b>	<b>4,840</b>	<b>143</b>	<b>710,295</b>	<b>23,422</b>

<sup>1</sup> Includes 42 Holiday Inn Resort properties (9,904 rooms) and 12 Holiday Inn Club Vacations (4,027 rooms) (2013: 38 Holiday Inn Resort properties (8,818 rooms) and 10 Holiday Inn Club Vacations (3,701 rooms)).

During 2014, the global IHG System (the number of hotels and rooms which are franchised, managed, owned or leased by the Group) increased by 143 hotels (23,422 rooms) to 4,840 hotels (710,295 rooms).

The Group continued to expand its global footprint, opening hotels in nearly 30 different countries and territories and delivering its highest net System size growth since 2009. 40% of 2014 openings were in developing markets, as classified by The World Bank, with 22% of the closing rooms balance located in these markets representing an increase of one percentage point from 31 December 2013. 123 hotels (17,630 rooms) were removed in 2014, a decrease from the previous year (142 hotels, 24,576 rooms).

Openings of 266 hotels (41,052 rooms) were 15.7% higher than in 2013. This included 140 hotel openings (15,190 rooms) in the Holiday Inn brand family in The Americas and four hotels (834 rooms) as part of the US government's Privatisation of Army Lodgings (PAL) initiative, as well as the first two hotels (296 rooms) for the wellness-focused EVEN Hotels brand. 34 hotels (10,648 rooms) were opened in Greater China in 2014, up 38.8% from last year and the



region's highest on record, with the Europe and AMEA regions contributing openings of 35 hotels (5,353 rooms) and 19 hotels (4,228 rooms) respectively.

### Global pipeline

At 31 December	2014	Hotels Change over 2013	2014	Rooms Change over 2013
<b>Analysed by brand</b>				
InterContinental	50	(1)	15,664	(1,196)
HUALUXE	24	3	7,551	747
Crowne Plaza	92	(2)	25,336	(3,033)
Hotel Indigo	63	12	9,096	2,289
EVEN Hotels	3	(2)	584	(296)
Holiday Inn <sup>1</sup>	269	5	52,713	2,472
Holiday Inn Express	522	49	62,954	8,210
Staybridge Suites	99	19	10,908	2,180
Candlewood Suites	89	9	7,717	803
Other	10	9	1,249	1,135
Total	1,221	101	193,772	13,311
<b>Analysed by ownership type</b>				
Franchised	843	65	94,730	7,945
Managed	377	38	98,838	5,662
Owned and leased	1	(2)	204	(296)
Total	1,221	101	193,772	13,311
<b>Global pipeline signings</b>	463	19	69,696	4,235

<sup>1</sup> Includes 18 Holiday Inn Resort properties (4,412 rooms) and nil Holiday Inn Club Vacations (2013: Includes 14 Holiday Inn Resort properties (3,163 rooms) and one Holiday Inn Club Vacations (120 rooms)).

At the end of 2014, the global pipeline totalled 1,221 hotels (193,772 rooms), an increase of 101 hotels (13,311 rooms) on 31 December 2013. The IHG pipeline represents hotels where a contract has been signed and the appropriate fees paid. 89% of the closing pipeline at 31 December 2014 was in IHG's 10 priority markets.

The continued global demand for IHG brands is demonstrated by the Group signing hotels in 35 different countries and territories in 2014, 35% of which were in developing markets. 48% of the closing pipeline at 31 December 2014 was in developing markets, down by three percentage points compared to the previous year. 28% of the closing pipeline at 31 December 2014 was in Greater China.

Group signings increased from 444 hotels (65,461 rooms) in 2013 to 463 hotels (69,696 rooms) in 2014, the strongest level in six years. This included 307 hotels (45,522 rooms) signed for the Holiday Inn brand family, up by 15.1% compared to 2013, nearly a quarter of which were contributed by Greater China (45 hotels, 10,860 rooms). The Greater China region signed a further 19 hotels (4,894 rooms) across other IHG brands. The pipeline for HUALUXE Hotels and Resorts increased by three hotels (747 rooms) to 24 hotels (7,551 rooms).

Active management of the pipeline to remove deals that have become dormant or no longer viable reduced the pipeline by 96 hotels (15,333 rooms), compared to 140 hotels (18,563 rooms) in 2013.



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### *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.

### **Industry performance in 2014**

In 2014, industry RevPAR in The Americas grew by 8.4% driven by a 4.2% increase in demand and a 5.0% increase in average daily rate. On the supply side, the number of rooms increased by 1.0%, the fourth year with growth of 1.0% or less. All segments experienced strong growth, with the upper midscale segment, where the Holiday Inn and Holiday Inn Express brands operate, having a 7.5% growth in RevPAR.

The US lodging industry also saw strong growth as the economy continued to recover with GDP up 2.4%. In December, demand reached record highs for the 46<sup>th</sup> consecutive month, while supply growth of 0.9% remained well below the 1.9% per annum historic average. Average daily rate growth of 4.6% combined with strong demand drove US RevPAR up 8.3%. RevPAR in the US upper midscale segment was up 8.2%, with the US upscale segment up by 8.4%.

### **IHG's regional performance in 2014**

IHG's comparable RevPAR increased 7.4% with 3.7% rate growth. The region is predominantly represented by the US, where comparable RevPAR increased 7.5%. Our upper midscale brands in the US performed broadly in line with the segment, with RevPAR for the Holiday Inn brand increasing 8.1% whilst that for the Holiday Inn Express brand was at 7.2% due to higher absolute occupancies than the industry. Our US upscale brands (Crowne Plaza and Hotel Indigo) were also in line with the upscale segment with both brands increasing RevPAR by 8.3%. We strengthened our 20-year relationship with Grupo Presidente to expand the footprint and diversity of our brands in key cities and resort destinations.

We continued to demonstrate our commitment to quality with 12,230 rooms leaving the IHG System. Strong demand for IHG branded hotels continued with 38,108 rooms signed, with the pipeline increasing by 10,177 rooms over 2013.

**Americas comparable RevPAR****movement on previous year**

			12 months ended
			31 December 2014
<b>Franchised</b>		<b>Managed</b>	
Crowne Plaza	6.9%	InterContinental	6.9%
Holiday Inn	7.9%	Crowne Plaza	12.7%
Holiday Inn Express	7.0%	Holiday Inn	9.0%
All brands	7.2%	Staybridge Suites	9.7%
		Candlewood Suites	11.7%
		All brands	8.9%
		<b>Owned and leased</b>	
		All brands	11.2%

**Progress against 2014 regional priorities**

In line with our 2014 regional priorities, we:

continued to strengthen our preferred brands and provide best-in-class revenue delivery to hotels – the Holiday Inn brand rolled out revenue-driving food and beverage options to address guest needs, whilst the Holiday Inn Express brand introduced an innovative, cost effective design solution that resonated well with owners;

strengthened our Holiday Inn brand family with the opening of 140 new hotels;

continued to execute our multi-year programme to strengthen the Crowne Plaza brand by focusing on brand differentiation, performance initiatives and signing 10 hotels into the pipeline; and

opened our first two hotels for the EVEN Hotels brand, which have consistently received excellent guest feedback.

**IHG's 2015 regional priorities**

1. Continue to increase IHG System size growth through working with owners to accelerate openings, assisting low-performing hotels to improve, and continuing to support our high-performing hotels.
2. Continue to deliver against our multi-year plan for the Crowne Plaza Hotels & Resorts brand by enhancing the guest experience and driving brand differentiation through innovations.

3. Continue to strengthen the Holiday Inn brand family position through the delivery of innovations and consistency across our hotels.

*Source: Smith Travel Research for all of the above industry facts.*

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*Performance continued***Americas results**

			12 months ended 31 December		
	2014	2013	2014 vs 2013 % change	2012	2013 vs 2012 % change
	\$m	\$m		\$m	
<b>Revenue</b>					
Franchised	630	576	9.4	541	6.5
Managed	103	128	(19.5)	97	32.0
Owned and leased	138	212	(34.9)	199	6.5
Total	871	916	(4.9)	837	9.4
Percentage of Group Revenue	46.9	48.1	(1.2)	45.6	2.5
<b>Operating profit before exceptional items</b>					
Franchised	544	499	9.0	466	7.1
Managed	47	74	(36.5)	48	54.2
Owned and leased	18	30	(40.0)	24	25.0
	609	603	1.0	538	12.1
Regional overheads	(65)	(53)	(22.6)	(52)	(1.9)
Total	544	550	(1.1)	486	13.2
Percentage of Group Operating profit before central overheads and exceptional items	67.5	66.8	0.7	63.4	3.4

**Highlights for the year ended 31 December 2014**

With 3,699 hotels (460,017 rooms), The Americas represented 65% of the Group's room count and 68% of the Group's operating profit before central overheads and exceptional operating items for the year ended 31 December 2014. The key profit producing region is the US, although the Group is also represented in Latin America, Canada, Mexico and the Caribbean. 91% of rooms in the region are operated under the franchise business model, primarily in the upper midscale segment (Holiday Inn brand family). In the upscale segment Crowne Plaza is predominantly franchised whereas in the luxury segment InterContinental branded hotels are operated under both franchise and management agreements. Eight of the Group's nine hotel brands are represented in The Americas, including the wellness-focused EVEN Hotels brand, which made its global debut in the region during the year, with two owned hotels (296 rooms) open at 31 December 2014.

Revenue and operating profit before exceptional items decreased by \$45m (4.9%) to \$871m and by \$6m (1.1%) to \$544m respectively. On an underlying<sup>1</sup> basis, revenue increased by \$71m (9.7%), while operating profit increased by \$39m (7.8%) driven predominantly by strong RevPAR growth in the fee business and an increase in net rooms. Regional overheads increased by 22.6% to \$65m following investment in IHG's development and quality teams and unusually high healthcare costs. Revenue and operating profit were negatively impacted by the disposal of an 80%

interest in InterContinental New York Barclay and the disposal of InterContinental Mark Hopkins San Francisco during the year, by a combined \$95m and \$21m respectively compared to 2013. Conversely, revenue and operating profit were positively impacted by the benefit of \$7m liquidated damages receipts in 2014 in the franchised business relating to two exited hotels, compared to \$31m in the managed business in 2013.

Franchised revenue increased by \$54m (9.4%) to \$630m including the benefit of the \$7m liquidated damages receipts (8.2% excluding these liquidated damages). Royalties growth of 7.6% was driven by comparable RevPAR growth of 7.2% including 7.9% for Holiday Inn and 7.0% for Holiday Inn Express, together with 2.0% rooms growth. Operating profit increased by \$45m (9.0%) to \$544m.

Managed revenue decreased by \$25m (19.5%) to \$103m and operating profit decreased by \$27m (36.5%) to \$47m. Revenue and operating profit included \$38m (2013 \$34m) and \$nil (2013 \$nil) respectively from one managed lease property. Excluding results from this hotel, as well as the \$31m liquidated damages in 2013 (2014 \$nil), revenue increased by \$3m (4.8%) and operating profit increased by \$4m (9.3%) on a constant currency basis.

Owned and leased revenue decreased by \$74m (34.9%) to \$138m and operating profit decreased by \$12m (40.0%) to \$18m. The decrease in revenue and operating profit were driven by the disposal of an 80% interest in InterContinental New York Barclay, and the disposal of InterContinental Mark Hopkins San Francisco (combined negative impact of \$95m and \$21m respectively). Excluding these two hotels, owned and leased revenue and operating profit increased by \$21m and \$9m respectively reflecting strong trading at InterContinental Boston and post refurbishment performance at Holiday Inn Aruba.

### **Highlights for the year ended 31 December 2013**

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<sup>1</sup> 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.

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%.





**Table of Contents****Americas hotel and room count**

	2014	Hotels Change over 2013	2014	Rooms Change over 2013
At 31 December				
<b>Analysed by brand</b>				
InterContinental	50	(1)	16,897	(556)
Crowne Plaza	181	5	48,366	1,309
Hotel Indigo	39	2	4,551	207
EVEN Hotels	2	2	296	296
Holiday Inn <sup>1</sup>	770	(16)	136,280	(2,550)
Holiday Inn Express	2,060	75	182,601	8,170
Staybridge Suites	197	9	21,200	891
Candlewood Suites	322	10	30,708	930
Other	78	(3)	19,118	(104)
Total	3,699	83	460,017	8,593
<b>Analysed by ownership type</b>				
Franchised	3,477	83	417,215	8,340
Managed	217		41,172	1,025
Owned and leased	5		1,630	(772)
Total	3,699	83	460,017	8,593
Percentage of Group hotel and room count	76.4	(0.6)	64.8	(0.9)

<sup>1</sup> Includes 20 Holiday Inn Resort properties (4,864 rooms) and 12 Holiday Inn Club Vacations (4,027 rooms) (2013: 18 Holiday Inn Resort properties (4,438 rooms) and 10 Holiday Inn Club Vacations (3,701 rooms)).

The Americas System size increased by 83 hotels (8,593 rooms) to 3,699 hotels (460,017 rooms) during 2014. 178 hotels (20,823 rooms) opened in the year, compared to 173 hotels (19,775 rooms) in 2013 and included four hotels (834 rooms) as part of the US government's PAL initiative (33 hotels with 4,061 rooms in 2013). Openings included 140 hotels (15,190 rooms) in the Holiday Inn brand family, representing more than 70% of the region's openings. 23 hotels (2,130 rooms) opened as Staybridge Suites hotels and Candlewood Suites hotels, IHG's extended-stay brands. The first two hotels (296 rooms) were opened under the wellness-focused EVEN Hotels brand.

95 hotels (12,230 rooms) were removed from The Americas System in 2014, demonstrating IHG's continued commitment to quality, compared to 112 hotels (17,968 rooms) in 2013. 45% of 2014 room removals were Holiday Inn rooms in the US (34 hotels, 5,499 rooms) compared to 61% in 2013 (53 hotels, 10,933 rooms).

**Americas pipeline**

	<b>2014</b>	Hotels Change over 2013	<b>2014</b>	Rooms Change over 2013
At 31 December				
<b>Analysed by brand</b>				
InterContinental	7	1	2,337	900
Crowne Plaza	18	2	3,206	(22)
Hotel Indigo	31	8	4,259	1,141
EVEN Hotels	3	(2)	584	(296)
Holiday Inn <sup>1</sup>	139		20,155	811
Holiday Inn Express	389	31	37,125	3,637
Staybridge Suites	90	19	9,594	2,099
Candlewood Suites	89	9	7,717	803
Other	10	9	1,218	1,104
Total	776	77	86,195	10,177
<b>Analysed by ownership type</b>				
Franchised	740	62	78,980	6,961
Managed	35	17	7,011	3,512
Owned and leased	1	(2)	204	(296)
Total	776	77	86,195	10,177

<sup>1</sup> Includes nine Holiday Inn Resort properties (1,916 rooms) and nil Holiday Inn Club Vacations (2013: five Holiday Inn Resort properties (694 rooms) and one Holiday Inn Club Vacations (120 rooms)).

At 31 December 2014, The Americas pipeline totalled 776 hotels (86,195 rooms), representing an increase of 77 hotels (10,177 rooms) over the prior year. Strong signings of 319 hotels (38,108 rooms) were ahead of last year by 14 hotels (4,224 rooms) and the highest for six years, demonstrating continued demand for IHG branded hotels. Signings included 14 hotels (2,012 rooms) signed as part of the US government's PAL initiative. The majority of 2014 signings were within the Holiday Inn brand family (208 hotels, 24,037 rooms), up by 17.0% compared to 2013, and included the 777-room Holiday Inn Nickelodeon Suites Orlando. Staybridge Suites and Candlewood Suites together contributed signings of 73 hotels (7,091 rooms), up by 31.2% compared to 2013. Crowne Plaza Atlanta Midtown, which was signed and opened in the year, is one of 10 signings for the brand. Other notable signings included the 900-room InterContinental Downtown Los Angeles, the largest for the brand in the US.

64 hotels (7,108 rooms) were removed from the pipeline in 2014, significantly down in terms of both hotels and rooms from 2013 (103 hotels, 10,664 rooms).

<sup>1</sup> Underlying excludes the impact of owned asset disposals, managed leases, significant liquidated damages and exceptional items translated at constant currency by applying prior year exchange rates.



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**IHG** Annual Report and Form 20-F 2014

*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.

### **Industry performance in 2014**

Europe is a diverse region and industry figures are driven by the larger markets, in particular the UK and Germany. RevPAR growth was 6.0%, average daily rate grew by 3.5% and demand grew by 3.5%.

RevPAR growth in the UK reached 7.9% due to a 10.5% increase in the UK provinces, which was driven by a 6.5% increase in average daily rate and 4.9% increase in demand. However, RevPAR growth in other European countries was more moderate, with RevPAR

increasing in Germany by 3.8%. In contrast, the RevPAR in Russia declined steeply by 14.8%, as growth was depressed by ongoing conflict between Russia and the Ukraine and the resulting geopolitical instability throughout this area. Although there was a 5.1% decline in demand, supply continued to grow by 8.9%.

### **IHG's regional performance in 2014**

IHG's comparable RevPAR increased by 5.1% with the UK particularly strong at 8.9%. Germany was also strong at 4.1%. IHG's hotels in Russia and the Commonwealth of Independent States (CIS) were, however, impacted by the geopolitical instability in the region but our hotels outperformed the industry with a RevPAR decline of 4.0%.

### **Europe comparable RevPAR**

**movement on previous year**

12 months ended  
31 December 2014

<b>Franchised</b>	
All brands	5.3%
<b>Managed</b>	
All brands	5.4%
<b>Owned and leased</b>	
InterContinental	(4.7)%

### Progress against 2014 regional priorities

In line with our 2014 regional priorities, we:

grew in our priority markets and key gateway cities with the signing of 48 hotels of which 17 were in the UK, 12 in Germany, and seven in Russia and the CIS;

continued to expand the Hotel Indigo brand across the region in key gateway cities, opening four new properties in Paris, Madrid, Rome and St Petersburg, and as at 31 December 2014, had 17 open hotels and a further 12 in the pipeline for the brand;

launched the Holiday Inn Express brand in Russia and the CIS (having localised the brand) with the opening of Holiday Inn Express Voronezh - Kirova, a debut for the brand in Russia;

continued to improve guest experience and increase satisfaction at our hotels in the region by creating a culture focused on quality, accelerating the rollout of innovation and building a suite of tools that enables hotels to deliver operational excellence (see progress against KPIs set out on pages 30 to 33); and

embedded our revenue and sales tools at our hotels, driving our commercial delivery and people platforms (see progress against KPIs set out on pages 30 to 33), helping us to deliver RevPAR outperformance in our three priority markets.

### IHG's 2015 regional priorities

1. Continue to build IHG System size through driving growth in our priority markets of UK, Russia and the CIS, and Germany, localising our brands as necessary.
2. Continue to improve guest experience and increase satisfaction by focusing on quality and driving innovation to ensure our brands are preferred.

3. Drive operational excellence and hotel outperformance by delivering a focused and targeted hotel support model, and best-in-class operational tools and training.

*Source: Smith Travel Research for all of the above industry facts.*

**Table of Contents****Europe results**

			12 months ended 31 December		
	2014	2013	2014 vs	2012	2013 vs
	\$m	\$m	2013 %	\$m	2012 %
			change		change
<b>Revenue</b>					
Franchised	104	104		91	14.3
Managed	159	156	1.9	147	6.1
Owned and leased	111	140	(20.7)	198	(29.3)
Total	374	400	(6.5)	436	(8.3)
Percentage of Group Revenue	20.1	21.0	(0.9)	23.8	(2.8)
<b>Operating profit before exceptional items</b>					
Franchised	78	79	(1.3)	65	21.5
Managed	30	30		32	(6.3)
Owned and leased	14	30	(53.3)	50	(40.0)
Total	122	139	(12.2)	147	(5.4)
Regional overheads	(33)	(34)	2.9	(35)	2.9
Total	89	105	(15.2)	112	(6.3)
Percentage of Group Operating profit before central overheads and exceptional items	11.0	12.8	(1.8)	14.6	(1.8)

**Highlights for the year ended 31 December 2014**

Comprising 647 hotels (104,208 rooms) at the end of 2014, Europe represented 15% of the Group's room count and 11% of the Group's operating profit before central overheads and exceptional operating items for the year ended 31 December 2014. Revenues are primarily generated from hotels in the UK and continental European gateway cities. The largest proportion of rooms in Europe are 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 in the luxury segment the majority of InterContinental branded hotels are operated under management agreements.

Revenue and operating profit before exceptional items decreased by \$26m (6.5%) to \$374m and by \$16m (15.2%) to \$89m respectively. On an underlying<sup>1</sup> basis, revenue and operating profit increased by \$4m (1.4%) and \$3m (3.5%) respectively. Overall, comparable RevPAR in Europe increased by 5.1%. The UK achieved a particularly strong comparable RevPAR growth of 8.9%, with double-digit growth in the first and third quarters. Comparable RevPAR in Germany was also strong, increasing by 4.1%, driven by continued growth in domestic output and a rise in employment, whilst IHG hotels in the Commonwealth of Independent States (CIS) collectively experienced a comparable RevPAR decline of 4.0%, reflecting a challenging economic climate in the region during 2014.

Franchised revenue remained flat at \$104m, whilst operating profit decreased by \$1m (1.3%) to \$78m. Excluding the benefit of a \$9m liquidated damages receipt in 2013, revenue and operating profit increased by \$8m (8.4%) and \$8m (11.4%) respectively at constant currency. This underlying growth was mainly driven by an increase in royalties of 8.0%, reflecting comparable RevPAR growth of 5.3%, together with 5.7% rooms growth.

Managed revenue increased by \$3m (1.9%) to \$159m, whilst operating profit was flat with 2013 at \$30m. Revenue and operating profit included \$90m (2013 \$89m) and \$2m (2013 \$2m) respectively from managed leases. Excluding properties operated under this arrangement and on a constant currency basis, revenue increased by \$3m (4.5%), whilst operating profit was flat. At the end of 2014, IHG commenced a process to restructure the majority of its UK managed hotels to new franchised contracts.

In the owned and leased estate, revenue decreased by \$29m (20.7%) to \$111m and operating profit decreased by \$16m (53.3%) to \$14m. At constant currency and excluding the impact of the disposal of InterContinental London Park Lane (which contributed revenue and operating profit of \$22m and \$8m respectively in 2013), owned and leased revenue and operating profit both decreased by \$7m. These declines were driven by InterContinental Paris Le Grand due to the refurbishment of the Salon Opera ballroom in the first half of 2014. The hotel delivered revenue and operating profit of \$111m and \$15m respectively, a decrease of 5.9% and 34.8% compared to 2013, whilst RevPAR decreased by 4.7%.

### **Highlights for the year ended 31 December 2013**

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<sup>1</sup> 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%.

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.

<sup>1</sup> Underlying excludes the impact of owned asset disposals, managed leases, significant liquidated damages and exceptional items translated at constant currency by applying prior year exchange rates.



**Table of Contents****IHG** Annual Report and Form 20-F 2014**Performance** *continued*

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 InterContinental London Park Lane, the owned and leased estate 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.

**Europe hotel and room count**

At 31 December	2014	Hotels Change over 2013	2014	Rooms Change over 2013
<b>Analysed by brand</b>				
InterContinental	30	(1)	9,372	(153)
Crowne Plaza	83		19,395	(127)
Hotel Indigo	17	4	1,568	325
Holiday Inn <sup>1</sup>	284	2	45,722	101
Holiday Inn Express	226	11	27,138	1,767
Staybridge Suites	5		784	
Other	2	2	229	229
Total	647	18	104,208	2,142
<b>Analysed by ownership type</b>				
Franchised	565	37	84,016	4,499
Managed	81	(19)	19,722	(2,357)
Owned and leased	1		470	
Total	647	18	104,208	2,142
Percentage of Group hotel and room count	13.4		14.7	(0.2)

<sup>1</sup> 2014 and 2013 include 2 Holiday Inn Resort properties (212 rooms).

During 2014, Europe System size increased by 18 hotels (2,142 rooms) to 647 hotels (104,208 rooms). The Group opened 35 hotels (5,353 rooms) in Europe in 2014, compared to 21 hotels (3,528 rooms) in 2013. 2014 openings included two landmark InterContinental hotels; the 197-room InterContinental Dublin and the 331-room InterContinental Lisbon. Four further Hotel Indigo properties (325 rooms) opened in 2014, in prime city locations of Paris, Madrid, Rome and St Petersburg. Additionally, the Group opened Holiday Inn Express Voronezh - Kirova

during 2014, a debut for the brand in Russia.

17 hotels (3,211 rooms) left the Europe System in the period, compared to 20 hotels (3,489 rooms) in the previous year.

### Europe pipeline

		Hotels Change over 2013	2014	Rooms Change over 2013
At 31 December	<b>2014</b>		<b>2014</b>	
<b>Analysed by brand</b>				
InterContinental	<b>3</b>	1	<b>845</b>	192
Crowne Plaza	<b>14</b>	2	<b>2,917</b>	293
Hotel Indigo	<b>12</b>	(3)	<b>1,368</b>	(208)
Holiday Inn	<b>37</b>	2	<b>6,944</b>	332
Holiday Inn Express	<b>44</b>	1	<b>6,374</b>	358
Staybridge Suites	<b>4</b>	1	<b>414</b>	116
Other			<b>31</b>	31
Total	<b>114</b>	4	<b>18,893</b>	1,114
<b>Analysed by ownership type</b>				
Franchised	<b>95</b>	(2)	<b>13,996</b>	(123)
Managed	<b>19</b>	6	<b>4,897</b>	1,237
Total	<b>114</b>	4	<b>18,893</b>	1,114

The Europe pipeline totalled 114 hotels (18,893 rooms) at 31 December 2014, representing an increase of four hotels (1,114 rooms) over 31 December 2013. New signings of 48 hotels (7,804 rooms), compared to 50 hotels (7,542 rooms) in 2013, included 16 hotel signings in the UK (2,234 rooms). The Group also signed 12 hotels (2,323 rooms) in Germany and seven new hotels (867 rooms) in countries in the CIS. Notable signings in Europe included the 162-room InterContinental Baku, the first for the brand in Azerbaijan.

Nine hotels (1,337 rooms) were removed from the pipeline in 2014, compared to 10 hotels (1,419 rooms) in 2013.

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*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.

**Industry performance in 2014**

AMEA is the largest region in geographic terms, and performance varies across the countries that comprise the region.

The strongest of the larger markets in AMEA, in which we operate, are Australia, Japan and the Middle East. Australia experienced RevPAR growth of 4.1% due to both occupancy, which increased by 2.1%, and daily rate growth, which increased by 2.0%. Despite its economic contraction in the third quarter of 2014, Japan's RevPAR grew 9.4% as a result of an 8.2% increase in daily rate. Occupancy growth was 1.1%.

Performance in the smaller AMEA markets, in which we operate, was less consistent. RevPAR in Saudi Arabia experienced an overall increase of 6.0%. Indonesia saw RevPAR growth for the year of 4.3%, primarily driven by a 6.9% increase in daily rate, and RevPAR in India grew by 0.8%.

**IHG's regional performance in 2014**

Across this large and diverse geographic region, IHG is widely represented both geographically and by brand, and as such comparisons across the industry are hard to make. Overall IHG RevPAR increased 3.8% driven predominantly through rate growth with performance led by the Middle East (5.6% RevPAR growth) and positive trading in our mature markets of Japan (6.7% RevPAR growth) and Australia (3.9% RevPAR growth). India and Southeast Asia exhibited steady growth, with the exception of Thailand, which was impacted by political instability in the first half of 2014. Indonesia saw RevPAR growth of 9.1%.

**AMEA comparable RevPAR**

**movement on previous year**

	12 months ended 31 December 2014
<b>Franchised</b>	
All brands	1.7%
<b>Managed</b>	
All brands	4.4%

**Progress against 2014 regional priorities**

In line with our 2014 regional priorities, we:

strengthened our position in the region's priority markets and key gateway cities, opening 19 hotels (9 in Indonesia and India), taking the region's System size to a total of 253 hotels (as at 31 December 2014) with notable openings including InterContinental Sydney Double Bay, the second for the brand in Sydney;

accelerated the growth of our core brands across the region with the signing of 32 new hotels into the pipeline including 21 hotels for the Holiday Inn brand family (9 hotels for the Holiday Inn Express brand) and 19 in the region's emerging markets;

continued 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 (see progress against KPIs set out on pages 30 to 33); and

accelerated a winning culture with further alignment between operations and corporate teams and increased leadership capability to embed the systems, processes and competencies to deliver high performance.

**IHG's 2015 regional priorities**

1. Continue to accelerate IHG System size growth across the region, focusing on any brand gaps in key cities and driving secondary city growth in our priority markets of the Middle East, India and Indonesia.
  2. Focus on strong RevPAR growth through building preferred brands that deliver guest satisfaction.
  3. Following the launch of the Hotel Indigo brand in the region, support the growth of the brand in AMEA.
- Source: Smith Travel Research for all of the above industry facts.*



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*Performance continued***AMEA results**

	<b>2014</b>	<b>2013</b>	12 months ended 31 December		
	<b>\$m</b>	<b>\$m</b>	2014 vs 2013 % change	2012	2013 vs 2012 % change
				\$m	
<b>Revenue</b>					
Franchised	<b>16</b>	<b>16</b>		18	(11.1)
Managed	<b>187</b>	<b>170</b>	10.0	152	11.8
Owned and leased	<b>39</b>	<b>44</b>	(11.4)	48	(8.3)
Total	<b>242</b>	<b>230</b>	5.2	218	5.5
Percentage of Group Revenue	<b>13.0</b>	<b>12.1</b>	0.9	11.9	0.2
<b>Operating profit before exceptional items</b>					
Franchised	<b>12</b>	<b>12</b>		12	
Managed	<b>88</b>	<b>92</b>	(4.3)	90	2.2
Owned and leased	<b>3</b>	<b>4</b>	(25.0)	6	(33.3)
	<b>103</b>	<b>108</b>	(4.6)	108	
Regional overheads	<b>(19)</b>	<b>(22)</b>	13.6	(20)	(10.0)
Total	<b>84</b>	<b>86</b>	(2.3)	88	(2.3)
Percentage of Group Operating profit before central overheads and exceptional items	<b>10.5</b>	<b>10.4</b>	0.1	11.5	(1.1)

**Highlights for the year ended 31 December 2014**

Comprising 253 hotels (67,876 rooms) at 31 December 2014, AMEA represented 9% of the Group's room count and contributed 10% of the Group's operating profit before central overheads and exceptional operating items during the year. 82% of rooms in AMEA are operated under the managed business model. The region's hotels are in the luxury, upscale and upper midscale segments.

Revenue increased by \$12m (5.2%) to \$242m whilst operating profit before exceptional items decreased by \$2m (2.3%) to \$84m. On an underlying<sup>1</sup> basis, revenue increased by \$5m (2.5%) and operating profit increased by \$4m (5.1%). The results included a \$6m benefit from liquidated damages received in 2013 (2014 \$nil). AMEA is a geographically diverse region and performance was impacted by political and economic factors affecting different countries.

Comparable RevPAR increased 3.8% driven by 2.4% rate growth. Performance was led by the Middle East, up 5.6%, driven by a solid performance in Saudi Arabia and a recovery in Egypt. This was supported by positive trading in the mature markets of Japan, which grew by 6.7%, and Australia, which grew by 3.9%. Elsewhere, both India and South East Asia exhibited steady growth, with the exception of Thailand which suffered from political instability in the first

half of the year.

Franchised revenue and operating profit remained flat at \$16m and \$12m respectively.

Managed revenue increased by \$17m (10.0%) to \$187m whilst operating profit decreased by \$4m (4.3%) to \$88m. Revenue and operating profit included \$41m (2013 \$21m) and \$4m (2013 \$1m) respectively from one managed lease property. Excluding results from this hotel, as well as the benefit of \$6m liquidated damages in 2013 (2014 \$nil), revenue increased by \$7m (4.9%) whilst operating profit increased by \$2m (2.4%) on a constant currency basis. Comparable RevPAR increased by 4.4%, with room count increasing by 5.9%.

In the owned and leased estate, revenue and operating profit decreased by \$5m (11.4%) to \$39m and by \$1m (25.0%) to \$3m respectively, due to a 6.3% decrease in RevPAR.

### **Highlights for the year ended 31 December 2013**

Revenue increased by \$12m (5.5%) to \$230m and operating profit decreased by \$2m (2.3%) to \$86m. On an underlying<sup>1</sup> 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 (2012 \$nil). 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, whilst 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.

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.

**Table of Contents****AMEA hotel and room count**

At 31 December	2014	Hotels Change over 2013	2014	Rooms Change over 2013
<b>Analysed by brand</b>				
InterContinental	67		21,424	41
Crowne Plaza	69	2	19,688	610
Holiday Inn <sup>1</sup>	85	4	19,750	1,286
Holiday Inn Express	24	8	5,295	1,795
Staybridge Suites	3		425	
Other	5	(5)	1,294	(694)
Total	253	9	67,876	3,038
<b>Analysed by ownership type</b>				
Franchised	50	(1)	11,569	(42)
Managed	201	10	55,720	3,080
Owned and leased	2		587	
Total	253	9	67,876	3,038
Percentage of Group hotel and room count	5.2		9.5	0.2

<sup>1</sup> Includes 14 Holiday Inn Resort properties (3,003 rooms) (2013: 14 Holiday Inn Resort properties (2,965 rooms)). The AMEA System size increased by nine hotels (3,038 rooms) to 253 hotels (67,876 rooms) as at 31 December 2014. The level of openings decreased marginally to 19 hotels (4,228 rooms) in 2014 from 20 hotels (4,495 rooms) in 2013. Openings in 2014 included two hotels (417 rooms) for the InterContinental brand, including the 140-room InterContinental Sydney Double Bay, the second for the brand in Sydney, and four hotels (1,039 rooms) in India.

10 hotels (1,190 rooms) were removed from the AMEA System in 2014, compared to eight hotels (2,394 rooms) in 2013.

**AMEA pipeline**

At 31 December	2014	Hotels Change over 2013	2014	Rooms Change over 2013
<b>Analysed by brand</b>				
InterContinental	22	1	5,804	426
Crowne Plaza	16	2	4,412	364
Hotel Indigo	10	2	1,823	431



Holiday Inn <sup>1</sup>	50	1	13,230	889
Holiday Inn Express	39	0	8,177	197
Staybridge Suites	5	(1)	900	(35)
Total	142	5	34,346	2,272
<b>Analysed by ownership type</b>				
Franchised	8	5	1,754	1,107
Managed	134		32,592	1,165
Total	142	5	34,346	2,272

<sup>1</sup> Includes seven Holiday Inn Resort properties (1,729 rooms) (2013: six Holiday Inn Resort properties (1,579rooms)). At 31 December 2014, the AMEA pipeline totalled 142 hotels (34,346 rooms) compared to 137 hotels (32,074 rooms) as at 31 December 2013. Signings in AMEA of 32 hotels (8,030 rooms) were slightly below the level seen in 2013 (36 hotels, 8,687 rooms). Signings in 2014 included 21 hotels (5,507 rooms) in the Holiday Inn brand family, notably including the 1,000-room Holiday Inn Newport City in Manila. Four InterContinental hotels (999 rooms) were signed during 2014.

Eight hotels (1,530 rooms) were removed from the pipeline in 2014, compared to 11 hotels (2,475 rooms) in 2013.

<sup>1</sup> Underlying excludes the impact of owned asset disposals, managed leases, significant liquidated damages and exceptional items translated at constant currency by applying prior year exchange rates.

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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.

### **Industry performance in 2014**

The Chinese economy achieved GDP growth of 7.4% in 2014, a slowdown against the average of 8.9% growth in the period from 2009 to 2013. This slowdown was attributable to several factors, including lessening domestic demand and manufacturing output, a correction in the real estate market and declining inflation. Growth is expected to reduce further in 2015 and 2016.

Hotel industry RevPAR in Greater China decreased by 0.9% in the year. Whilst overall occupancy increased by 1.9%, average daily

rates decreased by 2.8%. Much of this decrease in the region is due to changes in the industry structure due to growth in tier 2 and 3 cities as well as from growth of economy brands.

RevPAR in the People's Republic of China (excluding Taiwan) decreased by 1.5%. Many major cities, such as Shanghai and Guangzhou, experienced an increase in RevPAR driven by strong occupancy gains. However, RevPAR in Beijing and surrounding North China, East China and South China saw a decrease in year-on-year RevPAR growth.

### **IHG's regional performance in 2014**

IHG's comparable RevPAR increased 1.6% in 2014, significantly ahead of the overall industry. Trading was strongest in tier 1 cities, whilst tier 2 and 3 cities were softer, impacted by new supply as these markets develop. Our RevPAR growth was driven by occupancy which increased by 2.4%, whilst rate decreased by 2.3% – both ahead of the industry, reflecting our scale and management strength in the region.

## Greater China comparable RevPAR

### movement on previous year

	12 months ended 31 December 2014
<b>Managed</b>	
All brands	1.3%
<b>Owned and leased</b>	
InterContinental	(1.0)%

## Progress against 2014 regional priorities

In line with our 2014 regional priorities, we:

grew distribution of our brands in the region with 34 hotel openings and 64 hotels signed into our pipeline;

opened 19 hotels during the year for the Holiday Inn brand family (Holiday Inn and Holiday Inn Express), including the opening of the 50<sup>th</sup> Holiday Inn Express hotel, and signed a further 45 hotels into the pipeline for the Holiday Inn brand family;

continued to make progress with the HUALUXE Hotels and Resorts brand, with 24 hotels in the pipeline as at 31 December 2014 – one of which we opened in February 2015 (see page 19);

continued to grow our talent (see page 23); and

continued to localise IHG brands, systems, tools, processes and responsible business practices to increase efficiency and margin performance (see progress against KPIs set out on pages 30 to 33).

### IHG's 2015 regional priorities

1. Further increase IHG System size, with deeper penetration in tier 2 and 3 cities and strengthen the distribution of the Holiday Inn and Holiday Inn Express brands to capture the growing midscale segment opportunity.
2. Build a strong pipeline for the HUALUXE Hotels and Resorts brand and support the subsequent hotel openings.
3. Continue to grow our talent and build a strong local talent pipeline, particularly in tier 2 and 3 cities.

*Source: Smith Travel Research for all of the above industry facts.*



**Table of Contents****Greater China results**

			12 months ended 31 December		
	2014	2013	2014 vs	2012	2013 vs
	\$m	\$m	2013 %	\$m	2012 %
			change		change
<b>Revenue</b>					
Franchised	4	3	33.3	3	
Managed	99	92	7.6	89	3.4
Owned and leased	139	141	(1.4)	138	2.2
Total	242	236	2.5	230	2.6
Percentage of Group Revenue	13.0	12.4	0.6	12.5	(0.1)
<b>Operating profit before exceptional items</b>					
Franchised	5	5		4	25.0
Managed	63	51	23.5	51	
Owned and leased	42	47	(10.6)	45	4.4
Total	110	103	6.8	100	3.0
Regional overheads	(21)	(21)		(19)	(10.5)
Total	89	82	8.5	81	1.2
Percentage of Group Operating profit before central overheads and exceptional items	11.0	10.0	1.0	10.6	(0.6)

**Highlights for the year ended 31 December 2014**

Comprising 241 hotels (78,194 rooms) at 31 December 2014, Greater China represented 11% of the Group's room count and contributed 11% of the Group's operating profit before central overheads and exceptional operating items for the year ended 31 December 2014. 97% of rooms in Greater China are operated under the managed business model. The region's hotels are in the luxury, upscale and upper midscale segments.

Revenue and operating profit before exceptional items increased by \$6m (2.5%) to \$242m and by \$7m (8.5%) to \$89m respectively. Overall, the region achieved comparable RevPAR growth of 1.6%, slightly stronger than the 1.0% growth achieved in 2013. This performance was significantly ahead of the industry, reflecting IHG's scale and management strength in the region, and was achieved in a challenging environment with slower macro-economic conditions, government austerity measures and protests in Hong Kong. Trading was strongest in tier 1 cities, especially Shanghai and Guangzhou, with good levels of transient and corporate business. Performance in tier 2 and 3 cities continues to be impacted by new supply as these markets develop. Total RevPAR in the region decreased by 3.4% as hotels opened in these lower RevPAR markets.

Franchised revenue increased by \$1m (33.3%) to \$4m whilst operating profit was flat at \$5m. Operating profit was higher than revenue in both 2014 and 2013 due to joint venture dividend income received from a hotel in Hong Kong.

Managed revenue increased by \$7m (7.6%) to \$99m, whilst operating profit increased by \$12m (23.5%) to \$63m, reflecting improvements in operating margin, net rooms growth, and a small number of one-off items that contributed approximately \$5m to the result. Comparable RevPAR increased by 1.3%, whilst the Greater China System size grew by 14.7%, driving a 8.5% increase in total gross revenue derived from rooms business. Total gross revenue derived from non-rooms business increased by 7.8%.

Owned and leased revenue decreased by \$2m (1.4%) to \$139m, driven by a RevPAR decrease of 1.0% at InterContinental Hong Kong. Operating profit decreased by \$5m (10.6%) to \$42m. The decrease in revenue and operating profit at the hotel was driven primarily by the ongoing development of the area adjacent to the hotel and protests in central Hong Kong.

### **Highlights for the year ended 31 December 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.

Owned and leased revenue at 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.

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*Performance continued***Greater China hotel and room count**

At 31 December	2014	Hotels Change over 2013	2014	Rooms Change over 2013
<b>Analysed by brand</b>				
InterContinental	33	4	13,542	1,800
Crowne Plaza	73	8	26,113	2,879
Hotel Indigo	5		612	
Holiday Inn <sup>1</sup>	73	6	23,407	1,745
Holiday Inn Express	55	13	14,076	2,781
Other	2	2	444	444
Total	241	33	78,194	9,649
<b>Analysed by ownership type</b>				
Franchised	4		2,184	
Managed	236	33	75,507	9,649
Owned and leased	1		503	
Total	241	33	78,194	9,649
Percentage of Group hotel and room count	5.0	0.6	11.0	1.0

<sup>1</sup> Includes six Holiday Inn Resort properties (1,825 rooms) (2013: four Holiday Inn Resort properties (1,203 rooms)). The Greater China System size increased by 33 hotels (9,649 rooms) in the year to 241 hotels (78,194 rooms). 34 hotels (10,648 rooms) opened during 2014, 11 hotels and 2,979 rooms higher than 2013 and a record year for the region. Recent growth in the region has focused on tier 2 and 3 cities, which now represent approximately two-thirds of IHG's open rooms. The InterContinental brand System size increased by four hotels (1,800 rooms) to 33 hotels (13,542 rooms) during the year, including the addition of the 990-room InterContinental Chengdu Global Centre. 19 Holiday Inn brand family hotels (4,445 rooms) were also added in the year, including the 50<sup>th</sup> Holiday Inn Express, nine hotels (1,078 rooms) higher than in 2013. Nine Crowne Plaza hotels (3,498 rooms) were also added during the year, including the 466-room Crowne Plaza Beijing Lido, increasing the Crowne Plaza System size to 73 hotels (26,113 rooms).

One hotel (999 rooms) was removed in 2014, compared to two hotels (725 rooms) in 2013.

**Greater China pipeline**

At 31 December	2014	Hotels	2014	Rooms

		Change over 2013		Change over 2013
<b>Analysed by brand</b>				
InterContinental	<b>18</b>	(4)	<b>6,678</b>	(2,714)
HUALUXE	<b>24</b>	3	<b>7,551</b>	747
Crowne Plaza	<b>44</b>	(8)	<b>14,801</b>	(3,668)
Hotel Indigo	<b>10</b>	5	<b>1,646</b>	925
Holiday Inn <sup>1</sup>	<b>43</b>	2	<b>12,384</b>	440
Holiday Inn Express	<b>50</b>	17	<b>11,278</b>	4,018
Total	<b>189</b>	15	<b>54,338</b>	(252)
<b>Analysed by ownership type</b>				
Managed	<b>189</b>	15	<b>54,338</b>	(252)
Total	<b>189</b>	15	<b>54,338</b>	(252)

<sup>1</sup> Includes two Holiday Inn Resort properties (767 rooms) (2013: three Holiday Inn Resort properties (890 rooms)). At 31 December 2014, the Greater China pipeline totalled 189 hotels (54,338 rooms) compared to 174 hotels (54,590 rooms) at 31 December 2013. Signings of 64 hotels (15,754 rooms) increased from 53 hotels (15,348 rooms) in 2013. Three InterContinental hotels (930 rooms) were signed, together with five Crowne Plaza hotels (1,400 rooms), whilst the total pipeline for the HUALUXE Hotels and Resorts brand increased to 24 hotels (7,551 rooms). 45 hotels (10,860 rooms) were signed for the Holiday Inn brand family, with the Holiday Inn Express brand pipeline increasing to 50 hotels.

15 hotels (5,358 rooms) were removed from the pipeline in 2014, compared to 16 hotels (4,005 rooms) in 2013.

### Central

#### Central results

	2014	2013	12 months ended 31 December		
	\$m	\$m	2014 vs 2013 % change	2012 \$m	2013 vs 2012 % change
Revenue	<b>129</b>	<b>121</b>	6.6	114	6.1
Gross central costs	<b>(284)</b>	<b>(276)</b>	(2.9)	(276)	
Net central costs	<b>(155)</b>	<b>(155)</b>		(162)	4.3

#### Highlights for the year ended 31 December 2014

Central revenue, which mainly comprises technology fee income, increased by \$8m (6.6%) to \$129m, driven by increases in both comparable RevPAR (6.1%) and IHG System size (3.4%) in 2014 compared to 2013. At constant currency, gross central costs increased by \$4m (1.4%) compared to 2013 (an \$8m or 2.9% increase at actual currency).

#### 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 2012. Gross central costs were flat at \$276m in 2013, reflecting continued



tight cost control.

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**Table of Contents***System Fund***System Fund assessments**

	<b>2014</b>	<b>2013</b>	12 months ended 31 December 2014 vs 2013 % change	2012 \$m	2013 vs 2012 % change
	<b>\$m</b>	<b>\$m</b>			
Assessment fees and contributions received from hotels	<b>1,271</b>	<b>1,154</b>	10.1	1,106	4.3
Proceeds from sale of IHG Rewards Club points	<b>196</b>	<b>153</b>	28.1	144	6.3
Total	<b>1,467</b>	<b>1,307</b>	12.2	1,250	4.6

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 2014**

In the year to 31 December 2014, System Fund income increased by 12.2% to \$1,467m primarily as a result of a 10.1% increase in assessment fees and contributions from hotels resulting from increased hotel room revenues, reflecting increases in RevPAR and IHG System size. Continued strong performance in co-branded credit card schemes drove the 28.1% increase in proceeds from the sale of IHG Rewards Club points.

**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.

*Other financial information***Exceptional operating items**

Exceptional operating items totalled a net gain of \$29m. The exceptional gain of \$130m related to the sale of InterContinental Mark Hopkins San Francisco and the disposal of an 80% interest in InterContinental New York Barclay. Exceptional charges included \$14m foreign exchange losses resulting from recent changes to the Venezuelan exchange rate mechanisms and the adoption of the SICAD II exchange rate; \$29m relating primarily to structural change programmes across the Global Human Resources and Global Technology functions; \$6m arising from a partial cash-out of the UK unfunded pension arrangements; \$45m relating to the cost of securing a restructuring of the UK hotel portfolio; and \$7m Kimpton Hotels & Restaurants acquisition transaction costs. See note 5 to the Group Financial Statements for further detail.

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 \$7m to \$80m reflecting an increase in average net debt levels and the translation of interest on the two sterling bonds.

Financing costs included \$2m (2013 \$2m) of interest costs associated with 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 2014 also included \$19m (2013 \$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 31% (2013 29%). Excluding the impact of prior year items the equivalent tax rate would be 35% (2013 32%). This rate is higher than the average UK statutory rate of 21.5% (2013 23.25%) 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 \$29m (2013 \$51m). In 2014 the charge comprised \$56m relating to the disposal of an 80% interest in InterContinental New York Barclay offset by a credit of \$27m relating to a restructuring of the UK hotel portfolio and other reorganisation costs. In 2013 the charge comprised \$6m relating to the exceptional operating items and \$64m consequent upon the disposal of InterContinental London Park Lane, offset by a credit of \$19m relating to an internal restructuring.

Net tax paid in 2014 totalled \$136m (2013 \$97m) including \$nil (2013 \$5m) in respect of disposals. Tax paid represents an effective rate of 23% (2013 16%) on total profits and is lower than the effective income statement tax rate of 31% 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.



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*Performance continued*

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 70% of its revenues in the form of franchise, management or similar fees, with 85% 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.

## **Dividends**

The Board has proposed a final dividend per ordinary share of 52¢ (33.8p). With the interim dividend per ordinary share of 25¢ (14.8p), the full-year dividend per ordinary share for 2014 will total 77¢ (48.6p), an increase of 10.0% over 2013.

On 2 May 2014, the Group announced a \$750m return to shareholders by way of special dividend and share consolidation. The dividend was paid to shareholders on 14 July 2014.

Under the \$500m share buyback programme announced on 7 August 2012, which commenced on 12 November 2012 and completed on 29 May 2014, a total of 17.3m shares have been repurchased for total consideration of \$500m.

## **Earnings per ordinary share**

Basic earnings per ordinary share increased by 12.3% to 158.3¢ from 140.9¢ in 2013. Adjusted earnings per ordinary share remained unchanged at 158.3¢.

### Share price and market capitalisation

The IHG share price closed at £25.95 on 31 December 2014, up from £20.13 on 31 December 2013. The market capitalisation of the Group at the year end was £6.4bn.

### 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. \$361m was drawn under the \$1.07bn Syndicated Facility 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 91 years remain) on InterContinental Boston and other uncommitted bank facilities (see note 21 to the Group Financial Statements). 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 \$1,533m (2013 \$1,153m) is analysed by currency as follows:

	2014	2013 <sup>1</sup>
	\$m	\$m
<b>Borrowings</b>		
Sterling	1,028	671
US dollar	557	709
Euros	103	11
Other	7	10
<b>Cash and cash equivalents</b>		
Sterling	(21)	(87)
US dollar	(54)	(40)
Euros	(25)	(15)
Canadian dollar	(14)	(25)
Chinese renminbi	(8)	(15)
Other	(40)	(66)
<b>Net debt<sup>2</sup></b>	<b>1,533</b>	1,153
Average debt levels	1,322	985

<sup>1</sup> Restated for the adoption of 'Offsetting Financial Assets and Financial Liabilities' (Amendments to IAS 32), see page 107.

<sup>2</sup> Including the impact of currency derivatives.

Borrowings included bank overdrafts of \$107m (2013 \$114m) which were matched by an equivalent amount of cash and cash equivalents under the Group's cash pooling arrangements. Under these arrangements, each pool contains a

number of bank accounts with the same financial institution and the Group pays interest on net overdraft balances within each pool. The cash pools are used for day-to-day cash management purposes and are managed daily as closely as possible to a zero balance on a net basis for each pool. Overseas subsidiaries are typically in a cash positive position, with the most significant balances in the US and Canada, and the matching overdrafts are held by the Group's central treasury company in the UK.

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Cash and cash equivalents include \$4m (2013 \$12m) that is not available for use by the Group due to local exchange controls.

Information on the maturity profile and interest structure of borrowings is included in notes 20 and 21 to the Group Financial Statements.

The Group had net liabilities of \$717m at 31 December 2014 reflecting that its brands are not recognised in the Group statement of financial position. At the end of 2014 the Group was trading significantly within its banking covenants and facilities.

### **Cash from operating activities**

Net cash from operating activities totalled \$543m for the year ended 31 December 2014 down \$81m on the previous year largely due to increased cash flows relating to exceptional operating items.

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 \$123m, a decrease of \$52m over 2013. Capital expenditure on property, plant and equipment decreased from \$159m in 2013 to \$84m as the prior year included significant investment in hotel properties that were in the process of being converted to the Group's EVEN Hotels brand. \$394m of disposal proceeds primarily related to the disposal of InterContinental Mark Hopkins San Francisco and the disposal of an 80% interest in InterContinental New York Barclay.

The Group had committed contractual capital expenditure of \$117m at 31 December 2014 (2013 \$83m).

### **Cash used in financing activities**

Net cash used in financing activities totalled \$736m, which was \$121m lower than in 2013. Returns to shareholders of \$1,052m, comprising ordinary dividends, special dividends and share buybacks, were \$236m higher than in 2013. \$68m (2013 \$44m) was spent on share purchases in order to fulfil share incentive awards.

Overall net debt increased during the year by \$380m to \$1,533m at 31 December 2014.

### **Off-sheet balance sheet arrangements**



At 31 December 2014, 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 2014:

	<b>Total amounts committed</b>	<b>Less than 1 year</b>	<b>1-3 years \$m</b>	<b>3-5 years</b>	<b>After 5 years</b>
Long-term debt obligations <sup>1, 2</sup>	1,378	3	751		624
Interest payable <sup>2</sup>	248	52	76	47	73
Derivatives	2	2			
Finance lease obligations <sup>3</sup>	3,364	16	32	32	3,284
Operating lease obligations	349	40	62	47	200
Agreed pension scheme contributions <sup>4</sup>	6	6			
Capital contracts placed	117	117			
Kimpton acquisition	430	430			
<b>Total</b>	<b>5,894</b>	<b>666</b>	<b>921</b>	<b>126</b>	<b>4,181</b>

<sup>1</sup> Repayment period classified according to the related facility maturity date.

<sup>2</sup> Excluding bank overdrafts.

<sup>3</sup> Represents the minimum lease payments related to the 99-year lease (of which 91 years remain) on InterContinental Boston. Payments under the lease step up at regular intervals over the lease term.

<sup>4</sup> Largely relates to US pension obligations.

As explained in note 33 to the Group Financial Statements, the Group completed the acquisition of Kimpton Hotel & Restaurant Group, LLC for \$430m on 16 January 2015.

The acquisition was primarily financed by a \$400m bilateral term loan with a term of six months plus two six-month extension periods. A variable rate of interest is payable on the loan which has identical covenants to the Syndicated Facility.

### Contingent liabilities

Contingent liabilities include performance guarantees with possible cash outflows totalling \$29m, guarantees over the debt of equity investments of \$20m and outstanding letters of credit of \$40m. See note 30 to the Group Financial Statements for further details.



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### ***Plan***

Guest Journey    Step two

The **Plan** phase of the Guest Journey is where our guests narrow down their travel options.

They do this in different ways; by searching and learning more about our brands online and reading guest reviews; through IHG Rewards Club offerings; or via interaction with call centres, travel agents and corporate travel departments.



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### *Chairman's overview*

#### **Dear Shareholder**

We are committed to maintaining the highest standards of corporate governance. Our governance framework, led by the Board, supports IHG's culture, values and our commitment to conducting business responsibly, further explained on pages 24 and 25. We have in place strong and effective practices and conduct regular reviews to ensure we are compliant.

#### **Governance and strategy**

The Board is accountable for the long-term success of the Group, as well as for setting the strategic priorities and objectives of the Group and its risk appetite. We consider the interests of all of our stakeholders at all times. Shaping and implementing IHG's strategy is the most critical role of the Board and therefore the Board dedicates ample time to discussing the Group's strategy, not least as part of our annual strategy meeting. Further information on how the Board spent its time during 2014 can be found on page 56.

#### **Board changes and succession planning**

A high-level structure of IHG's Board and its Committees, along with biographies of current Board and Executive Committee members, can be found on pages 55 and 57 to 61.

As announced in our 2013 Annual Report, David Kappler retired on 31 May 2014 after spending over nine years as a Non-Executive Director at IHG. He was succeeded by Dale Morrison as Senior Independent Non-Executive Director on 31 May 2014. Ian Dyson took over David's duties as Chairman of the Audit Committee on 1 April 2014. We also said goodbye to Jonathan Linen, who retired from the Board on 31 December 2014 after spending nine years with the business.

In August 2014, we announced the appointment of Jo Harlow to the Board and Audit, Nomination and Remuneration Committees effective as of 1 September 2014. Jo's appointment fulfils one of the objectives I highlighted last year, which was to enhance the Board's capabilities and competencies by appointing a Non-Executive Director with specific consumer-facing technology experience given the significance of this area in our strategy.

Finally, in December 2014, we announced Kirk Kinsell would step down from the Board on 13 February 2015. Kirk was succeeded as Chief Executive Officer, The Americas by Elie Maalouf, who sits on IHG's Executive Committee. I would like to thank Kirk for his long-standing contribution to IHG, most recently as a Board member and President of The Americas region.

We are also pleased to welcome Anne Busquet to the Board as a Non-Executive Director effective as of 1 March 2015. Anne will sit on the Audit, Corporate Responsibility and Nomination Committees. Anne has an impressive

breadth of experience in digital commerce, hospitality, finance and marketing.

## Our Board Committees

We continually review the Board's composition to ensure we have the right balance of skills to support the business both today and in the future. This includes a regular review of the

size, experience, diversity and gender of our Board, which is conducted by our **Nomination Committee** (see page 69 for its report). We value the benefits that diversity brings, having had at least 25 per cent female representation on our Board since 2012. Further details on our approach to diversity from Board level and throughout the organisation, including our policies in this area, can be found on pages 61 and 62.

The **Audit Committee** plays a substantial role in ensuring appropriate governance and challenge around our risk and assurance processes. In line with our 2014 priorities, a major focus area has been the risks relating to information security and technology. More information can be found in the Audit Committee Report on pages 65 to 67.

In 2014, the **Corporate Responsibility Committee** continued to drive engagement of our three corporate responsibility programmes and deliver against our five-year corporate responsibility targets (see page 68 for its report).

At our 2014 AGM, our Directors' Remuneration Policy was approved with a 90.94 per cent vote in favour. We are not making any changes to this Policy this year, however, we have provided a summary of it in our **Directors Remuneration Report**, which can be found on pages 76 to 91. This includes information about the Committee, the Annual Report on Directors' Remuneration and Implementation of our Directors' Remuneration Policy in 2015.

## Board effectiveness

For 2014, we conducted an internal evaluation on Board effectiveness. During 2014, we progressed the actions that were highlighted from the 2013 external evaluation, which enabled us to further inform enhancements to our Board processes. Details of both the 2013 and 2014 evaluation, including the process and recommendations, can be found on pages 63 and 64.

## Structure of the report

This year we have restructured our Corporate Governance Statement, setting out a review of our 2014 activities at the start, followed by each Board Committee's report and finally details of how we have complied with the UK Corporate Governance Code published in September 2012 (the Code). We have aimed to provide greater transparency on compliance with the Code, making this easier to follow.

I am pleased to report that, during 2014, we complied fully with all principles and provisions of the Code, with the exception of the provision relating to audit tendering (see page 70), as we believe it would not be in the best interests of the Group to undertake an audit tender at this time (see pages 66 and 67).

## Objectives for the year

My objectives for the Board this year are to ensure that the focus and composition of the Board continues to evolve to support the execution of our strategy and the opportunities and challenges we face. Our 2015 Board agenda will allow time for continued focus on our technology strategy and in-depth reviews of our brands and our priority markets. This year, our annual strategy meeting will be held in Greater China.

**Patrick Cescau**

**Non-Executive Chairman**

16 February 2015

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### **Compliance and our dual listing**

As a dual listed company with a premium listing on the London Stock Exchange and a secondary listing on the New York Stock Exchange, we are required to file both an Annual Report in the UK, which complies with the 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 2014, to ensure continued consistency of information provided to both UK and US investors, we have for the second time produced a combined Annual Report and Form 20-F.

As required by the SEC, a statement outlining the differences between the Group's UK corporate governance practices and those followed by US companies can be found on pages 173 and 174.

### ***Corporate Governance***

#### ***Our Board and Committee governance structure***

The Board leads the strategic direction and long-term objectives and success of the Group through effective oversight and review, setting the Group's strategic aims and monitoring the performance of the Group and its risk management controls.

A number of key decisions and matters are reserved for the Board's approval and are not delegated to management, these include matters related to Group business and commercial strategy; 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 and governance and compliance.

The Board delegates certain responsibilities to its Committees, namely the Audit Committee, Corporate Responsibility Committee, Nomination Committee and Remuneration Committee, to assist it in carrying out its functions.



**Table of Contents****IHG** Annual Report and Form 20-F 2014**Corporate Governance** *continued***2014 Board meetings**

The Board held eight scheduled meetings during 2014 and attendance by each Director is set out in the table below. Attendance at Committee meetings is indicated in each Committee report. Unless otherwise indicated, all Directors held office throughout the year.

**Board membership and attendance**

<b>Director</b>	<b>Attendance</b>
Patrick Cescau (Chairman)	8/8
Richard Solomons (Chief Executive Officer)	8/8
<b>Executive Directors</b>	
Paul Edgecliffe-Johnson <sup>1</sup>	8/8
Kirk Kinsell	8/8
Tracy Robbins	7/8 <sup>2</sup>
<b>Non-Executive Directors</b>	
Ian Dyson	8/8
Jo Harlow (appointed 1 September 2014)	3/3
David Kappler (retired 31 May 2014)	3/3
Jennifer Laing	8/8
Jonathan Linen (retired 31 December 2014)	7/8 <sup>2</sup>
Luke Mayhew	8/8
Jill McDonald	7/8 <sup>2</sup>
Dale Morrison	8/8
(Senior Independent Non-Executive Director)	
Ying Yeh	8/8
<b>Total meetings held</b>	<b>8</b>

<sup>1</sup> Tom Singer resigned and Paul Edgecliffe-Johnson became Chief Financial Officer effective as of 1 January 2014.

<sup>2</sup> Tracy Robbins missed one Board meeting due to health reasons and Jonathan Linen and Jill McDonald missed one Board meeting due to a prior commitment known to the Board in advance.

**What did the Board consider at its 2014 meetings**

## **Strategy**

The Board spends a substantial amount of time considering Group strategy. In addition to its annual strategy meeting, time was spent in 2014 discussing strategic areas and business updates, including:

IHG strategic updates and priorities;

industry and consumer updates;

brands, regional and functional updates;

implementation of our commercial strategy, which includes focusing on our preferred brands, our loyalty programme and our channel management and distribution strategy;

development of our technological platforms; and

consideration and approval of the acquisition of Kimpton Hotels & Restaurants, in line with our strategy.

### **Annual strategy meeting**

We held our 2014 annual two-day strategy meeting in Singapore. This included:

a review of industry trends, competitors and consumer trends;

an in-depth discussion of our Group strategy and progress on its implementation;

an in-depth review of the performance, opportunities and challenges in our AMEA and Greater China regions;

meeting with AMEA Regional Operating Committee members, which comprises senior management in this region;

visiting our corporate office in Singapore; and

attending an informal evening event with the Singapore office and 30 members of the IHG I-Grad Future Leaders Programme.

A third day was added to give the Board the opportunity to visit hotels across our brand portfolio in Singapore and interact with general managers of our hotels and their teams.

## **Governance**

Reviewed our internal controls and risk management processes including the Major Risk Review, a Risk Management Effectiveness Review and updates on our global insurance programme.

Discussed the composition and succession planning of the Board and its Committees and approved Dale Morrison becoming Senior Independent Non-Executive Director, Ian Dyson becoming Chairman of the Audit Committee and the appointment of Jo Harlow as a new Non-Executive Director.

Reviewed the externally conducted 2013 Board performance evaluation and agreed the action plan for 2014.

Considered the performance of each of the Board Committees, concluding each remained effective and reviewed each of their terms of reference, updating these as required.

Received updates on the deliberations of each of the Board Committees (see each of their reports on their key activities and priorities during 2014).

Updated on upcoming legislative and regulatory changes affecting our business and the Board and its Committees across areas including corporate reporting, governance guidelines, and institutional investor reports.

#### **Investor relations**

Reviewed and approved a \$750 million return to shareholders.

Discussed reports on investor perceptions and shareholder relations, and considered analysts reports and media updates.

#### **Regular agenda items**

As part of general monitoring of the Group and its compliance with the governance framework, certain matters are regularly included on Board meeting agendas. These include an update on the business from the Chief Executive Officer, finance updates from the Chief Financial Officer (which includes a financial review of the Group), and deep dives on each region and function presented by Executive Committee members and other senior management.

#### **Meetings without Executive Directors**

During 2014, at the end of each Board meeting, our Non-Executive Directors met with the Chairman without the Executive Directors present. They also regularly met with the Chief Executive Officer without the other Executive Directors present.

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*Who is on our Board of Directors*

**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. He was formerly a Senior Independent Director and Non-Executive Director of Pearson plc and a Director at INSEAD.

**Board contribution:** Patrick has held board of director positions for nearly 15 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. He is also Chairman of the Nomination Committee.

**Other appointments:** Currently a Non-Executive Director of International Consolidated Airlines Group S.A. and the Senior Independent Director of Tesco PLC. Patrick is also a trustee of The Leverhulme Trust.

**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 and Resorts and EVEN Hotels and IHG's acquisition of Kimpton Hotels & Restaurants. Before being appointed Chief Executive Officer, Richard served as Chief Financial Officer and Head of Commercial Development. 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 \$10.4 billion to shareholders. In 2008, he served as Interim President of our Americas region. Richard is a member of the Executive Committee of the World Travel and Tourism Council, a member of the Industry Real Estate Financing Advisory Council and a Governor of the Aviation and Travel Industry Group of the World Economic Forum.

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

**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 and 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.

**Tracy Robbins**

**Executive Vice President,**

**Human Resources and**

**Group Operations Support**

Appointed to the Board: 9 August 2011

**Skills and experience:** Tracy has nearly 30 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, she acted as Group HR Director for Forte Group plc, a hotel company. Tracy 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.

**Board Committee membership key**

Audit Committee member

Corporate Responsibility Committee member

Nomination Committee member

Remuneration Committee member

Denotes Chairman of a Board Committee



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*Corporate Governance continued*

*Who is on our Board of Directors continued*

**Dale Morrison**

**Senior 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. He was appointed as the Board's Senior Independent Non-Executive Director on 31 May 2014.

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

**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 and Spencer Group plc for five years from 2005 to 2010, where he oversaw significant changes in the business. In addition, Ian was Chief Executive Officer of Punch Taverns plc, a pub and bar operator, Finance Director for the Rank Group Plc, a leading European gaming business, and Group Financial Controller and Finance Director for the hotels division of Hilton Group Plc.

**Board contribution:** Ian has gained significant experience from working in various senior finance roles predominantly in the hospitality sector. Ian became Chairman of the Audit Committee on 1 April 2014 and as such 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 Punch Taverns plc, a Non-Executive Director and Chairman of the Audit Committee of SSP Group plc and Senior Independent Non-Executive Director and Chairman of the Audit Committee of ASOS Plc and Betfair Group plc.

**Jo Harlow**

**Independent**

**Non-Executive Director**

**Appointed to the Board: 1 September 2014**

**Skills and experience:** Jo has held the position of Corporate Vice President of the Phones Business Unit at Microsoft Corporation since May 2014. She was previously Executive Vice President of Smart Devices at Nokia Corporation since February 2011, following a number of senior management roles at Nokia since 2003. Prior to that, she held marketing, sales and management roles at Reebok International Limited from 1992 to 2003 and at Procter & Gamble Company from 1984 to 1992.

**Board Contribution:** Jo has over 25 years' experience working in various senior roles predominantly in the branded and technology sectors.

**Other appointments:** None.

**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. Until May 2014, she was also a Non-Executive Director of Hudson Global, Inc.

**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 and approach to sustainable development.

**Other appointments:** Currently a Non-Executive Director of Premier Foods plc, a branded food producer.



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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 plc, 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 Plc.

**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 2014. As Chairman of the IHG Remuneration Committee he is responsible for setting the remuneration policy.

**Other appointments:** Currently a Non-Executive Director of DFS Furniture Holdings plc, and a 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 Company, spent 16 years with British Airways Plc and held a number of senior marketing positions in the UK and overseas.

**Board contribution:** Jill has nearly 30 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).

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

**The Board is supported by the Company Secretary:**

**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 over 10 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.

*Changes to the Board*

**Tom Singer**

Tom resigned as Chief Financial Officer effective as of 1 January 2014.

Paul joined the Board as Chief Financial Officer effective as of 1 January 2014.

**Paul Edgecliffe-Johnson**

**David Kappler**

David retired as Senior Independent Non-Executive Director effective as of 31 May 2014.

**Jo Harlow**

Jo joined the Board as a Non-Executive Director effective as of 1 September 2014.

**Jonathan Linen**

Jonathan retired as a Non-Executive Director effective as of 31 December 2014.

**Kirk Kinsell**

Kirk resigned as President, The Americas effective as of 13 February 2015.

**Anne Busquet**

Anne will be joining as a Non-Executive Director effective as of 1 March 2015.

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*Corporate Governance continued*

*Who is on our Executive Committee*

In addition to the Executive Directors and the General Counsel and Company Secretary, 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 at IHG 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 prior to becoming Chief Commercial Officer, was 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.

**Elie Maalouf**

**Chief Executive Officer,**

**The Americas**

Appointed to the Executive Committee:

February 2015 (Joined the Group: 2015)

**Skills and experience:** Elie was appointed Chief Executive Officer, The Americas at IHG in February 2015, having had over 15 years experience working in a major global franchise business. He joined the Group having spent six years as President and Chief Executive Officer of HMSHost Corporation, a global travel and leisure company, where he was also a member of the Board of Directors. Elie brings broad experience to IHG spanning development, branding, finance, real estate and operations management, as well as highly relevant food and beverage expertise. He was most recently a Senior Advisor with McKinsey & Company.

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

**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, for nearly 20 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.

There are no family relationships between any of the Board or Executive Committee members (set out on pages 57 to 61). 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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**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 nearly 20 years ago. Since then he has held various senior positions in the field of emerging technologies and global e-commerce. Prior to being appointed Chief Information Officer, 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:

April 2011 (Joined the Group: 2002)

**Skills and experience:** Jan has 33 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.

*Board composition and diversity*

The Board believes that, in order to be most effective, objectively challenge management and encourage different perspectives for debate, it must have an appropriate mix of skills, experience, knowledge and diversity in line with our business. The Nomination Committee supports the Board in respect of reviewing Board composition and continuously monitors succession planning. See page 69 for the Nomination Committee Report.

**Independence and tenure**

The Board and Nomination Committee regularly review the independence of each Non-Executive Director. Jennifer Laing has served on the Board for over nine years and the Nomination Committee has specifically reviewed her independence and is satisfied that she continues to demonstrate independence in character and judgement and is independent as required under the Code. The Board has also considered this and reached the same conclusion. Excluding the Chairman, 70 per cent (as at 16 February 2015) and 67 per cent (as at 31 December 2014) of our Board comprise independent Non-Executive Directors.

As Ying Yeh has also been on the Board for over six years, both her and Jennifer's continued appointments were the subject of particular review and scrutiny by the Nomination Committee and the Board. Our current Non-Executive Directors' lengths of tenure as at 16 February 2015 are shown below:

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*Corporate Governance continued*

*Board composition and diversity continued*

**Board Diversity Policy (BDP) and Global Diversity and Inclusion Policy (GDIP)**

With a presence in nearly 100 countries globally, we value the benefits of diversity, beyond gender, and strongly believe that our leadership should reflect the diversity of our employees, our guests and the local communities in which we operate. Therefore, the Board seeks diversity of skills, experience, geographical representation and gender both in its composition and throughout all levels of our business. In 2013, we introduced a Board Diversity Policy as well as a Global Diversity and Inclusion Policy to ensure that diversity in its broadest sense remains a key priority.

**Progress against the objectives of each of these policies during 2014:**

BDP objective: 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

Our Board members bring multinational experience to IHG, having themselves worked across a number of countries. The diverse nationalities of our Board are reflected below:

Collectively the Board also has a broad collection of industry skills and experience in line with IHG's business and strategic focus, to enable it to discharge its duties and responsibilities effectively:

BDP objective: 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

GDIP objective: To strengthen female representation in our global senior leadership population, with a target of reaching 25% by the end of 2015

We have 52 people comprising our senior leadership population at our corporate offices and central reservations offices who are employed by the Group and are part of our senior leadership team, 14 of these people are females (27 per cent). This is in line with our 2015 target and is an increase from the 21 per cent in 2013. This reflects both external appointments and internal promotions of female talent during 2014. We have also worked with executive search firms to ensure we have better gender balance on shortlists for senior leadership appointments.

From 2015, each of our Executive Committee members will be mentoring our high-potential senior leaders.

BDP and GDIP objective: Maintain a level of at least 25% female directors on the Board over the short to medium term

We firmly believe in the importance of a diverse Board membership and fully support the Lord Davies Report on Women on boards . Jo Harlow joined our Board on 1 September 2014. Our Board currently comprises 11 Directors, five of whom are women. This continues our record since 2012 of having more than 25 per cent females on the Board:

We remain committed to maintaining at least 25 per cent female representation on the Board over the short to medium term, but the Nomination Committee does recommend appointments based on merit, ensuring there is an appropriate mix on the Board (as set out above and in its report on page 69).

BDP objective: We will report annually against these objectives and other initiatives taking place in the Group which promote gender and other forms of diversity

GDIP objective: To sustain a healthy balance of gender in the whole employee organisation

We continue to take action to sustain a healthy gender balance and review diversity throughout our organisation. Out of the 12,772 people employed by the Group whose costs are borne by the Group or the System Fund (see pages 23, 120 and 152), 7,069 are female (55 per cent).

In 2014, initiatives promoting diversity (beyond gender) included:

establishing internal forums to increase support and mentoring for female colleagues and high-potential female employees;

actively participating in external diversity summits, conferences and events in all regions; and

continuing to review ways to increase local representation on the leadership and management teams in emerging markets. In Greater China, our Regional Operating Committee has three local leaders, thereby strengthening our local leadership talent.

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### *Director induction, training and development*

#### **New Director induction**

New Directors receive a full and formal induction programme tailored to meet their individual needs and in accordance with best practice. This induction, led by the Chairman, includes the following key areas:

familiarisation with the Group's business, principal activities and strategy;

an understanding of the Group's governance, including the structure of the Board and its Committees and our approach to internal controls and risk management;

meetings with senior executives and regional and central management from various functions across the Group, including Business Reputation and Responsibility, Human Resources, Corporate Affairs, Global Strategy, Global Internal Audit and Group Finance; and

visits to our global corporate offices and hotels to provide a greater insight into our business.

#### **Jo Harlow's induction**

Jo's induction centred on providing her with an understanding of IHG and our business to enable her to contribute her knowledge, skills and experience effectively to the Board. The key areas included:

information on the Group, including our history, brands, regional structure and operations; strategy and business model; KPIs; commercial strategy; the IHG Owners Association; and regulatory compliance;

information on the Board, its Committees and IHG's governance processes with particular focus on the Audit, Nomination and Remuneration Committees in light of her appointment to these;

our approach to internal controls and risk management; and

meetings with members of the Board and the Executive Committee, senior management from functions across the Group and the external Auditor.

Since her appointment, Jo has had the opportunity to visit our UK and US corporate headquarters, meet and address the Group's senior leaders at our Senior Leaders Meeting held in Seattle, and tour hotels across our brands in Greater China, the US and the UK.

### **Ongoing Director training and development**

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

Patrick Cescau regularly reviews and agrees training and development needs with each Director;

the Board is made aware of training opportunities and additional information, as necessary, to enable them to keep up to date and enhance their knowledge of the business;

Board and Committee meetings are used to formally keep Directors up to date on developments in the environment in which the business operates – for example, in 2014, in-depth presentations were given by senior management in the Group on key topical areas (see page 56);

the Company Secretary regularly updates the Board on regulatory and legal matters as part of meetings; and

Directors are encouraged to visit hotels across our brands both formally as part of meetings and informally. For example, in 2014, visits to our hotel were included as part of the annual Board strategy meeting (see page 56). We also invite different Non-Executive Directors to attend our large annual conferences. In 2014, two Non-Executive Directors attended the IHG Americas Investors & Leadership Conference which took place in Las Vegas, US. This enables Directors to interact with current and potential owners and gain an insight first hand of the key areas of focus for the business.

### *Board effectiveness evaluation*

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

### **Progress against our 2013 evaluation**

In 2013, we conducted an externally facilitated independent evaluation as detailed in our 2013 Annual Report.

Our progress in 2014 against the actions identified is set out below:



**Observations**

**Action taken during 2014**

Increase the Board's oversight of new technology	The Board was regularly updated on new technology developments. Technology was an agenda item at Board meetings and the Board also received an evening presentation from external consultants entitled "Winning with Technology". The Audit Committee also discussed the Group approach to information security see page 66.
Enhance the Board's use of time and gain a deeper understanding of priorities and risks	Board meeting agendas had an increased focus on industry and consumer trends, including information on our competitors, as well as regular updates on our progress on major projects.
Consider future Board composition and succession	Five Nomination Committee meetings were held in 2014 reflecting our focus on Board and Executive Committee succession planning and Board composition in light of IHG's current and future focus (see page 69). We prioritised the search for a Non-Executive Director with experience in consumer-facing technology, which led to the appointment of Jo Harlow in September 2014.

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**IHG** Annual Report and Form 20-F 2014

*Corporate Governance continued*

**Our 2014 evaluation process**

Our 2014 evaluation was conducted internally. Each member of the Board completed an effectiveness questionnaire, which centred around the progress against actions identified in our 2013 Board effectiveness evaluation. Key areas included the regularity of meetings, appropriateness of location (especially in enabling us to gain a better understanding of our business), the decision-making process, executive management succession planning, impact of internal and external technology developments, and risk management and assurance oversight. It also invited Directors to make other general or specific observations. The results were analysed and the report was presented for discussion at the Board’s February 2015 meeting.

The Board considered the performance of its Committees and internal performance evaluations of Directors were undertaken as follows:

<b>Director being appraised</b>	<b>Appraiser</b>
Chairman	Non-Executive Directors excluding the Chairman and facilitated by the Senior Independent Non-Executive Director
Chief Executive Officer	Chairman and all Non-Executive Directors
Executive Directors	Chief Executive Officer
Non-Executive Directors	Chairman

**2014 Board effectiveness evaluation observations and action plan:**

<b>Observations</b>	<b>Action to be taken</b>
Increase the Board’s focus on brands	Deep dives into each brand strategy to be provided to the Board.
Enhance the Board’s understanding of competitors’ strategy and performance	Presentations on competitors’ strategies and offerings. Competitive analysis to be included in both financial results and strategic reviews.
Increase the Board’s exposure to the Group’s US business	Ensure opportunities are secured for meeting with the newly appointed Chief Executive Officer for The Americas region. Increase the Board’s understanding of the Kimpton brand. Deep dives into the strategy for core brands in the US. Firmer understanding of the EVEN Hotels brand’s growth strategy.

It was confirmed that the Board and its Committees were operating effectively, and that each Director continues to bring relevant knowledge, diversity of perspective, an ability and willingness to challenge and retains a strong commitment to the role.

### *Board engagement with shareholders*

The Board takes its responsibility to represent and promote the interests of its shareholders seriously and believes it is very important to engage with them fully. A formal external review of investor perceptions is presented to the Board on an annual basis and both the Executive Committee and the Board receive regular updates on shareholder relations.

### **Engagement during the year**

The Board engaged with shareholders in a number of ways during 2014, which included:

meeting shareholders at the AGM;

half-year and full-year formal reporting and telephone conferences after the release of the first and third quarter interim management statements;

presentations by Richard Solomons and Paul Edgecliffe-Johnson to institutional investors, analysts and the media following results announcements;

a programme of meetings with major institutional shareholders;

an analyst presentation on Kimpton Hotels & Restaurants.

To enable as many shareholders as possible to access conferences and presentations, telephone dial-in facilities are made available in advance and live audio webcasts are made available after presentations, together with associated data and documentation. These can be found at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under financial library.

Around 25 sell-side research analysts publish research on the Group; their details are available at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under analysts details.

### **AGM**

The AGM is an opportunity for shareholders to vote on certain aspects of Group business. The Board values this as it provides

a useful forum for one-to-one communication with private shareholders. At the AGM, shareholders receive presentations on the Company's performance and may ask questions of the Board.

The 2015 AGM will be held at 11:00am on Friday, 8 May 2015. The notice convening this meeting has been sent to shareholders at the same time as publication of this Annual Report and Form 20-F, and is available at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under financial library.

### **Meetings with major institutional shareholders**

A programme of meetings throughout the year is arranged with major institutional shareholders. These meetings provide an opportunity to discuss, using publicly-available information, the progress of the business, its performance, plans and objectives. Patrick Cescau, Dale Morrison and other Non-Executive Directors are available to meet with major shareholders to understand their issues and concerns, and to discuss governance and strategy.

Facilitated, structured meetings are encouraged with shareholders, and any new Director is available for meetings with major shareholders as a matter of course.

Details of the Remuneration Committee's engagement with shareholders is set out on page 76. During the year, Jennifer Laing also met with shareholders to discuss our corporate responsibility strategy.

### **Sharedealing programme**

In 2014, we offered our small UK-resident retail shareholders a sharedealing service to buy or sell shares in IHG. As part of this, shareholders were given the option to donate the proceeds of any sale of their shares to IHG Shelter in a Storm (see page 179).

### **Re-engaging with gone away shareholders**

We continue to be supported by ProSearch to locate shareholders who haven't kept their details up to date. To date, the programme has been very successful and many asset reunifications (both in terms of the shares themselves and unclaimed dividends) have been made. For further information, see page 179.

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### *Audit Committee Report*

*Our priority is ensuring that standards of good governance are maintained across all areas of the business.*

#### **Dear Shareholder**

The Audit Committee continues to focus on the integrity of internal financial controls and risk management systems. As the new Chairman of the Committee, I have also sought to ensure that the Committee (i) has oversight of the Group's risk management and assurance processes, looking at the processes and structures in place across the Group as a whole and how key projects are being delivered; and (ii) probes the significant risks, particularly in the area of technology, through a balance of presentations, papers and discussion.

#### **Roles and responsibilities**

The Committee's responsibilities fall into five areas: (i) internal controls and risk management; (ii) financial reporting; (iii) internal audit; (iv) fraud and whistleblowing; and (v) external audit and compliance. While the Board has overall responsibility for the management of business risks, the Committee assists the Board in a number of ways.

Our main role and responsibilities are set out in our terms of reference (ToR), which are reviewed annually and no changes were made for 2015. The ToR are available on the Company's website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under corporate governance/ committees or from the Company Secretary's office on request.

#### **Governance**

All members have the experience and expertise necessary to meet the Committee's responsibilities and all members are independent Non-Executive Directors as required under the ToR. During the year, Jo Harlow joined the Committee, and I replaced David Kappler as the Chairman of the Committee on 1 April 2014.

The Board is satisfied that both David (during his time on the Committee) and I are independent. The Code requires the Committee has at least one member with recent and relevant financial experience and Sarbanes-Oxley Act 2002 (SOX) necessitates a designated financial expert. The Board is satisfied that both David and I meet these requirements.

David is a qualified accountant and former Chief Financial Officer of Cadbury Schweppes plc and I am also a qualified accountant and was formerly Group Finance and Operations Director at Marks and Spencer Group plc.

As Chairman of the Committee, after each meeting, I report to the Board on any key matters arising.

#### **Internal controls and risk management**

The Committee supports the Board in reviewing the effectiveness of the Group's internal control and risk management system, having oversight of the risk and control activities in operation across the Group. Processes have been established which test and monitor:

strategic plan achievement, through a comprehensive series of Group and regional strategic reviews;

financial performance, within a comprehensive financial planning and accounting framework;

capital investment performance, with detailed appraisal and authorisation processes; and

risk management processes relying upon a Major Risk Review and assurance mapping process (through reports from the Head of Global Risk Management, the Head of Global Internal Audit (GIA), and, as appropriate, from management) providing assurance that the significant risks faced by the Group are being identified, assessed, prioritised, evaluated and appropriately managed and mitigated, having regard to the balance of risk, cost and opportunity.

*Our approach to risk management and key risk mitigating activities in respect of the Major Risks are set out on pages 26 to 29 and the wider set of risk factors are set out on pages 162 to 165.*

## **Financial reporting**

The key financial controls across our business have been identified and evaluated, in particular, to comply with our US obligations, arising from SOX. The Committee reviews the approach to SOX compliance each year, and, in 2014, it took into consideration changes in legislation, and the transition from the 1992 to the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Committee regularly reviews reports on the progress of the SOX programme and this has enabled appropriate representations regarding the effectiveness of internal financial controls to be made, concluding that no material weaknesses had been found in the internal control environment.

## **Internal Audit**

The Committee is responsible for reviewing and monitoring the activities of the GIA department. In December each year, the Committee discusses the GIA Plan and approves its nature and scope for the forthcoming year. GIA also undertakes an agreed schedule of audits during which the Group's internal controls are assessed and reported back to the Committee.

## **Fraud and whistleblowing**

Fraud and whistleblowing reports are collated from information provided by the Group's independent external provider, who facilitates the Group's confidential disclosure process for employees with whistleblowing and fraud concerns, and fraud data from Global Risk Management, and are presented to the Committee biannually.

The Committee is advised, as appropriate, of any significant matters to ensure a proportionate and independent investigation is performed.

**Table of Contents****IHG** Annual Report and Form 20-F 2014*Corporate Governance continued**Audit Committee Report continued***Committee membership and attendance**

<b>Members<sup>1</sup></b>	<b>Attendance</b>
Ian Dyson (Chairman from 1 April 2014) <sup>2</sup>	5/5
David Kappler (Chairman to 1 April 2014) <sup>2</sup>	1/2 <sup>3</sup>
Jo Harlow <sup>4</sup>	2/2
Jennifer Laing	5/5
Jill McDonald	4/5 <sup>3</sup>
Dale Morrison	5/5
<b>Total meetings held</b>	<b>5</b>

<sup>1</sup> For full biographies of current members see pages 58 and 59.

<sup>2</sup> David Kappler retired from, and Ian Dyson was appointed to, the role of Chairman of the Committee effective as of 1 April 2014.

<sup>3</sup> David Kappler and Jill McDonald missed one meeting each due to a prior commitment known to the Committee in advance.

<sup>4</sup> Jo Harlow joined the Committee with effect from 1 September 2014.

At the invitation of the Committee, the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Head of Global Internal Audit (GIA), Group Financial Controller and external Auditor, EY, attend meetings. EY attended all meetings in 2014 and provided a report on progress of, and insights from, the annual audit. Other attendees are invited to meetings as appropriate, to provide a deeper insight into, and understanding of, key decisions.

At each meeting, GIA and EY meet without the presence of management.

**What did the Committee consider in 2014**

In addition to those areas referred to above and routine items of business, during 2014, the Committee:

**Internal controls and risk management**

Discussed and assessed IHG's approach to risk management and assurance, looking in particular at the governance structure in place and how our Three Lines of Defence operate in practice and the Major Risks affecting the Group in 2014 (the 2014 Major Risk Review) (summarised above and on pages 26 to 29).

Approved the Risk Working Group's terms of reference and were provided with minutes from its previous meetings.



Reviewed the Group's hotel safety and security procedures and received regular risk management incident and threat reports.

Received a presentation from the Group's Chief Information Officer (Eric Pearson) on the structure of the Global Technology team and the major technology risks faced by the Group and assessed the steps being taken to mitigate these risks. At another meeting, Eric and the Head of Information Security discussed: (i) the approach to, and the activities planned to mitigate against, emerging information security risks; and (ii) information security trends in the hotel industry.

Was updated on material litigation at each meeting.

Considered and approved a revised Gifts and Entertainment Policy, Anti-Bribery Policy and Antitrust Policy. Provided with an overview of IHG's regulatory compliance programme (covering Anti-Bribery, Antitrust/Competition Law, Data Privacy, Sanctions and Code of Conduct), including the key projects carried out during 2014 and the areas of focus for 2015.

Considered the findings from the 2014 post-project review of major capital projects, and agreed with management the actions that would be applied to future projects.

Received a presentation on the treasury control environment and the Group's financing strategy from the Group Treasurer and a presentation on the Group's tax position from the Head of Group Tax.

**Financial reporting, issues and decision making**

Reviewed the Group's Preliminary Results, quarterly interim management statements and Half-Year Results (see below for the areas of significance which received increased attention).

Considered the Group's Annual Report and Form 20-F and ancillary documentation (see below).

Received an update on items discussed by the Disclosure Committee at each meeting.

**Internal audit**

Assessed the quarterly report from GIA to monitor progress against the GIA Plan and evaluate findings, and to ensure coverage of emerging risks.

Considered the 2014 GIA Effectiveness Review (which contains input from auditees, senior management and Non-Executive Directors and assessed GIA against the Institute of Internal Auditors Standards) and concluded that the Group's systems of internal controls and risk management, including internal audit activities, were operating effectively.

Monitored progress against outstanding actions.

Invited the Group's external technology co-assurance provider to a number of meetings to discuss and review the approach to technology assurance.

**Fraud and whistleblowing**

Received the biannual reports on significant incidents of fraud and whistleblowing, which in 2014 included an overview of the fraud management team and the process for escalation of reviewing serious fraud.

**External audit and compliance**

Reviewed the independence and objectivity of the external Auditor and the effectiveness of the external audit process.

Considered EY's key findings of audit and accounting issues, analysing EY's audit and non-audit fees at each meeting and noting that fees incurred to date were in accordance with IHG's Audit and Non-Audit Services Pre-Approval Policy (see below).

Reviewed and approved the 2014 Group Audit Plan.

Evaluated and recommended the re-appointment of EY on the basis of performance and an assessment of EY's independence and objectivity (see below).

**External Auditor – Ernst & Young LLP (EY)**

EY has been the Group's Auditor since IHG listed in 2003. While an audit tender has not been carried out since EY's initial appointment, the Committee considers the appointment of its Auditor annually, specifically assessing EY's performance (including its independence and objectivity).

To ensure EY's independence is safeguarded, lead audit partners rotate every five years. The current lead audit partner has been in place for four years.

The Committee reviews the independence and effectiveness of EY on an ongoing basis, including the effectiveness of the relationship between EY and the Group's management, and receives reports from it on its independence annually. An evaluation of EY takes place annually where questionnaires on EY's services are completed by more than 30 senior IHG employees that work with EY. As well as Group policies and procedures, which aim to

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safeguard EY's independence and effectiveness, EY has its own protective policies and systems in place, which are explained in a Transparency Report issued by EY on an annual basis.

Following an in-depth review for the year ended 31 December 2014, the Committee was satisfied with the independence, objectivity and effectiveness of the relationship with EY as the external auditor, and with the external audit process as a whole.

### Audit tender

During 2014, the Committee considered the requirements for audit tender in line with changes to legislation from the EU and the Competition and Markets Authority. Having reviewed legislative timescales and the effectiveness of the audit, we have concluded that no tender will be undertaken during 2015 but we will continue to monitor this.

### Non-audit services

EY provide non-audit services to the Group, which are governed, so as to safeguard their objectivity and independence, by IHG's Audit and Non-Audit Services Pre-Approval Policy:

The policy is re-approved by the Audit Committee annually and, for the 2014 financial year, the policy was updated and approved at the December 2013 Audit Committee meeting.

The policy requires that pre-approval is obtained from the Audit Committee for all services before any work can be commenced, in line with US SEC requirements. The Committee is prohibited from delegating non-audit services approval to management.

Compliance with the policy is actively managed and an analysis of audit and non-audit services is reviewed by the Committee at each meeting.

The Committee is aware of, and sensitive to, investor body guidelines on non-audit fees. During 2014, 29 per cent of services provided to the Group were non-audit services; these included areas such as advisory work and corporate tax compliance.

*For fees paid to EY for non-audit work during 2014, see page 120.*

## Significant matters in the 2014 Financial Statements

The Committee discussed with management the key judgements applied in the Financial Statements, the exceptional items arising in the year and the impact of any accounting developments or legislative changes. The main items discussed were:

**Accounting for the System Fund:** the Committee reviewed the accounting approach adopted for the System Fund with management and EY, and concluded that the approach and the disclosures, including the key judgements noted on page 112, were appropriate.

**The IHG Rewards Club points liability:** given the materiality of the IHG Rewards Club points liability, the Committee considered the approach to the valuation of the liability, including the results of the actuarial assessment of breakage (see page 113) as at December 2014 and the expected cost of redemption of each point. Management was questioned on the consistency and robustness of the approach and the results of EY's audit procedures were also considered before reaching the conclusion on the adequacy of the liability recorded.

**Impairment testing:** the Committee reviewed a detailed management report supporting the conclusion that there were no impairment issues on hotel assets, goodwill or other intangible assets. It challenged the key assumptions, including short and long-term growth rates, discount rates and underlying performance assumptions. The Committee also considered EY's views on the work performed and concluded that the position taken was supportable.

**Litigation:** given the judgement required in assessing the approach to be taken to material litigation, the Committee considered at each meeting an update report on major litigation matters and any provisioning for these matters. The factors taken into account by the Committee are set out on page 113.

**Deferred tax recognition:** as noted on page 113, the recognition of deferred tax assets requires judgement and estimates primarily around the availability of future taxable profits. The Committee considered and approved the approach taken to the recognition of such profits, noting in particular EY's reporting to the Committee in this area deferred tax balances are analysed in note 7.

**Exceptional items:** given the importance of showing a true underlying performance and being consistent in the definition of this year-on-year, the Committee challenged the appropriateness of the items disclosed as exceptional, in particular, the calculation of the profit on disposal of 80 per cent of our interest in InterContinental New York Barclay focusing on the accounting for the remaining interest. The Committee also discussed the disclosures in note 5.

**Technology projects:** as well as considering the process controls and overall governance of these projects, and based on discussions with management and EY's audit findings and control observations on those matters, the Committee also assessed the appropriateness of the capitalisation of costs on the main projects and the need for any impairment on capitalised software assets.

**Annual Report Fair, balanced and understandable**

At the request of the Board, a separate sub-committee meeting was held in February 2015 to consider whether the Annual Report and Form 20-F 2014 provided a fair, balanced and understandable view of the Group with the necessary information for shareholders to assess the Group's performance, business model and strategy. Audit Committee members provided comments on the draft report that were then incorporated into the draft provided to the Audit Committee and Board for final comment and approval.

### **Effectiveness of the Committee**

Effectiveness of the Committee is dependent on its overall efficiency as well as the efficacy of EY and GIA. The effectiveness of the Committee, EY and GIA is monitored and assessed annually through evaluation questionnaires and interviews.

### **Our priorities for 2015**

During 2015, the Committee will specifically focus on: (i) the integrity of the internal financial controls and risk management systems; (ii) monitoring and continually assessing IHG's information security arrangements; and (iii) overseeing the implementation of technology projects and the Global Finance function's talent and succession plans.

### **Ian Dyson, Audit Committee Chairman**

16 February 2015

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**IHG** Annual Report and Form 20-F 2014

*Corporate Governance continued*

*Corporate Responsibility Committee Report*

*Ensuring meaningful progress against our five-year targets will remain a key focus of the Committee.*

Dear Shareholder

**Roles and responsibilities**

The Committee advises the Board on the Group's corporate responsibility objectives and strategy, its approach to sustainable development, and ensures that IHG's responsible business priorities deliver against our core purpose, Great Hotels Guests Love.

Our role and responsibilities are set out in our terms of reference (ToR), which are reviewed annually and no changes were made for 2015. The ToR are available on the Company's website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under corporate governance/ committees or from the Company Secretary's office on request.

**Governance**

All members have the experience and expertise necessary to meet the Committee's responsibilities and a majority of the Committee members are Non-Executive Directors, as required under the ToR.

**What did the Committee consider in 2014**

During the year, the Committee's key activities included:

**Targets and core programmes**

Continually monitoring progress against our five-year targets (2013-2017) – see page 33 and [www.ihgplc.com/responsiblebusiness](http://www.ihgplc.com/responsiblebusiness) for details.

Receiving progress updates on the key achievements in 2014 across the three core corporate responsibility programmes: IHG Green Engage, IHG Academy and IHG Shelter in a Storm, including an in-depth case study of an IHG Academy set up by a franchised hotel, Holiday Inn Stoke On Trent, and in-depth reports on IHG Shelter in a Storm.

Inviting external speakers to the meetings to explore key topics, including a presentation from CARE on its strategic relationship with IHG, and an overview of the landscape of responsible business by the Chief Executive of Business in the Community.

Discussing the Group's performance against the 2014 delivery plan and setting 2015 priorities.

Reviewing proposals for implementing and applying a brand standard in respect of IHG Green Engage for all hotels in the IHG System (see page 33).

#### Committee membership and attendance

<b>Members<sup>1</sup></b>	<b>Attendance</b>
Jennifer Laing (Chairman)	3/3
Luke Mayhew	3/3
Dale Morrison	3/3
Richard Solomons	3/3
Ying Yeh	3/3
<b>Total meetings held</b>	<b>3</b>

<sup>1</sup> For full biographies see pages 57 to 59.

The Heads of Corporate Responsibility and the Chairman of the Board also attend the meetings.

#### Communication and awareness

Evaluating the Responsible Business Communication Plan for 2014 and the results of the Employee Engagement survey, which had included questions in respect of the awareness and impact of our core corporate responsibility programmes. Responsible business activities continue to drive very high levels of pride in our employees, with 92 per cent of respondents saying they felt more positive about IHG as a result of corporate responsibility programmes.

Considering methods to raise the levels of awareness and adoption of our corporate responsibility programmes in franchised hotels, such as our IHG Race Around the World event.

Considering our corporate responsibility initiatives in the context of our broader responsible business practices and endorsing plans to have a broader IHG Responsible Business Report for 2014 (published in 2015).

The Committee, along with our Corporate Responsibility team and the rest of the Board, also took part in an IHG Race Around the World event in Hyde Park in London, a fundraising event in support of, and building awareness for, IHG Shelter in a Storm.

#### Our priorities for 2015

During 2015, our priorities will be to: (i) continue to support IHG to ensure meaningful progress on our five-year corporate responsibility targets; (ii) further embed responsible business in the IHG brand and help to deliver external communications to support this; and (iii) further extend the success of IHG Shelter in a Storm by increasing IHG's disaster preparedness capabilities and developing links with humanitarian agencies to grow IHG's disaster relief capabilities.

**Jennifer Laing, Corporate Responsibility Committee Chairman**

16 February 2015



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### *Nomination Committee Report*

*The Committee keeps under continuous review the talent pool within the business.*

Dear Shareholder

#### **Roles and responsibilities**

The Committee considers the structure, size and composition of the Board, advising on succession planning and making appropriate recommendations to ensure the Board retains an appropriate mix of skills, experience, knowledge and diversity. It is also responsible for reviewing the Group's leadership needs.

Our role and responsibilities are set out in our terms of reference (ToR), which are reviewed annually and no changes were made for 2015. The ToR are available on the Company's website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under corporate governance/committees or from the Company Secretary's office on request.

#### **Governance**

All members have the experience and expertise necessary to meet the Committee's responsibilities and are independent Non-Executive Directors (excluding myself), as required under the ToR. During 2014, David Kappler retired from, and Jo Harlow joined, the Committee. When the Committee is considering matters relating to my position, Dale Morrison, Senior Independent Non-Executive Director, acts as chairman of the Committee.

#### **What did the Committee consider in 2014**

During the year, the Committee's key activities included:

##### **Board appointments**

Continually reviewing the tenure and qualifications of the Non-Executive Directors to ensure the Board has an appropriate and diverse mix of skills, experience, knowledge and diversity.

Recommending appointments to the Board in line with our strategic objectives. As identified in our 2013 Annual Report, our priority for 2014 was to strengthen the Board's existing capabilities by looking to appoint a Non-Executive Director with experience in consumer-facing technology. Lygon Group, who have no connection to IHG, was engaged as an external search agent. The search was undertaken against a detailed job specification

setting out the particular skills, knowledge and experience required for the particular position. The Committee nominated Jo Harlow, having considered her wealth of experience and knowledge, particularly in connection with the role digital technology plays in driving consumer behaviour. The Board approved Jo's appointment with effect from 1 September 2014.

### Succession planning

Focusing, on behalf of the Board, on Board succession planning:

In advance of David Kappler's plans to retire on 31 May 2014, we recommended the appointment of Ian Dyson as Chairman

### Committee membership and attendance

<b>Members<sup>1</sup></b>	<b>Attendance</b>
Patrick Cescau (Chairman)	5/5
Ian Dyson	5/5
Jo Harlow <sup>2</sup>	0/0
David Kappler <sup>3</sup>	2/2
Jennifer Laing	5/5
Jonathan Linen <sup>4</sup>	5/5
Jill McDonald	5/5
Luke Mayhew	5/5
Dale Morrison	5/5
Ying Yeh	5/5
<b>Total meetings held</b>	<b>5</b>

<sup>1</sup> For full biographies of current members see pages 57 to 59.

<sup>2</sup> Jo Harlow joined the Committee effective as of 1 September 2014.

<sup>3</sup> David Kappler retired from the Committee effective as of 31 May 2014.

<sup>4</sup> Jonathan Linen retired from the Committee effective as of 31 December 2014.

The Chief Executive Officer also attends the meetings.

of the Audit Committee from 1 April 2014, and Dale Morrison as Senior Independent Non-Executive Director from 31 May 2014. As both Dale and Ian were already members of the Board, this allowed for a smooth transition of duties upon David's retirement.

On 31 December 2014, Jonathan Linen retired from the Board after nine years' service.

We announced on 2 December 2014 that Kirk Kinsell would step down from the Board and his role as President of IHG's Americas business on 13 February 2015. An independent executive search agency, Egon Zehnder, was engaged to conduct a review of prospective candidates. Accordingly, Kirk was succeeded by Elie Maalouf as Chief Executive Officer, The Americas, who joined IHG in January 2015 to allow for a handover period with Kirk. While Elie does not sit on the Board, he is a member of IHG's Executive Committee.

Keeping under continuous review the development, succession planning and talent pool for the Executive Committee and other senior executive roles to identify both talent strengths and talent gaps. New senior hires were made in both global and regional leadership positions, and a number of internal promotions to the senior leader level below Executive Committee took place, further strengthening our internal pipeline.

We have also considered Jennifer Laing and Ying Yeh's continued appointments on the Board, as both have been on the Board for over six years, and specifically reviewed Jennifer's independence having been on the Board for over nine years.

### **Board diversity**

We recognise the value of diversity in its broadest sense and, whilst all appointments are made on merit, we seek to ensure the Board maintains an appropriate balance through a diverse mix of skills, experience, knowledge, gender and background – see page 62 for details of our Board Diversity Policy.

### **Our priorities in 2015**

During 2015, we aim to continue to: (i) refresh the Board and Committees in line with our priorities; and (ii) ensure we have the right capabilities for the future.

### **Patrick Cescau, Nomination Committee Chairman**

16 February 2015

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**IHG** Annual Report and Form 20-F 2014

### ***Corporate Governance continued***

#### ***Statement of compliance with the UK Corporate Governance Code***

Our statement of compliance presents a summary of how the Group has implemented the principles and provisions laid down in the UK Corporate Governance Code as published in September 2012 (the Code). This should be read in conjunction with the Corporate Governance Statement (pages 54 to 72) and the Directors' Remuneration Report as a whole. The Code is available to view in full on the Financial Reporting Council website ([www.frc.org.uk](http://www.frc.org.uk)).

The Board considers that the Group has complied in all material respects with the Code for the year ended 31 December 2014 with the exception of Code provision C.3.7, which requires external audit contracts to be put to tender at least every 10 years. The Group has not re-tendered within that period, but the Audit Committee monitors this in line with legislation (further details are provided on pages 66 and 67).

## **A. Leadership**

### **A.1 The role of the Board**

The Board leads IHG's strategic direction and the long-term objectives and success of the Group. It approves strategic plans and capital and revenue budgets, and reviews significant investment proposals, maintaining an overview and control of IHG's operating and financial performance. It monitors the Group's overall system of internal controls and risk management, governance and compliance, considering regulatory changes and developments (where appropriate), while ensuring that the necessary financial and human resources are in place for the Group to meet its objectives. Decisions and matters reserved for the Board and not delegated to management are available on our website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under corporate governance.

The Board meets formally eight times each year, with additional meetings scheduled as necessary. One of the meetings includes a two-day strategy meeting, in which the Board considers the Group's strategy and related issues. Details of 2014 Board meetings are set out on page 56. The attendance by Committee members at Committee meetings can be found in each of their respective reports.

All Directors are covered by the Group's Directors' & Officers' Liability Insurance policy (see page 72).

### **A.2 Division of responsibilities**

The roles of the Chairman and Chief Executive Officer are clearly established.

#### **Chief Executive Officer**

As Chief Executive Officer, Richard Solomons leads the development of the Company's strategic direction and implementation of the agreed strategy. He oversees IHG's business operations and manages its risks as well as building and leading an effective Executive Committee.

### **A.3 The Chairman**

As Chairman of the Board, Patrick Cescau leads the operation and governance of the Board and its Committees as well as building and maintaining an effective Board. This includes ensuring that Directors receive timely, accurate and clear information on the Group's business and that all Directors are fully informed of relevant matters. The Chairman oversees corporate governance matters, ensuring they are addressed, and leads the performance and effectiveness evaluations of the Board, its Committees and the Directors.

The Chairman was independent on appointment.

### **A.4 Non-Executive Directors**

As a strong source of advice and judgement for IHG, our Non-Executive Directors constructively challenge and help develop proposals on strategy. They provide significant external commercial experience and a broad range of skills for the Board to draw on.

#### **Senior Independent Non-Executive Director**

As Senior Independent Non-Executive Director, Dale Morrison is available to liaise with shareholders who have concerns that they feel have not been addressed through the normal channels of the Chairman, Chief Executive Officer and other Executive Directors. He also leads the annual performance review of the Chairman with the other Non-Executive Directors, and provides advice and judgement for the Chairman as necessary.

After each Board meeting, our Non-Executive Directors and the Chairman meet without Executive Directors being present.

During the year, if any Director has unresolved concerns about the running of IHG or a proposed action, these would be recorded in the minutes of the meeting.

Further information on each of these roles can be found on our website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under corporate governance.

## **B. Effectiveness**

### **B.1 The composition of the Board**

The size and composition of the Board is regularly reviewed for the appropriate balance of skills, experience, independence and knowledge to ensure it can carry out its duties and responsibilities effectively.

The Board's current composition meets the requirement under the Code for at least half of the Board, excluding the Chairman, to be independent Non-Executive Directors (see page 61). Further details of the composition of the Board are available on pages 57 to 59.

Jennifer Laing has served on the Board for over nine years and the Nomination Committee has specifically reviewed her independence and is satisfied that she continues to demonstrate independence in character and judgement and is independent as required under the Code. The Board has also considered this and reached the same conclusion.

### **B.2 Appointments**

The Board has delegated a number of responsibilities to the Nomination Committee. The Nomination Committee leads the appointment of new Directors to the Board and senior executives in accordance with its terms of reference

(available on our website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under corporate governance/ committees or from the Company Secretary's office on request) and supports the Board in succession planning. Further details of the role of the Nomination Committee and what it did in 2014, including details of the appointment process of Directors, are set out in the Nomination Committee Report on page 69. The overall process of appointment and removal of Directors is overseen by the Board as a whole.

As Ying Yeh and Jennifer Laing have been on the Board for over six years, their continued appointments were the subject of particular review and scrutiny by the Nomination Committee and the Board.

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### **B.3 Commitment**

The terms of appointment of our Non-Executive Directors outlines the time commitment expected to fulfil their role. On appointment, Directors are advised of, and requested to make, the necessary time commitment required to discharge their responsibilities effectively. IHG's Executive Directors are not permitted to take on more than one external non-executive directorship or chairmanship in addition to their role. Biographical details of all current Directors, including their external commitments, can be found on pages 57 to 59.

Details of Directors' service contracts and appointment terms are set out on page 81.

The Chairman annually reviews the time each Non-Executive Director has dedicated to IHG as part of the internal performance evaluations of each Director (see page 64) and is satisfied that their other duties and time commitments do not conflict with those as Directors of the Company.

### **B.4 Development**

A full, formal and tailored induction is developed for IHG's new Directors (see page 63).

The Chairman and Company Secretary ensure that Directors continually update their skills and have the requisite knowledge and familiarity with the Group to fulfil their roles on the Board and its Committees (see page 63). All Directors are encouraged to request further information as they consider necessary to fulfil their role.

### **B.5 Information and support**

The Chairman and the Company Secretary together ensure a good flow of information to the Board and its Committees and between the Executive Committee and the Non-Executive Directors. The Company Secretary also ensures that all Directors and Board Committees have access to independent advice when requested, at the expense of the Group, where it is necessary to discharge their responsibilities as Directors.

#### **The role of the Company Secretary**

George Turner, as Company Secretary, ensures a good flow of information to the Board and its Committees and between the Executive Committee and the Non-Executive Directors. He facilitates all new Director inductions. He advises the Board on corporate governance matters and keeps the Board up to date on all relevant legal, regulatory and other developments. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

### **B.6 Evaluation**

The Board undertakes either an internal or external annual Board effectiveness evaluation to inform further enhancements to our Board processes. In 2013, this was carried out externally and in 2014, it was carried out internally. Performance evaluations of all Directors, including the Chairman, are also carried out and the Board considers the effectiveness of each of its Committees. See pages 63 and 64 for further information.

## **B.7 Re-election**

The Company's amended Articles of Association (the Articles) approved by our shareholders on 28 May 2010 (see page 72) provide that each Director is subject to election at the first Annual General Meeting (AGM) following their appointment and re-election at least every three years if they wish to continue serving in office.

However, in accordance with the recommendations of the Code, all of IHG's Directors retire and seek election or re-election at each AGM. All of IHG's current Directors (biographies as set out on pages 57 to 59) will retire and seek election or re-election at the 2015 AGM (as set out in the Notice of Meeting for the AGM (see page 64)).

## **C. Accountability**

### **C.1 Financial and business reporting**

Our Statement of Directors' Responsibilities (including the Board's statement confirming that it considers that the Annual Report and Form 20-F, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy) is set out on page 94.

The status of IHG as a going concern is set out in the Directors' Report on page 75. An explanation of the Group's performance, business model, strategy and the risks and uncertainties relating to IHG's prospects is set out in the Strategic Report on pages 2 to 51.

The statement from our Auditor, Ernst & Young LLP, about its reporting responsibilities is set out on pages 95 to 99.

### **C.2 Risk management and internal control**

The Board has ultimate responsibility for determining the nature and extent of the significant risks it is willing to take in line with the strategy.

The Board and Audit Committee monitor the Group's risk management and internal controls systems and conducts an annual review of the effectiveness of the Group's system of internal controls and risk management, and reviews the Group's risk appetite. This review covers all material controls, including financial, operational and compliance controls. Further details are set out in the Strategic Report on pages 26 to 29, and also in the Audit Committee Report on pages 65 to 67.

### **C.3 Audit Committee and Auditors**

The Board has delegated a number of responsibilities to the Audit Committee. The Committee comprises entirely of independent Non-Executive Directors, with at least one member having recent and relevant financial experience. Further details, including its role, responsibilities and activities in 2014, are set out in the Audit Committee Report on pages 65 to 67. The Audit Committee's terms of reference are available on our website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under corporate governance/ committees or from the Company Secretary's office on request.

Ernst & Young LLP has expressed its willingness to continue in office as Auditor of the Company and its reappointment will be put to shareholders at the AGM. Further details can be found in the Audit Committee Report on pages 65 to 67.





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**IHG** Annual Report and Form 20-F 2014

*Corporate Governance continued*

*Statement of compliance with the UK Corporate Governance Code continued*

## **D. Remuneration**

### **D.1 The level and components of remuneration**

The activities of the Remuneration Committee during 2014, a summary of our Directors' Remuneration Policy approved at our 2014 AGM, and the Annual Report on Directors' Remuneration and Implementation of the Directors' Remuneration Policy are set out in the Directors' Remuneration Report on pages 76 to 91.

### **D.2 Procedure**

The Board has delegated a number of responsibilities to the Remuneration Committee including developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. Further information can be found in the Directors' Remuneration Report.

The terms of reference of the Remuneration Committee can be found on our website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under corporate governance/committees, or from the Company Secretary's office on request.

During 2014, no individual Director was present when their own remuneration was discussed.

## **E. Relations with shareholders**

### **E.1 Dialogue with shareholders**

The Board as a whole is responsible for ensuring satisfactory dialogue with all shareholders of the Company to promote mutual understanding of objectives. Further details of the Board's approach to relations with our shareholders is set out on page 64.

### **E.2 Constructive use of the AGM**

The next AGM of the Company will take place on Friday, 8 May 2015 and will provide an opportunity for shareholders to vote on certain aspects of Group business, as set out in the Notice of Meeting available at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under financial library and which was sent out to shareholders at the same time as this Annual Report and Form 20-F.

The Board ensures where possible that all Board members, particularly the Chairmen of each of the Board Committees, attend the AGM and are available to answer questions from shareholders.

## **Directors Report**

Much of the information previously provided as part of the Directors Report is now required under Company Law to be presented as part of the Strategic Report. This Directors Report includes the information required to be given in line with the Companies Act or, where provided elsewhere, an appropriate cross reference is given. The Corporate Governance Statement approved by the Board is provided on pages 54 to 72 and incorporated by reference herein.

### **Subsidiaries, joint ventures and associated undertakings**

The Group has over 300 subsidiaries, joint ventures and associated undertakings.

### **Directors**

During 2014 the following individuals served as Directors:

Patrick Cescau, Ian Dyson, Paul Edgecliffe-Johnson, Jo Harlow, David Kappler, Kirk Kinsell, Jennifer Laing, Jonathan Linen, Luke Mayhew, Jill McDonald, Dale Morrison, Tracy Robbins, Tom Singer, Richard Solomons and Ying Yeh.

Tom Singer resigned effective as of 1 January 2014, David Kappler retired effective as of 31 May 2014, Jo Harlow joined effective as of 1 September 2014, Jonathan Linen retired effective as of 31 December 2014 and Kirk Kinsell resigned effective as of 13 February 2015.

*For biographies of the current Directors see pages 57 to 59.*

### **Directors & Officers (D&O) Liability Insurance**

The Company maintains the Group's D&O Liability Insurance policy, 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 (including those who served as Directors or officers during the year). There were no indemnity provisions relating to the UK pension plan for the benefit of the Directors during 2014.

### **Articles**

The Company's Articles may only be amended by special resolution and are available on the Company's website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under corporate governance. A summary is provided on pages 167 to 168.

### **Shares**

#### **Share capital**

The Company's issued share capital at 31 December 2014 consisted of 247,655,712 ordinary shares of 1<sup>55</sup>/<sub>329</sub> pence each including 11,538,456 shares held in treasury, which constitutes 4.66 per cent of the total issued share capital

(including treasury shares). There are no special control rights or restrictions on share transfers or limitations on the holding of any class of shares.

During 2014:

the Company's issued share capital was subject to a share consolidation effective as of 1 July 2014 (see page 73);

60,370 new shares were issued under employee share plans; and

the Company completed the share buyback programme (see page 73).

As far as is known to management, IHG is not directly or indirectly owned or controlled by another company or by any governments.

The Board focuses on shareholder value creation. When it decides to return capital to shareholders, it considers all the options, including share buybacks and special dividends.

**Table of Contents****Share issues and buybacks**

On 29 May 2014, we completed our \$500m share buyback programme which was announced on 7 August 2012 and commenced on 12 November 2012. The current share buyback authority remains in force until the 2015 AGM, and a resolution to renew the authority will be put to shareholders at that AGM.

The table below illustrates the transactions that took place during 2014 that affected the Company's issued share capital:

<b>Event</b>	<b>Ordinary shares</b>
12 for 13 share consolidation <sup>1</sup> with a special dividend of 174.9p per share (293¢ per ADR)	n/a
Share plan exercises	60,370
Share buyback <sup>2</sup>	3,421,973
695,885 shares were bought back and cancelled and 2,726,088 shares were bought back and held in treasury	14
Other cancelled shares <sup>3</sup>	14

<sup>1</sup> The share consolidation, effective as of 1 July 2014, was on the basis of 12 ordinary shares of 15<sup>265/329</sup> pence each for 13 ordinary shares of 14<sup>194/329</sup> pence each.

<sup>2</sup> Excludes 14 shares included in the 'Other cancelled shares' number below.

<sup>3</sup> This comprises 8 shares bought-back and cancelled and 6 treasury shares cancelled as a result of the above-mentioned share consolidation.

**Dividends**

In 2014, the Company announced a \$750m return of funds to shareholders via special dividend and share consolidation on the basis of 12 ordinary shares of 15<sup>265/329</sup> pence each for 13 ordinary shares of 14<sup>194/329</sup> pence each (effective as of 1 July 2014).

<b>Dividend</b>	<b>Ordinary shares</b>	<b>ADR</b>
<b>Special dividend</b>		
Paid on 14 July 2014	174.9p	293¢
<b>Interim dividend</b>		
Paid 26 September 2014	14.8p	25.0¢
<b>Final dividend</b>	33.8p	52.0¢

Subject to shareholder approval, payable on 15 May 2015 to shareholders on the Register of Members at the close of business on 7 April 2015

*For more information on IHG's return of funds and dividends, see note 27 on page 149.*

### Major institutional shareholders

As at 16 February 2015, the Company had been notified of the following significant holdings in its ordinary shares under the UK Disclosure and Transparency Rules:

Shareholder	As at 16 February 2015		As at 17 February 2014		As at 18 February 2013	
	Ordinary shares/ADSs	%	Ordinary shares/ADSs	%	Ordinary shares/ADSs	%
Cedar Rock Capital Limited	14,923,417	5.07	14,923,417	5.07	14,923,417	5.07
BlackRock, Inc.	n/a	n/a	13,061,965 <sup>1</sup>	5.01 <sup>1</sup>	14,505,612	5.02
The Capital Group Companies, Inc	8,557,888	3.30	8,557,888	3.30	n/a	n/a
Boron Investments NV	7,500,000	3.18	n/a	n/a	n/a	n/a

<sup>1</sup> On 7 October 2013, BlackRock, Inc. notified the Company that its shareholding in the Company had increased to above 5% and this notification was announced by the Company on 8 October 2013. Subsequently, on 8 July 2014, BlackRock, Inc. notified the Company that its 7 October 2013 notification had been made in error and that, in fact, BlackRock, Inc. holds less than 5% in the Company. This error was announced by the Company on 8 July 2014. The Company's major shareholders have the same voting rights as other shareholders. The Company does not know of any arrangements, the operation of which may result in a change in its control.

*For further details on shareholder profiles, see page 178.*

### 2014 share awards and grants to employees

No awards or grants over shares were made during 2014 that would be dilutive of the Company's ordinary share capital. Our current policy is to settle the majority of awards or grants under the Company's share plans with shares purchased in the market, however, the Board continues to review its policy. Those options, which were previously granted up to 2005, have now all been exercised and therefore, as at 31 December 2014, no options were outstanding.

The Company has not utilised the authority given by shareholders at any of its AGMs to allot shares for cash without first offering such shares to existing shareholders.

### Employee share ownership trust (ESOT)

IHG operates an ESOT for the benefit of employees and former employees. The ESOT purchases ordinary shares in the market and releases them to current and former employees in satisfaction of share awards. During the year, the ESOT released 163,130 shares and at 31 December 2014 it held 1,344,726 ordinary shares in the Company. The ESOT adopts a prudent approach to purchasing shares, using funds provided by the Group, based on expectations of future requirements.

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**IHG** Annual Report and Form 20-F 2014

*Directors Report continued*

**Director and Executive Committee shareholdings**

As at 16 February 2015, Directors and Executive Committee members had the same number of beneficial interests in shares as at 31 December 2014, as set out in the table below. These shareholdings include all Directors' beneficial interests and those held by their spouses and other connected persons. As at 16 February 2015, no Director or Executive Committee member held more than 0.2% of the total issued share capital.

None of the Directors have a beneficial interest in the shares of any subsidiary. The shareholdings set out below do not include Executive Directors' or Executive Committee members' share awards under IHG's share plans. These are set out separately in the Directors' Remuneration Report on page 88 for the Executive Directors and on page 166 for Executive Committee members.

	<b>As at 31 December 2014 ordinary shares</b>	As at 31 December 2013 ordinary shares
<b>Directors</b>		
Patrick Cescau (Chairman)		
Richard Solomons (Chief Executive Officer)	<b>382,533</b>	371,198
<b>Senior Independent Non-Executive Director</b>		
David Kappler <sup>1</sup>	<b>n/a</b>	1,308
Dale Morrison	<b>3,907<sup>2</sup></b>	4,233 <sup>2</sup>
<b>Executive Directors</b>		
Paul Edgecliffe-Johnson <sup>3</sup>	<b>10,583</b>	n/a
Kirk Kinsell <sup>4</sup>	<b>117,640<sup>5</sup></b>	127,444 <sup>6</sup>
Tracy Robbins	<b>51,418</b>	85,703
Tom Singer <sup>3</sup>	<b>n/a</b>	54,386
<b>Non-Executive Directors</b>		
Ian Dyson		
Jo Harlow <sup>7</sup>		n/a
Jennifer Laing	<b>2,905</b>	3,148
Jonathan Linen <sup>8</sup>	<b>6,325<sup>2</sup></b>	6,853 <sup>2</sup>
Luke Mayhew	<b>1,722</b>	1,866
Jill McDonald		
Ying Yeh		



**Executive Committee**

Keith Barr	22,522	24,399
Angela Brav	32,724	19,286
Elie Maalouf <sup>9</sup>		n/a
Kenneth Macpherson	7,472	1,797
Eric Pearson	1,998	65,293
Jan Smits	30,476	106,350
George Turner		3,277

<sup>1</sup> David Kappler retired as a Non-Executive Director effective as of 31 May 2014.

<sup>2</sup> Shares held in the form of American Depositary Receipts.

<sup>3</sup> Paul Edgecliffe-Johnson was appointed as Chief Financial Officer effective as of 1 January 2014 following the resignation of Tom Singer effective as of the same date.

<sup>4</sup> Kirk Kinsell resigned as Executive Director effective as of 13 February 2015.

<sup>5</sup> 117,092 ordinary shares and 548 American Depositary Receipts.

<sup>6</sup> 126,850 ordinary shares and 594 American Depositary Receipts.

<sup>7</sup> Jo Harlow was appointed as a Non-Executive Director effective as of 1 September 2014.

<sup>8</sup> Jonathan Linen retired as a Non-Executive Director effective as of 31 December 2014.

<sup>9</sup> Elie Maalouf was appointed to the Executive Committee effective as of 13 February 2015.

**Future business developments of the Group**

Further details on these are set out in the Strategic Report on pages 2 to 51.

**Employees and Code of Conduct**

Details of the average number of people IHG employed as at 31 December 2014 and the number of people working across the whole estate are set out on page 23.

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 – see page 62 for our Global Diversity and Inclusion Policy.

We also look to appoint the most appropriate person for the job and are committed to providing equality of opportunity to all employees without discrimination. 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, career development and promotion.

The Code of Conduct applies to all Directors, officers and employees and complies with the NYSE rules as set out in section 406 of the US Sarbanes-Oxley Act 2002. Further details can be found on page 174.

*For more information on the Group's employment policies, including equal opportunities, employee communications and development, see pages 23 to 25.*

**Greenhouse gas emissions**

The disclosures concerning greenhouse gas emissions required by law are included in the Strategic Report on page 25.

## **Finance**

### **Political donations**

The Group made no political donations under the Companies Act during the year and proposes to maintain this policy.

### **Financial risk management**

The Group's financial risk management objectives and policies, including its use of financial instruments, are set out in note 20 to the Group Financial Statements on pages 135 to 137.

### **Significant agreements and change of control provisions**

The Group is a party to the following arrangements which could be terminated upon a change of control of the Company and which are considered significant in terms of their potential impact on the business of the Group as a whole:

the five-year \$1.07bn syndicated loan facility agreement dated 7 November 2011, under which a change of control of the Company would entitle each lender to cancel its commitment and declare all amounts due to it payable;

the seven-year £250m bond issued by the Company on 9 December 2009, under which, if the bond's credit rating was downgraded in connection with a change of control, the bond holders would have the option to require the Company to redeem or, at the Company's option, repurchase the outstanding notes together with interest accrued;

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the 10-year £400m bond issued by the Company on 28 November 2012, under which, if the bond's credit rating was downgraded in connection with a change of control, the bond holders would have the option to require the Company to redeem or, at the Company's option, repurchase the outstanding notes together with interest accrued; and

the six-month \$400m term loan facility agreement dated 13 January 2015, under which a change of control of the Company would entitle the lender to declare all amounts due to it payable.

*Further details on these are set out on pages 169 and 170.*

### **Business relationships**

During 2012, the Group entered into a five-year technology outsourcing agreement with International Business Machines Corporation (IBM), pursuant to which IBM operates and maintains the infrastructure of the Group's reservations system. Otherwise, there are no specific individual contracts or arrangements considered to be essential to the business of the Group as a whole.

### **Existence of qualifying indemnity provisions**

For details, see Directors' and Officers' Liability Insurance Policy on page 72.

### **Disclosure of information to the Auditor**

For details, see page 94.

### **Events after the reporting period**

On 13 January 2015, the Group raised a \$400m bilateral term loan to help finance the acquisition of Kimpton Hotel & Restaurant Group, LLC; the term loan expires in July 2016.

On 16 January 2015, the Group completed the acquisition of Kimpton Hotel & Restaurant Group, LLC for \$430m in cash (see page 153).

### **Listing Rules – compliance with LR 9.8.4C**

<b>Section</b>	<b>Applicable sub-paragraph within LR 9.8.4C</b>	<b>Location</b>
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1	Interest capitalised	Financial Statements, note 6, page 122
2	Publication of unaudited financial information	n/a
4	Details of long-term incentive schemes	Directors Remuneration Report, pages 79, 80 and 84 to 86
5	Waiver of emoluments by a Director	n/a
6	Waiver of future emoluments by a Director	Directors Remuneration Report, page 91
7	Non pre-emptive issues of equity for cash	n/a
8	Item (7) in relation to major subsidiary undertakings	n/a
9	Parent participation in placing by a listed subsidiary	n/a
10	Contracts of significance	n/a
11	Provision of services by a controlling shareholder	n/a
12	Shareholder waivers of dividends	n/a
13	Shareholder waivers of future dividends	n/a
14	Agreements with controlling shareholders	n/a

### **Going concern**

An overview of the business activities of IHG, including a review of the key business risks that the Group faces, is given in the Strategic Report on pages 2 to 51 and in the Group Information on pages 162 to 170. Information on the Group's treasury management policies can be found in note 20 to the Group Financial Statements on pages 135 to 137. The Group refinanced its bank debt in November 2011 and put in place a five-year \$1.07bn facility. In December 2009, the Group issued a seven-year £250m sterling bond and, in November 2012, a 10-year £400m sterling bond. Subsequent to the year end the Group raised a \$400m term loan to help finance the acquisition of Kimpton Hotel & Restaurant Group, LLC; the term loan expires in July 2016.

At the end of 2014, the Group was trading significantly within its banking covenants and debt facilities.

The Group's fee-based model and wide geographic spread means that it is well placed to manage through uncertain times and our forecasts and sensitivity projections, based on a range of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and, accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

By order of the Board

**George Turner, Company Secretary**

**InterContinental Hotels Group PLC**

Registered in England and Wales, Company number 5134420

16 February 2015



**Table of Contents****IHG** Annual Report and Form 20-F 2014**Directors Remuneration Report***Remuneration Committee Chairman's Statement*

***Our Directors Remuneration Policy rewards the successful execution of the business strategy, as demonstrated by this year's outcomes. So that it remains effective for the future, we will review it in 2015 and seek shareholders' approval again in 2016.***

Dear Shareholder

**2014 corporate performance and incentive outcomes**

Executive Director remuneration has reflected another year of strong performance. Annual Performance Plan (APP) awards are comparable to last year, reflecting continued good growth of Earnings Before Interest and Tax (EBIT) as well as encouraging progress on guest satisfaction and Employee Engagement survey scores. Another three years of high Total Shareholder Return (TSR) was the main driver for the vesting under the 2012/14 Long Term Incentive Plan (LTIP) cycle, which is marginally below last year.

<b>Corporate performance indicators</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Operating profit before exceptional items	-2.5%	+10.4%	+10.4%
Full-year dividend per share (excluding any special dividends and capital returns)	\$651m <sup>1</sup> 77.0¢	\$668m <sup>2</sup> 70.0¢	\$605m <sup>3,4</sup> 64.0¢
Three-year total TSR (annualised)	48.6p +31.7%	43.2p +18.4%	41.2p +28.2%

<sup>1</sup> Includes two liquidated damages receipts in 2014: \$7m, both in The Americas.

<sup>2</sup> Includes three liquidated damages receipts in 2013: \$31m in The Americas, \$9m in Europe and \$6m in AMEA.

<sup>3</sup> Includes one significant liquidated damages receipt in 2012 of \$3m in The Americas.

<sup>4</sup> With effect from 1 January 2013, the Group adopted IAS 19 (Revised) Employee Benefits resulting in the following additional charges to operating profit: \$5m for the six months ended 30 June 2012 and \$9m for the 12 months ended 31 December 2012.

## **Directors Remuneration Policy**

At the 2014 AGM, shareholders approved our Directors Remuneration Policy (DR Policy), as set out in our 2013 Annual Report, with 90.94 per cent support. I mentioned in the 2013 Directors Remuneration Report the issues we had discussed at some depth with shareholders prior to the vote at the AGM. The two we know prompted some shareholders to vote against the

DR Policy were the use of relative TSR as a measure in the LTIP, and the fact that the DR Policy did not require Executive Directors to hold shares beyond the three-year vesting date.

I explained then that the outcome of the 2011/13 LTIP cycle was in line with performance and reflected shareholder value creation. I also pointed out that our Executive Directors had very substantial shareholdings and formally requiring further holding periods seemed unnecessary. Shareholders voted 94.01 per cent in favour of the 2013 Directors Remuneration Report.

We are not making any changes to the DR Policy itself for 2015. There is, however, one substantive change to how we will implement the DR Policy. We have introduced a three-year clawback clause post-vesting or payment of awards, applying to awards made relating to 2015 and future financial years. This will apply in addition to the existing malus provision in the DR Policy, which allows for awards to be reduced prior to vesting. The details are set out on pages 81 and 91 of the Annual Report.

## **Remuneration and business strategy**

We feel strongly that we should make changes to the DR Policy in a coherent way if it is to retain credibility with management and serve its purpose of motivating and rewarding outstanding performance. Reward arrangements for senior executives of a global business are inevitably quite complicated and need to be communicated as an intrinsic part of the business strategy. We are keen to avoid, if possible, the introduction of ad-hoc changes, especially where there is no link to the business strategy.

The current executive reward structure was introduced five years ago. It includes the key performance measures at the heart of the current business strategy; an annual plan to incentivise and reward the delivery of good financial results, as well as from 2013, improvements in guest satisfaction and employee engagement; and a long-term plan to reward the delivery of strong shareholder returns and better-than-market number of rooms and RevPAR growth. All these measures remain relevant to future business strategy. However, after five years, it is right to revisit whether other measures and remuneration approaches could even better support the strategic priorities for the coming five years, as well as consider further questions shareholders have raised. Therefore, during 2015, the Remuneration Committee will revisit all aspects of the APP and LTIP to ensure they remain fit for purpose. This will include consideration of the following:

the mix of short and long-term incentives and what is appropriate for different levels of senior executives;

the performance measures most aligned with business strategy and shareholder returns over the next five years;

executive shareholding requirements and post-vesting holding periods;

how best to communicate the overall policy to senior executives globally to ensure it helps drive performance; and

how to further improve communication on remuneration to shareholders, in particular the level of disclosure of targets and outcomes.

We will consult major shareholders and shareholder organisations during 2015 and put the new DR Policy to all shareholders at our 2016 AGM for approval.



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### **Pension arrangements**

For a number of years, we have been working to de-risk the potential liabilities of the Group's legacy UK pension arrangements. The defined benefit pension closed to new members in 2002 and to future accrual in 2013, after which benefits were secured with an insurer.

One of the last elements of de-risking we announced was our intention to change the long-established enhanced early retirement arrangements. These terms were inappropriate in the current wider pensions context. The conditions were changed during the year and this will be phased out over the coming years, as explained on pages 85 and 87.

The main exceptional payment in this Directors' Remuneration Report relates to the decision announced last year to seek to cash out the closed senior executive pension scheme – InterContinental Hotels Executive Top-Up Scheme (ICETUS). This was the final stage of the de-risking plan. I am pleased that we had a positive response from those members of the scheme with the most potential value. Richard Solomons was one of those who agreed to cash out this part of the pension. The value of the pension was substantial, reflecting his 22 years with the business. As a result, there is a one-off additional element in his overall remuneration for 2014 only. This is explained in the single remuneration figure section on page 82.

No other changes are proposed and the Board believes that any remaining UK pensions risk is not significant.

### **Board change**

Kirk Kinsell left the Board and his role as President, The Americas on 13 February 2015, aged 60, after a total of 19 years' service with the business.

Mr Kinsell was succeeded by Elie Maalouf who was appointed to the role of Chief Executive Officer, The Americas, effective as of 13 February 2015 and who also became a member of IHG's Executive Committee.

The remuneration consequences of Mr Kinsell's departure were determined in line with the DR Policy and the rules of the relevant incentive plans. Details of Mr Kinsell's remuneration arrangements on departure are included in the Directors' Remuneration Report and have been disclosed on the Company's website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors)

### **About this report**

This statement aims to set out the more significant parts of the report for those who want to know the headlines, main issues considered in 2014 and the priorities for 2015. The Annual Report on Directors' Remuneration contains more detailed disclosures, many of which are prescribed by legislation or regulation, but we have tried to make it easier to follow by also taking into account current thinking on best practice in remuneration reporting. We have included a summary of our approved DR Policy (see pages 80 and 81) for ease of reference only, as it provides investors with an understanding of the detail of the remuneration outcomes that follow. The full DR Policy is available at [www.ihgplc.com/investors](http://www.ihgplc.com/investors). We have also looked to simplify the graphs and tables wherever possible and ensure that the link between our strategy and remuneration is clear.

The 2012 Directors Remuneration Report won the PwC Building Public Trust Award for Executive Remuneration Reporting in the FTSE 100 and the 2013 Annual Report on Directors Remuneration received Highly Commended .

## **Conclusion**

This Directors Remuneration Report was approved by the Board on 16 February 2015. The Board recommends this Directors Remuneration Report to shareholders.

The Annual Report on Directors Remuneration and the Chairman s Statement are subject to an advisory vote at the 2015 AGM.

## **Luke Mayhew, Remuneration Committee Chairman**

16 February 2015

## *Governance*

### **Roles and responsibilities**

The Remuneration Committee agrees, on behalf of the Board, all aspects of the remuneration of the Executive Directors and the Executive Committee, and agrees the strategy, direction and policy for the remuneration of other senior executives who have a significant influence over the Company s ability to meet its strategic objectives.

The Committee s role and responsibilities are set out in the Terms of Reference (ToR) which are available on the Company s website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under corporate governance/ committees or from the Company Secretary s office on request. The ToR are reviewed annually and there were no changes to them during 2014.

### **Governance**

All members are independent Non-Executive Directors, as required under the ToR. During 2014, Jo Harlow joined the Committee and both David Kappler and Jonathan Linen retired. All members have the necessary experience and expertise to meet the Committee s responsibilities.

**Table of Contents****IHG** Annual Report and Form 20-F 2014*Directors Remuneration Report continued**Governance continued***Committee approach to managing risk**

Our approach to remuneration is to directly link it to IHG's strategy. Risk management is a key part of IHG's responsible business practices and the Committee considers risk mitigation as central to the way that incentive arrangements are structured, for example:

the APP and LTIP are structured so as to have a balance of measures that ensure senior executives are not incentivised to behave in a way that could adversely affect the sustainable growth of the Group and the long-term interests of its shareholders. For instance, in the 2014 and 2015 APP, the drive for short-term financial results is balanced by performance measures focused on guest satisfaction and employee engagement;

the Committee reserves the discretion to determine that payouts in the LTIP be adjusted if they are not consistent with the Committee's assessment of the Group's earnings and the quality of the financial performance over the relevant performance period; and

malus and post-vesting clawback provisions apply to certain awards made to Executive Directors under the APP and LTIP.

**Remuneration Committee****Committee membership and attendance**

<b>Members<sup>1</sup></b>	<b>Attendance</b>
Luke Mayhew	5/5
Ian Dyson	5/5
Jo Harlow <sup>2</sup>	2/2
David Kappler <sup>3</sup>	1/1
Jonathan Linen <sup>4</sup>	5/5
Ying Yeh	5/5
<b>Total meetings held</b>	<b>5</b>

<sup>1</sup> For full biographies of current members see pages 57 to 59.

<sup>2</sup> Jo Harlow joined the Remuneration Committee as a Non-Executive Director on 1 September 2014.

<sup>3</sup> David Kappler retired as a Non-Executive Director on 31 May 2014.

<sup>4</sup> Jonathan Linen retired as a Non-Executive Director on 31 December 2014.

The Chairman of the Board, and Tracy Robbins (Executive Vice President, Human Resources and Group Operations Support) attended all meetings. The Chief Executive Officer attended four meetings.

Jean-Pierre Noël (Senior Vice President, Global Reward & HR Capability) provided advice to the Committee on remuneration issues as required.

### **What did the Committee consider in 2014**

The Committee discussed the following key matters:

setting of targets for the 2014 APP and the 2014/16 LTIP cycle;

review of 2013 Executive Committee performance and 2014 remuneration review;

setting key performance objectives for Executive Committee members for 2014;  
pensions review including Enhanced Early Retirement Facility (EERF) and ICETUS/Six Continents Executive Top Up Scheme (SCETUS) buy-out;

review of external market developments;

monitoring achievement against targets of the 2014 APP and ongoing LTIP cycles;

evaluation of incentive arrangements for levels of management below Executive Committee level and discussion of proposals for change; and

evaluation of achievement against targets for 2014 APP and the 2012/14 LTIP.

### **Remuneration advisers**

The Committee continued to retain PricewaterhouseCoopers LLP (PwC) throughout 2014 as independent advisers. Fees of £60,300 were paid to PwC in respect of advice provided to the Committee on executive remuneration matters in 2014. This was in the form of an agreed fee for support in preparation of papers and attendance at meetings, with work on additional items charged at hourly rates. PwC also provided tax and other consulting services to the Group during the year.

The terms of engagement for PwC are available from the Company Secretary's office on request.

PwC was appointed following a competitive tender process. The Committee is satisfied that the advice received from PwC was objective and independent as PwC is a member of the Remuneration Consultants Group. Members of this group adhere to a voluntary code of conduct that sets out the role of executive remuneration consultants in the UK and

the professional standards they have committed to adhere to when advising remuneration committees.

### **Voting at IHG AGMs**

At the 2014 AGM, under the new reporting regulations, the new binding vote in respect of the Directors Remuneration Policy was as follows:

<b>AGM</b>	<b>Votes for</b>	<b>Votes against</b>	<b>Abstentions</b>
2014	155,440,907	15,483,775	906,025
	(90.94%)	(9.06%)	

At IHG's most recent AGMs, the annual advisory vote in respect of the Directors' Remuneration Report was as follows:

<b>AGM</b>	<b>Votes for</b>	<b>Votes against</b>	<b>Abstentions</b>
2014	158,131,479	10,076,027	3,623,200
	(94.01%)	(5.99%)	
2013	160,795,577	26,762,429	1,226,617
	(85.73%)	(14.27%)	
2012	203,110,989	9,651,718	1,750,533
	(95.46%)	(4.54%)	

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*Strategic context*

**Key remuneration principles**

IHG's remuneration principles are designed to drive the delivery of its strategic objectives. To do this, we need to:

align rewards for senior executives with the achievement of business performance targets and strategy and with returns for our hotel owners and shareholders;

attract and retain high-quality executives in an environment where compensation for multinational employers is based on global market practice;

support equitable treatment between members of the same executive team; and

facilitate global mobility and relocations.

IHG's remuneration structure for senior executives places a strong emphasis on performance-related reward. The Committee believes that it is important to reward senior management, including the Executive Directors, for targets achieved, provided those targets are stretching and drive results.

**Link to strategy**

Our strategy for delivering high-quality growth (detailed on pages 14 to 25) and the Key performance indicators (KPIs) (set out on pages 30 to 33) through which we monitor and measure our success are the key drivers for the performance-related elements of our reward structure, the APP and LTIP (see below):

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**IHG** Annual Report and Form 20-F 2014

**Directors Remuneration Report** *continued*

*Summary of our Directors Remuneration Policy (DR Policy)*

**How to use this report**

The 2014 Directors Remuneration Report uses colour coding throughout to denote different elements of remuneration, as follows:

Salary	APP deferred shares
Benefits	LTIP
APP cash	Pension benefit

This is a brief summary of the DR Policy, which was approved at our 2014 AGM. The full DR Policy can be found at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under corporate governance.

**DR Policy table summary**

**Executive Directors**

	<b>Element</b>	<b>Framework</b>
<b>Fixed</b>	Salary	Salaries increase generally in line with the range applying to the corporate UK and US employee population. They are reviewed annually and are fixed for 12 months from 1 April.  Newly appointed or recruited Executive Directors may, on occasion, have their salaries set below the benchmark policy level while they become established in role. In such cases, salary increases may be higher than the corporate UK and US employee population until the target positioning is achieved.
	Benefits	Benefits are restricted to the typical level in the relevant market for an Executive Director. They may include the cost of independent

	<p>financial advice, car allowance/company car, private healthcare/medical assessments and relocation and expatriate or international assignment costs where appropriate.</p>
<p><b>Variable</b></p> <p>APP</p> <p>(50% cash and 50% IHG shares deferred for three years)</p>	<p>Maximum annual award is 200% of salary; target award is 115% of salary; threshold is 50% of target award for each measure.</p> <p>This is reviewed annually with targets set in line with key strategic priorities:</p> <p>70% EBIT</p> <p>30% non-financial measures</p> <p>They include regional or global measures or a combination of both.</p> <p>The Committee may vary the relative weighting of EBIT and other metrics from year to year. Personal performance may also be taken into account in determining awards under the APP.</p>
<p>LTIP</p> <p>(100% shares)</p>	<p>Maximum annual award is 205% of salary; 20% threshold vesting of net rooms and RevPAR if equal to average growth of comparator group; 20% threshold vesting of TSR if equal to global hotel index growth.</p> <p>Measures and targets are reviewed and may be changed by the Committee annually to ensure alignment with strategic objectives:</p> <p>25% relative net rooms growth</p> <p>25% relative RevPAR growth</p>



50% relative TSR

All targets are measured over a performance period of at least three years against an appropriate comparator group of companies, which the Committee determines annually.

**Pension**

Pension benefit

Executive section of the UK Defined Contribution Plan, US 401(k) Plan and US Deferred Compensation Plan: employee contributions with matching Company contributions. A cash allowance in lieu of pension contributions is offered. Salary is the only part of remuneration that is pensionable.

**Table of Contents****Non-Executive Directors**

	<b>Element</b>	<b>Framework</b>
<b>Fixed</b>	Fees and benefits (cash)	Maximum increase in annual fee in line with median FTSE 100 increases. Set by the Chairman of the Board and Executive Directors. The Chairman's fees are set by the Committee. They are fixed for 12 months from 1 January. Non-Executive Directors are not eligible to participate in any performance-related incentive plans. IHG pays the cost of providing benefits as required.

**Notes on DR Policy table summary****Use of discretion**

The Committee reserves certain discretions under the Company's incentive plans. These operate in two main respects:

enabling the Committee to ensure that outcomes under these plans are consistent with the underlying performance of the business and the interests of shareholders; and

enabling the Committee to treat leavers in a way that is fair and equitable to individuals and shareholders under the incentive plans.

The Committee will also use its judgement as to what is appropriate within the terms of the DR Policy to make decisions that do not involve the exercise of discretion.

In all cases, the discretions are reserved as part of the DR Policy in order to allow the Committee flexibility to ensure that remuneration outcomes for Executive Directors are consistent with business performance, at the same time as providing a high degree of clarity for shareholders as to remuneration structure and potential quantum. Any exercises of discretion by the Committee will be fully disclosed and explained in the relevant year's Implementation of Remuneration Policy Report.

In relation to the LTIP, the Committee will review the vesting outcomes under all of the LTIP measures at the end of each three- year cycle against an assessment of Group earnings and the quality of financial performance over the period, including sustainable growth and the efficient use of cash and capital. If the Committee determines that the vesting outcomes do not appropriately reflect the financial performance of the Group, it may reduce the number of shares that vest.

In relation to malus, for awards made from January 2012, the APP and LTIP rules allow the Committee discretion to reduce the level of unvested share awards if circumstances occur that, in the reasonable opinion of the Committee, justify a reduction in one or more awards granted to any one or more participants. The malus provisions relate to unvested awards only. The circumstances in which the Committee may consider it appropriate to exercise its discretion include the following:

misconduct that causes significant damage or potential damage to IHG's prospects, finances or brand reputation; and/or

actions that lead to material misstatement or restatement of accounts.

This may include, where appropriate, negligence on the part of Executive Directors.

These features help ensure alignment between executive reward and shareholder returns.

### **Policy on payment for loss of office**

All current Executive Directors have a rolling service contract with a notice period from the Company of 12 months. As an alternative, the Company may, at its discretion, pay in lieu of that notice. Neither notice nor a payment in lieu of notice will be given in the event of gross misconduct.

Payment in lieu of notice could potentially include up to 12 months' salary and the cash equivalent of 12 months' pension contributions, and other contractual benefits. Where possible, the Company will seek to ensure that, where a leaver mitigates their losses by, for example, finding new employment, there will accordingly be a corresponding reduction in compensation payable for loss of office.

Further details on the policy for determination of termination payments are included in the DR Policy.

### **Approach to recruitment remuneration**

The remuneration of any new Executive Director will be determined in accordance with the DR Policy. In addition, the Committee may, at its discretion, compensate a newly recruited Executive Director for incentives from a previous employment foregone as a result of their resignation. The Committee would seek validation of the value of any potential incentives foregone. Awards made by way of compensation for incentives foregone would be made on a comparable basis, taking account of performance achieved, or likely to be achieved, the proportion of the performance period remaining and the form of the award. Compensation would, as far as possible, be in the form of IHG LTIP or deferred share awards, in order to immediately align a new Executive Director with IHG's performance.

### **Details of letters of appointment and notice periods for Non-Executive Directors**

Non-Executive Directors have letters of appointment, which are available upon request from the Company Secretary's office.

Patrick Cescau, Non-Executive Chairman, is subject to 12 months' notice. All other Non-Executive Directors are not subject to notice periods.

All Non-Executive Directors' appointments and subsequent re-appointments are subject to election and annual re-election by shareholders at the 2015 AGM (see page 71).



**Table of Contents****IHG** Annual Report and Form 20-F 2014**Directors Remuneration Report** continued**Annual Report on Directors Remuneration**

This Annual Report on Directors Remuneration explains how the Directors Remuneration Policy (DR Policy) was implemented in 2014 and the resulting payments each of the Directors received. The notes to the single figure table provide further detail, including measures and outcomes for 2014 where relevant, for each of the elements that make up the total single figure of remuneration in respect of each of the Executive Directors. This report is subject to an advisory vote by shareholders at the 2015 AGM.

**Single total figure of remuneration Executive Directors (audited information)**

	Fixed pay				Variable pay				Pension		Total	
	Salary		Benefits		APP		LTIP		Pension benefit			
<b>Executive Directors</b>	<b>2014</b>	2013	<b>2014</b>	2013	<b>2014</b>	2013	<b>2012/14</b>	2011/13	<b>2014</b>	2013	<b>2014</b>	2013
	<b>£000</b>	£000	<b>£000</b>	£000	<b>£000</b>	£000	cycle (value of shares) £000 <sup>1</sup>	cycle (value of shares) £000 <sup>2</sup>	<b>£000</b>	£000	<b>£000</b>	£000
Richard Solomons <sup>3</sup>	<b>759</b>	735	<b>30</b>	34	<b>1,128</b>	1,098	<b>1,425</b>	1,018	<b>228</b>	246	<b>3,570</b>	3,131
									<b>+2,958<sup>3</sup></b>		<b>+2,958<sup>3</sup></b>	
									<b>3,186</b>		<b>6,528</b>	
Paul Edgecliffe-Johnson <sup>4</sup>	<b>420</b>	n/a	<b>28</b>	n/a	<b>619</b>	n/a	<b>403</b>	n/a	<b>126</b>	n/a	<b>1,596</b>	n/a
Kirk Kinsell <sup>5</sup>	<b>479</b>	492	<b>27</b>	85	<b>365</b>	532	<b>941</b>	850	<b>111</b>	114	<b>1,923</b>	2,073
Tracy Robbins	<b>434</b>	421	<b>20</b>	21	<b>644</b>	631	<b>814</b>	644	<b>130</b>	126	<b>2,042</b>	1,843
Tom Singer <sup>6</sup>	<b>2</b>	548	<b>0</b>	29	<b>n/a</b>	409	<b>712</b>	918	<b>n/a</b>	164	<b>714</b>	2,068

- <sup>1</sup> Share price of 2,449p is the average over the final quarter of 2014.
- <sup>2</sup> Restated using the VWAP (Volume Weighted Average Price) of 1,977p on the date of actual vesting on 19 February 2014. The corresponding values shown in the 2013 report (prior to the actual vesting) were an estimate and calculated using a share price as at 31 December 2013 of 2,013p.
- <sup>3</sup> Richard Solomons received a one-off cash payment in 2014 in lieu of any future entitlement to ICETUS benefits. The amount shown (£2.958m) is the gross cash payment (£9.405m) less amounts previously disclosed (£6.447m). It is included here but is not shown in the illustrative bar chart above as it was a one-off payment and was in respect of benefits already accrued.
- <sup>4</sup> Paul Edgecliffe-Johnson was appointed to the Board as Chief Financial Officer effective as of 1 January 2014.
- <sup>5</sup> Kirk Kinsell was paid in US dollars and the sterling equivalents were calculated using an exchange rate of \$1 = £0.61. In accordance with the APP rules, Mr Kinsell will receive only the 50% cash portion of his 2014 APP award, as shown here.
- <sup>6</sup> As a result of Tom Singer's resignation from IHG with effect from 1 January 2014, he only received the 50% cash portion of the 2013 APP award and will not receive a 2014 APP award. Following Mr Singer's resignation, the Remuneration Committee determined that the 2011/13 LTIP award would vest without pro-rata in line with the terms of the LTIP Plan rules, as the performance period for this award would be completed by his departure date. This award was released on the normal vesting date and only to the extent the performance conditions were met. Mr Singer's salary for 2014 was in respect of one day, 1 January 2014, after which his resignation took effect.

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**Notes to single total figure of remuneration Executive Directors (audited information)**

**Kirk Kinsell remuneration arrangements on departure**

Kirk Kinsell left the Board and his role as President, The Americas effective as of 13 February 2015. The Remuneration Committee determined that Mr Kinsell would be treated as a Good Leaver for the purposes of the LTIP awards, in line with the DR Policy on termination of employment. He therefore retained all outstanding LTIP awards which will vest on the normal vesting dates, subject to the satisfaction of performance conditions, with the awards pro-rated to his leaving date. Mr Kinsell also received the cash portion of his 2014 APP award and the deferred share portion of his 2011 APP on the normal vesting date. Outstanding deferred awards under the 2012 and 2013 APPs lapsed, and no APP award will be made in respect of 2015. The Remuneration Committee has reserved the right to determine that, prior to the vesting of shares under each outstanding LTIP cycle, Mr Kinsell's entitlement to shares under the LTIP will be forfeited in full if Mr Kinsell commits a breach of his continuing post-termination contractual obligations. The relevant figures will be included in next year's report.

**Fixed pay**

**Salary:** salary paid for the year (for Kirk Kinsell, who was paid in US dollars, this shows actual salary paid converted into sterling).

**Benefits:** this includes taxable benefits such as company car, healthcare, life cover and other taxable benefits. Provision during 2014 was in line with previous years and the approved DR Policy, and no exceptional benefits were paid.

**Variable Pay**

**2014 APP**

The weighting, measures and targets relating to the APP are determined by the Committee, on an annual basis, in line with our strategic objectives. A combination of global and regional targets were used in 2014. Executive Directors with only global roles were subject to global measures. Kirk Kinsell was subject to partly regional measures, reflecting his regional role as President, The Americas.

The measures for 2014 were determined in accordance with the DR Policy and were as follows:

Guest satisfaction as measured by the Guest HeartBeat score: year-on-year improvement;

Employee Engagement survey score: year-on-year improvement; and

EBIT achievement against target (corporate and regional).

Why do we use these measures?

Guest HeartBeat score	Employee Engagement survey score	EBIT vs target
<p>Guest HeartBeat is part of the guest satisfaction survey.</p> <p>It is an overall guest satisfaction score relating to hotel visits.</p> <p>It is a robust measure of the strength of our brands.</p> <p>Inclusion in the APP provides executive focus on this key performance metric at global and regional level.</p>	<p>We measure employee engagement because our brands are, effectively, a promise by our people, as engaged colleagues, to deliver a great guest experience.</p> <p>Engaged employees are key to our business.</p> <p>Our Employee Engagement survey is a long-established tool in our business.</p>	<p>EBIT is a key measure of business performance for our shareholders.</p> <p>It is a function of other critical measures: net rooms growth, RevPAR, operating profit and fee revenues.</p>

Award levels relate to achievement against target under each of the measures. The link between our strategy and the performance measures of the APP is explained in more detail on page 79.

Threshold, target and maximum opportunity are shown on the graph on page 84, along with actual achievement on a global basis and further detail.

The actual award level was determined on a straight-line basis between threshold and target, and target and maximum, and relates to achievement vs target under each measure:

**Threshold** is the minimum level that must be achieved for there to be an award in relation to that measure; for achievement below this, no award is made.

**Target** is the target level of achievement and results in a target award for that measure (115% of salary).

**Maximum** is the level of achievement at which a maximum award for that measure is received (200% of salary). Threshold award was subject to a global EBIT affordability gate such that:

if global EBIT was below 85% of target, no award would be made; and

if global EBIT was between 85% and 90% of target, half of any award relating to the Guest HeartBeat and/or



Employee Engagement survey measures would be made.

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- <sup>1</sup> The EBIT element of Kirk Kinsell's award was based 50/50 on Group/The Americas results; the EBIT achievement for the Americas was 99.0% against target. The Guest HeartBeat element of Mr Kinsell's award was based wholly on The Americas results; achievement was 29.4% of target. The total award as a % of salary for Mr Kinsell was 151.4% and in accordance with the APP Plan rules he will only receive the 50% cash portion.
- <sup>2</sup> Maximum achievement under all three measures would result in an award of 230% of total salary. However, under the DR Policy, awards are capped at 200% of salary.

**Outcome for 2014 (audited information)**

Based on performance, the following table shows the level of 2014 awards for which 50% will be paid in cash and 50% in deferred IHG shares. These will vest after three years in February 2018. The deferred share awards are made in the form of forfeitable shares that receive dividends during the three-year vesting period and include the right to vote at shareholder meetings.

**Executive Director**

	<b>Total value of award</b>	
	<b>Award as</b>	
	<b>% of salary</b>	<b>£000<sup>1</sup></b>
Richard Solomons	147.4	1,128
Paul Edgecliffe-Johnson	147.4	619
Kirk Kinsell	75.7	365 <sup>2</sup>
Tracy Robbins	147.4	644

<sup>1</sup> As shown in the single figure of remuneration on page 82.

<sup>2</sup> In accordance with the rules of the APP, Kirk Kinsell will receive only the 50% cash portion of his 2014 APP award, as shown here.

In relation to the APP 2014 measures, we have disclosed percentage achievement against target for each measure in the graph at the top of this page. We have also shown outcome vs opportunity. For the Guest HeartBeat and Employee Engagement survey measures, the 2014 outcome scores are detailed on pages 31 and 32 of the Annual Report. Detail on the financial targets set is not disclosed at this stage as it is, in the opinion of the Directors, commercially sensitive. Disclosure would risk providing IHG's major competitors with an unfair commercial advantage as these companies are

either unlisted or listed on a stock exchange other than the London Stock Exchange and, therefore, not subject to the same regulations. During 2015, we will consider what further transparency we can provide to shareholders without disadvantaging the business.

## 2012/14 LTIP

The performance measures for each three-year LTIP cycle are set by the Committee. Awards are made annually and eligible executives will receive shares at the end of that cycle, subject to achievement of the performance measures. The performance measures for the 2012/14 cycle were as follows and in line with the DR Policy:

relative growth in net rooms over three years;

relative like-for-like RevPAR growth over three years; and

IHG's TSR relative to a global hotels index (see page 89 for further details).

Growth in net rooms and RevPAR is measured on a relative basis against the comparator group, comprising the following major, globally branded competitors: Accor, Choice Hotels, Hilton Worldwide, Hyatt, Marriott International Inc., Starwood Hotels and Wyndham Worldwide.

### Why do we use these measures?

#### Net rooms growth

This measures the net growth in the total number of IHG hotel rooms over the duration of the cycle relative to our major global competitors. Together with the RevPAR measure, it provides focus on ensuring a balance between the quality of IHG hotels and the speed at which IHG grows.

#### RevPAR growth

This measures success in growing our revenue per available room for the duration of the cycle relative to the RevPAR growth of our major global competitors.

#### Relative TSR

This measures the return to shareholders by investing in IHG relative to our competitors in the appropriate comparator group of global hotels, as per data sourced from Thomson Datastream.

In order to generate higher returns for our shareholders, we need to increase revenue share, improve operating efficiency and grow margins through increasing the number of rooms we have available to sell, as well as increasing RevPAR for those rooms.



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By focusing on both net rooms growth and RevPAR growth, we are rewarding the balanced approach to growth that will support the long-term increase in shareholder value.

These performance measures are also used for the 2013/15 and 2014/16 LTIP cycles, granted in 2013 and 2014 respectively. Threshold, target and maximum opportunity for the 2012/14 cycle is shown in the graph below, along with actual achievement for 2014.

Performance was below the average of the comparator group on the relative net rooms growth measure and therefore this element will not vest.

**Outcome for 2012/14 cycle (audited information)**

This cycle will vest on 18 February 2015, as follows:

<b>Executive Director</b>	<b>Maximum opportunity at grant</b>	<b>Outcome (number of shares</b>		<b>Total value of award<sup>1</sup></b>
	<b>% of maximum opportunity (number of shares)</b>	<b>vested</b>	<b>awarded at vest)</b>	<b>£000</b>
Richard Solomons	103,722	56.1	58,188	1,425
Paul Edgecliffe-Johnson	29,322	56.1	16,449	403
Kirk Kinsell <sup>2</sup>	68,463	56.1	38,407	941
Tracy Robbins	59,270	56.1	33,250	814
Tom Singer <sup>3</sup>	77,684	56.1	29,053	712

<sup>1</sup> As shown in the single figure of remuneration. Share price used of 2,449p is the average over the final quarter of 2014.

<sup>2</sup> In line with the DR Policy, the Remuneration Committee determined that Kirk Kinsell would retain his 2012/14 LTIP award in accordance with and subject to the terms of the LTIP Plan rules, as the performance period for this award was completed when Kirk Kinsell resigned effective as of 13 February 2015.

<sup>3</sup> The Remuneration Committee determined that the 2012/14 LTIP award would vest in line with the terms of the LTIP Plan rules on a pro-rated basis for the proportion of the performance period in which Tom Singer remained in employment. This award will be released on the normal vesting date and only to the extent the performance conditions were fulfilled.

Net rooms and RevPAR growth were measured by reference to the three years ending 30 September 2014; TSR was measured by reference to the three years ending 31 December 2014.

## Pensions

**Pension benefit:** the value of Company contributions to pension plans and any cash allowances paid in lieu of pension contributions.

As published in the 2013 Annual Report, the Group commenced the phasing out of potential enhanced early retirement terms related to those defined benefit pensions in 2014 (see page 87 for further details). In addition, the planned cash out offer was made to the participants of the unfunded, unregistered, defined benefit top-up arrangement, ICETUS, which had previously provided the balance of any benefit accrual that was restricted in the tax-registered plan due to the annual or lifetime allowances. Payments associated with the cash out were made in the financial year and are therefore disclosed appropriately in this year's Annual Report.

For 2014, the pension benefits for Richard Solomons include the payment of a cash out value in respect of his accrued, unfunded ICETUS benefit. Richard Solomons received a one-off gross cash payment of £9,405,362 in lieu of any future entitlement to ICETUS benefits. An amount of £6,447,000 in respect of his ICETUS benefit was included as part of the disclosure of his total accrued benefits in the 2013 Directors' Remuneration Report based on the HM Revenue & Customs methodology of valuing pensions at 20 times their annual amounts, hence only the balance in excess of this (i.e. £2.958m) is shown in the single figure table. The actual payment was greater than 20 times the annual pension because the ICETUS benefit was valued using a more accurate actuarial calculation method, in line with that used for valuing the total ICETUS liabilities for accounting purposes. Following the cash out, Richard Solomons has no future entitlement to any benefit from ICETUS.

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**IHG** Annual Report and Form 20-F 2014

*Directors Remuneration Report continued*

*Annual Report on Directors Remuneration continued*

**Scheme interests awarded during 2014 (audited information)**

During 2014, awards relating to shares were granted under the 2014/16 LTIP. Awards were made to each Executive Director over shares with a value of 205% of salary using the closing mid-market share price on 7 April 2014. These are in the form of conditional awards over IHG shares and do not carry the right to dividends or dividend equivalents during the vesting period.

These awards will vest, and the shares will be transferred to the award holder, in February 2017 to the extent performance targets are met. See pages 84 and 85 for an explanation of the performance measures.

Executive Director 2014/16 cycle	Award date	Maximum shares awarded	Market price per share at grant <sup>1</sup>	Face value of award at grant <sup>1</sup>	Number of shares received if minimum performance achieved <sup>2</sup>
			£	£000	
Richard Solomons	8 April 2014	82,193	19.08	1,568	16,439
Paul Edgecliffe-Johnson	8 April 2014	45,125	19.08	861	9,025
Kirk Kinsell <sup>3</sup>	8 April 2014	18,570	19.08	981	3,714
Tracy Robbins	8 April 2014	46,952	19.08	896	9,390

<sup>1</sup> Share price was the closing mid-market share price on 7 April 2014.

<sup>2</sup> Minimum performance is equal to 20% of maximum award.

<sup>3</sup> Following Kirk Kinsell's resignation with effect from 13 February 2015, his award will vest in line with the LTIP Plan rules. His initial maximum shares awarded of 51,426 have been reduced accordingly on a pro-rated basis for the proportion of the performance period in which he remained in employment, as determined by the Committee. The pro-rated award is shown in the table above. Vesting will not be accelerated.

The vesting date for these awards is the day after the announcement of our Annual 2016 Preliminary Results in February 2017. Net rooms growth and RevPAR growth will be measured by reference to the three years ending 30 September 2016; TSR will be measured by reference to the three years ending 31 December 2016.

**Other outstanding awards**

During 2013, awards relating to shares were granted under the 2013/15 LTIP (shown below) on the same basis as the 2014/16 LTIP cycle (shown above). These awards will vest in February 2016 to the extent performance targets are met. See pages 84 and 85 for an explanation of the performance measures.

Executive Director	Award date	Maximum shares awarded	Market price per share at grant <sup>1</sup>	Face value of award at grant <sup>1</sup>	Number of shares received if minimum performance achieved <sup>2</sup>
			£	£000	
<b>2013/15 cycle</b>					
Richard Solomons	5 April 2013	76,319	19.85	1,515	15,263
Paul Edgecliffe-Johnson <sup>3</sup>	24 February 2014	9,454	19.25	182	1,891
Kirk Kinsell <sup>4</sup>	5 April 2013	36,839	19.85	1,053	7,367
Tracy Robbins	5 April 2013	43,819	19.85	870	8,763
Tom Singer <sup>5</sup>	5 April 2013	56,883	19.85	1,129	0

<sup>1</sup> Share price was the closing mid-market share price on 4 April 2013. For Paul Edgecliffe-Johnson, this was the closing mid-market share price on 21 February 2014.

<sup>2</sup> Minimum performance is equal to 20% of maximum award.

<sup>3</sup> Paul Edgecliffe-Johnson received an increased award, pro-rated from 1 January 2014, for the 2013/15 LTIP in accordance with the DR Policy as a result of his appointment to the Board. He was awarded 18,322 shares on 5 April 2013 with a market price per share at grant of £19.85 prior to his appointment to the Board.

<sup>4</sup> Following Kirk Kinsell's resignation with effect from 13 February 2015, his award will vest in line with the LTIP Plan rules. His initial maximum shares awarded of 53,049 have been reduced accordingly on a pro-rated basis for the proportion of the performance period in which he remained in employment, as determined by the Committee. The pro-rated award is shown in the table above. Vesting will not be accelerated.

<sup>5</sup> Tom Singer's award lapsed as a result of his resignation with effect from 1 January 2014.

The vesting date for these awards is the day after the announcement of our Annual 2015 Preliminary Results in February 2016. Net rooms growth and RevPAR growth will be measured by reference to the three years ending 30 September 2015; TSR will be measured by reference to the three years ending 31 December 2015.

### Current position on outstanding awards

Details of the performance measures and potential vesting outcomes for outstanding awards as at 31 December 2014 are as follows:

Performance measure	Threshold performance	Maximum performance	Threshold/maximum vesting	Weighting	Maximum award (% of salary)	Potential vesting outcome	
			20%/100%	(%)		2014/16 cycle	2013/15 cycle
Net rooms growth	Average of the comparator group	1st in the comparator group	20%/100%	25%	51.25%	Below threshold	Below threshold
RevPAR growth	Average of the comparator group	1st in the comparator group	20%/100%	25%	51.25%	Above average	Above average
Relative TSR	Growth equal to the global hotels index	Growth exceeds the index by 8% per year or more	20%/100%	50%	102.5%	Maximum performance	Maximum performance





**Table of Contents****Total pension entitlements (audited information)**

The InterContinental Hotels UK Pension Plan (IC Plan) is a funded final salary occupational pension scheme with an additional defined contribution section.

Richard Solomons' defined benefit pension accrual in both ICETUS and the IC Plan ceased on 30 June 2013 and the Trustee of the IC Plan subsequently entered into an insurance contract in August 2013 under which all defined benefit liabilities of the plan, plus the provision of increases to pensions which were previously only provided at the discretion of the Company, were fully insured (known as a 'buy-in'). During 2014, arrangements were made to fully transfer the responsibility for the provision of benefits from the Trustee of the IC Plan to the insurance company, Rothesay Life. This process (known as a 'buy-out') was completed on 31 October 2014.

Following the buy-out, Richard Solomons has no future benefit entitlement from the IC Plan and it is not considered necessary to make these disclosures in the future. In last year's Annual Report, we published the Board's plans to phase out the Company's Enhanced Early Retirement Facility (EERF). However, during the period over which it is phased out, Richard Solomons remains eligible to benefit from the EERF, albeit at a reduced level. Under the EERF, executive participants of the defined benefit section of the IC Plan had an option, with the Company's agreement, to retire without reduction to their pension if they are within five years of their normal retirement date and to retire on improved early retirement terms before this. As set out in the Remuneration Committee Chairman's 2013 Statement, the phasing out of this facility commenced on 1 March 2014. As a result of the phasing out of the EERF, Mr Solomons could retire, with no reduction in his pension, from approximately age 58 and no earlier. Prior to the phasing out, Richard Solomons was eligible to retire without reduction from age 55. The terms of the EERF require an executive to obtain Company consent and would also require the payment by the Group of an additional insurance premium to secure the benefit entitlement for that executive.

**Richard Solomons'** IC Plan pension, which formed part of the buy-out, was as follows:

	£pa
Accrued annual pension at 1 January 2014, assuming retirement at normal pension age (9 October 2021)	71,950
Accrued annual pension at 31 December 2014, assuming retirement at normal age (9 October 2021)	73,680
The increase in accrued pension represents the standard inflation increase provided for deferred pensions in the IC Plan rules. It does not, therefore, constitute a pension input amount and there is no requirement to disclose the value of this increase in the single figure.	

For 2014, **Richard Solomons** received a cash allowance in lieu of pension contributions. The breakdown of the pension element of the single figure for 2013 and 2014 for Mr Solomons is as follows:

	2014	2013
	£000	£000
Pension benefit under defined benefit section of IC Plan		135
ICETUS cash-out	2,958 <sup>1</sup>	
Cash allowance in lieu of pension contribution	228	111
<b>Total</b>	<b>3,186</b>	<b>246</b>

<sup>1</sup> Richard Solomons received a one-off cash payment in 2014 in lieu of any future entitlement to ICETUS benefits. See page 85.

**Paul Edgecliffe-Johnson** participated in the defined contribution section of the IC Plan until March 2014, during which time he paid contributions of £7,875 and received Company contributions of £4,625 and a cash allowance in lieu of pension contributions of £26,875. For the period from April 2014, he did not participate in any IHG pension plan and instead received a cash allowance of £94,500.

**Tracy Robbins** did not participate in any IHG pension plan in 2014. Instead she received a cash allowance of £130,148.

Life assurance cover of four times pensionable salary was also provided for **Tracy Robbins** and **Paul Edgecliffe-Johnson** and, in accordance with the terms of the closure of the IC Plan to future defined benefit accrual, life assurance cover of six times salary was provided for **Richard Solomons**.

**Kirk Kinsell** participated in the US 401(k) Plan and the US Deferred Compensation Plan. The US 401(k) Plan is a tax qualified plan providing benefits on a defined contribution basis, with the member and relevant company both contributing. The US Deferred Compensation Plan is a non-tax qualified plan, providing benefits on a defined contribution basis, with the member and the relevant company both contributing.

Contributions made by, and in respect of, Kirk Kinsell in these plans for the year ended 31 December 2014 were:

	£ <sup>1</sup>
Director's contributions to US Deferred Compensation Plan	136,199
Director's contributions to US 401(k) Plan	14,030
Company contributions to US Deferred Compensation Plan	105,047
Company contributions to US 401(k) Plan	6,280
<b>Age at 31 December 2014</b>	<b>59</b>

<sup>1</sup> Sterling values have been calculated using an exchange rate of \$1=£0.61.



**Table of Contents****IHG** Annual Report and Form 20-F 2014*Directors Remuneration Report continued**Annual Report on Directors Remuneration continued***Statement of Directors shareholdings and share interests (audited information)**

The Committee believes that share ownership by Executive Directors and senior executives strengthens the link between the individual's personal interests and those of shareholders.

**Guideline Executive Director shareholding requirement**

Executive Directors are expected to hold all shares earned (net of any share sales required to meet personal tax liabilities), until the guideline shareholding requirement is achieved. As can be seen from the graph below, with the exception of Paul Edgecliffe-Johnson, the shareholdings for the other Executive Directors are substantial and the guideline requirement exceeded. Percentages are based on shareholding and a share price of 2,595p per share as at 31 December 2014.

**Shares and awards held by Executive Directors as at 31 December 2014: % of salary****Shares held by Executive Directors as at 31 December 2014: number of shares (audited information)**

Executive Director	Number of shares held outright <sup>1</sup>		APP deferred share awards <sup>2</sup>		LTIP share awards (unvested) <sup>3</sup>		Total number of shares and awards held	
	2014	2013	2014	2013	2014	2013	2014	2013
Richard Solomons	<b>382,533</b>	371,198	<b>81,240</b>	90,068	<b>262,234</b>	267,275	<b>726,007</b>	728,541
Paul Edgecliffe-Johnson <sup>4</sup>	<b>10,583</b>	n/a	<b>12,860</b>	n/a	<b>102,223</b>	n/a	<b>125,666</b>	n/a
Kirk Kinsell	<b>117,640<sup>5</sup></b>	127,444 <sup>6</sup>	<b>49,580</b>	66,502	<b>172,938</b>	194,384	<b>340,158</b>	388,330
Tracy Robbins	<b>51,418</b>	85,703	<b>48,932</b>	55,905	<b>150,041</b>	158,337	<b>250,391</b>	299,945

<sup>1</sup> These shareholdings include all Directors' beneficial interests and those held by their spouses and other connected persons.

<sup>2</sup> Awards not subject to performance conditions.

<sup>3</sup> Awards still subject to performance conditions as set out on pages 84 and 85.

<sup>4</sup> Paul Edgecliffe-Johnson was appointed to the Board on 1 January 2014.

<sup>5</sup> Comprised 117,092 ordinary shares and 548 American Depositary Receipts.

<sup>6</sup> Comprised 126,850 ordinary shares and 594 American Depositary Receipts.

### Percentage change in remuneration of Chief Executive Officer

The table below shows the percentage change in the remuneration of the Chief Executive Officer compared with UK employees between 2013 and 2014:

	Chief Executive Officer	UK employees
Salary	+3.5%	+3.0% <sup>1</sup>
Taxable benefits <sup>2</sup>	-11.8%	+4.5%
Annual incentive	+2.7%	+7.6%

<sup>1</sup> The percentage change for UK employees shown is the budget for the 2014 annual pay review and promotions/market adjustments during 2014.

<sup>2</sup> Based on P11D taxable benefits for tax year ending 5 April in relevant year.

We believe that an appropriate comparator group for salary and taxable benefits comparison is UK-based employees because the structure and composition of remuneration for that group most closely reflects that of the UK-based Chief Executive Officer. Therefore, the same UK market dynamics will apply to salary movements providing a like-for-like comparison.

For the annual incentive, the comparator group used is the grade of executives at and immediately below Executive Committee level, who are subject to the same performance measures as the Chief Executive Officer, and with a very good individual performance rating.

**Table of Contents****Relative performance graph and table**

Throughout 2014, IHG was a member of the FTSE 100 share index and for LTIP purposes used a TSR comparator group of a global hotels index. This consists of the companies that made up the Dow Jones Global Hotels index (DJGH). It continues to comprise the same companies, following the cessation of the former Dow Jones Index in 2014, and is sourced directly from Thomson Datastream for IHG. Accordingly, the Committee has determined that these are the most appropriate market indices against which to test the Group's performance. The graph below shows IHG's TSR performance from 31 December 2008 to 31 December 2014, assuming dividends are reinvested, compared with the TSR performance achieved by the FTSE 100 and global hotels indices. All indices are shown in sterling.

**TSR: InterContinental Hotels Group PLC vs FTSE 100 and global hotels index****Chief Executive Officer's remuneration**

The table below shows the single figure of total remuneration for the incumbent Chief Executive Officer for the six years to 31 December 2014:

		Financial year ended 31 December					
	Chief Executive Officer	2009	2010	2011 <sup>1</sup>	2012	2013	2014
<b>Single figure</b>	Richard Solomons	n/a	n/a	4,724	4,881	3,149	<b>6,528<sup>2</sup></b>
<b>£000</b>	Andrew Cosslett	1,953	5,430	3,770	n/a	n/a	<b>n/a</b>
<b>Annual incentive received</b>	Richard Solomons	n/a	n/a	83.0	68.0	74.0	<b>74.0</b>
<b>(% of maximum)</b>	Andrew Cosslett	nil <sup>3</sup>	100.0	43.0 <sup>4</sup>	n/a	n/a	<b>n/a</b>
<b>Shares received under the LTIP</b>	Richard Solomons	n/a	n/a	73.9	100.0	59.0	<b>56.1</b>
<b>(% of maximum)</b>	Andrew Cosslett	46.0	73.8	61.6	n/a	n/a	<b>n/a</b>

<sup>1</sup> Andrew Cosslett retired on 30 June 2011 and Richard Solomons was appointed Chief Executive Officer effective as

of 1 July 2011, having previously held the position of Chief Financial Officer and Head of Commercial Development; the single figure value is the total remuneration received by each of them for that year.

- <sup>2</sup> Includes a one-off cash payment in lieu of any future entitlement to ICETUS benefits. The amount included in respect of this (£2.958m) is the gross cash payment (£9.405m) less amounts previously disclosed (£6.447m).
- <sup>3</sup> There was no annual incentive award paid in respect of financial year ended 31 December 2009.
- <sup>4</sup> No deferred shares were awarded in respect of the 2011 Annual Bonus Plan (ABP). Andrew Cosslett received his award as 100% cash pro-rated to 30 June 2011.

### Relative importance of spend on pay

The table below sets out the actual expenditure of the Group in 2012, 2013 and 2014 on corporate employee remuneration and distributions to shareholders and shows the difference in spend between those years:

Item	2014 \$m	% change	2013 \$m	% change	2012 \$m
<b>Remuneration paid to all corporate employees</b>	<b>657</b>	0.2	656	5.0	626 <sup>1</sup>
<b>Distributions:</b>					
Final dividend (previous year)	122		115		113
Ordinary (interim) dividend	57		63		61
Special dividend	763 <sup>2</sup>		355 <sup>3</sup>		505 <sup>4</sup>
Repurchase of own shares	110 <sup>5</sup>		283 <sup>6</sup>		107 <sup>7</sup>
<b>Total distributions</b>	<b>1,052</b>	<b>28.9</b>	<b>816</b>	<b>3.8</b>	<b>786</b>

<sup>1</sup> Restated for the adoption of IAS 19R Employee Benefits .

<sup>2</sup> A special dividend of \$2.93 per share was paid to shareholders on 14 July 2014.

<sup>3</sup> A special dividend of \$1.33 per share was paid to shareholders on 4 October 2013.

<sup>4</sup> A special dividend of \$1.72 per share was paid to shareholders on 22 October 2012.

<sup>5</sup> Under the authority granted by shareholders at the AGMs held on 24 May 2013 and 8 May 2014, 3,421,973 shares were purchased in the period 1 January 2014 to 29 May 2014 (the date on which the share buyback programme was completed) for a total consideration of \$110m.

<sup>6</sup> Under the authority granted by shareholders at the General Meeting held on 8 October 2012 and the AGM held on 24 May 2013, 9,773,912 shares were purchased in the period 1 January 2013 to 31 December 2013 for a total consideration of \$283m.

<sup>7</sup> Under the authority granted by shareholders at the General Meeting held on 8 October 2012, 4,143,960 shares were purchased in the period 12 November 2012 (the date on which the share buyback programme commenced) to 31 December 2012 for a total consideration of \$107m.





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*Directors Remuneration Report continued*

*Annual Report on Directors Remuneration continued*

**Dividends paid to Executive Directors**

An interim dividend of 14.8p per ordinary share (25¢ per ADR) was paid on 26 September 2014 to shareholders on the Register of members at the close of business on 22 August 2014.

A special interim dividend of 174.9p per ordinary share (293¢ per ADR) was paid on 14 July 2014 to shareholders on the Register of members at the close of business on 30 June 2014.

The 2014 special dividend was accompanied by a share consolidation to maintain comparability (as far as possible) of the share price before and after the payment of the special dividend. Neither LTIP award holders nor IHG Executive Share Option Plan holders were entitled to receive the special dividend. Executive Directors holding forfeitable shares under previous years' annual incentive awards received the special dividend, and their share awards were subject to the share consolidation.

Kirk Kinsell's deferred shares are held in the form of conditional awards, which were not eligible to receive the special dividend, rather than forfeitable shares. To ensure equity of treatment with other Executive Committee members, a dividend equivalent was paid in respect of these awards to Mr Kinsell, and his awards were subject to the share consolidation.

**Payments for loss of office (audited information)**

Tom Singer stepped down from the Board and his role as Group Chief Financial Officer on 1 January 2014. In line with his contractual agreement and the Remuneration Committee's policy on termination of employment, Mr Singer was not paid any salary or benefits (or compensation in lieu) in respect of the period after 1 January 2014, and did not receive any compensation for loss of office.

The footnotes to the single total figure table on page 82 set out the impact of Mr Singer's resignation on his APP and LTIP awards.

**Payments to past directors' benefits (audited information)**

Sir Ian Prosser, who retired as a Director on 31 December 2003, had an ongoing healthcare benefit of £1,379 during the year.

**Payments to past directors' ICETUS cash out (audited information)**

In 2014, the Company looked to reduce the risks and volatility from the remaining unfunded ICETUS pension arrangement by offering members an opportunity to cash out the ICETUS element of their pension on a basis that is fair and reasonable, both to them and to shareholders. This is part of the process of redrawing IHG's pension

arrangements and minimising the future risks to the Company.

A number of past directors received one-off payments, following which they will have no future entitlement to any benefit from ICETUS:

Former Director	Value in 2014
	£
Andrew Cosslett <sup>1</sup>	No value to disclose
Richard Hartman <sup>2</sup>	74,968
Richard North <sup>3</sup>	3,386,296
Sir Ian Prosser	8,597

<sup>1</sup> A gross cash payment of £5,114,920 was made in lieu of any future entitlement to ICETUS benefits, in respect of which £5,266,788 had been disclosed in the 2011 Annual Report on Directors Remuneration based on the Cash Equivalent Transfer Value methodology of valuing pensions applicable at the time.

<sup>2</sup> A gross cash payment of £497,987 in lieu of any future entitlement to ICETUS benefits, in respect of which £423,019 had been disclosed in the 2007 Annual Report on Directors Remuneration based on the Cash Equivalent Transfer Value methodology of valuing pensions applicable at the time.

<sup>3</sup> A gross cash payment of £6,444,041 was made in lieu of any future entitlement to ICETUS benefits, in respect of which £3,057,744 had been disclosed in the 2004 Annual Report on Directors Remuneration based on the Cash Equivalent Transfer Value methodology of valuing pensions applicable at the time.

### Share options

In 2013, the gain before tax, made by Richard Solomons on the exercise of options was £4,663,884.

### Single total figure of remuneration: Non-Executive Directors (audited information)

Non-Executive Director	Committee appointed	Date of original appointment	Fees (£000)		Taxable benefits <sup>2</sup> (£000)		Total (£000)	
			2014	2013	2014	2013	2014	2013
Patrick Cescau		1 January 2013	412	400	15	14	427	414
Ian Dyson <sup>3</sup>		1 September 2013	88	23	2	1	90	24
Jo Harlow <sup>4</sup>		1 September 2014	23	n/a	0	n/a	23	n/a
David Kappler <sup>5</sup>		21 June 2004	47	109	1	2	48	111
Jennifer Laing		25 August 2005	83	80	3	2	86	82
Jonathan Linen <sup>6</sup>		1 December 2005	71	69	81	90	152	159
Jill McDonald <sup>7</sup>		1 June 2013	71	40	2	3	73	43
Luke Mayhew		1 July 2011	94	91	3	2	97	93
Dale Morrison <sup>8</sup>		1 June 2011	84	69	22	22	106	91

- <sup>1</sup> See page 57 for Board Committee membership key.
- <sup>2</sup> Benefits include taxable travel and accommodation expenses to attend Board meetings away from home location; under concessionary HM Revenue & Customs rules, non-UK based Non-Executive Directors are not subject to tax on travel expenses for the first five years. This is reflected in the taxable benefits figures for Jonathan Linen, Dale Morrison and Ying Yeh.
- <sup>3</sup> Ian Dyson was appointed as a Non-Executive Director on 1 September 2013 and became Chairman of the Audit Committee on 1 April 2014. His fee increased accordingly from that date.
- <sup>4</sup> Jo Harlow was appointed as a Non-Executive Director on 1 September 2014. Her fee was pro-rated accordingly from her start date.
- <sup>5</sup> David Kappler retired as a Non-Executive Director on 31 May 2014.
- <sup>6</sup> Jonathan Linen retired as a Non-Executive Director on 31 December 2014.
- <sup>7</sup> Jill McDonald was appointed as a Non-Executive Director on 1 June 2013. Her fee was pro-rated accordingly from her start date.
- <sup>8</sup> Dale Morrison became Senior Independent Non-Executive Director with effect from 31 May 2014 and his fee increased accordingly from that date.

**Table of Contents***Implementation of Directors Remuneration Policy in 2015*

This section explains how the DR Policy will be applied in 2015. It is subject to an advisory vote by shareholders at the 2015 AGM.

**Salary: Executive Directors**

Directors' salaries are agreed annually in line with the DR Policy. The following salaries will apply from 1 April 2015:

<b>Executive Director</b>	<b>% increase</b>	<b>2015 £</b>	<b>2015 \$</b>	<b>2014 £</b>	<b>2014 \$</b>
Richard Solomons	3.5	792,000		765,000	
Paul Edgecliffe-Johnson <sup>1</sup>	9.5	460,000		420,000	
Kirk Kinsell <sup>2</sup>	n/a		n/a		793,500
Tracy Robbins	2.5	448,000		437,000	

<sup>1</sup> Paul Edgecliffe-Johnson was appointed to the Board and the role of Group Chief Financial Officer effective as of 1 January 2014. In line with the DR Policy for newly appointed or promoted Executive Directors, he was appointed on a salary set below benchmark policy level and, following strong performance in his first year in role, an increase higher than that of the corporate UK and US employee population has been agreed by the Remuneration Committee for 2015.

<sup>2</sup> Kirk Kinsell was paid in US dollars and his annual salary for 2014 is shown in US dollars above. The equivalent sterling value calculated using an exchange rate of \$1=£0.61 is £484,035. Mr Kinsell left the Board and IHG on 13 February 2015.

The overall budget for salary increases for 2015 for UK and US corporate employees is 3.0% and 3.5% respectively.

**APP and LTIP performance measures and targets**

The performance measures and targets for the 2015 APP and the 2015/17 LTIP cycle are the same as for the 2014 APP and the 2014/16 LTIP cycle respectively.

The actual targets under the performance measures for the APP for 2015 are not disclosed at this stage, as they are, in the opinion of the Directors, commercially sensitive. Disclosure would risk providing IHG's major competitors with an unfair advantage as these companies are either unlisted or listed on a stock exchange other than the London Stock Exchange and therefore not subject to the same obligation to disclose incentive plan targets. We will consider during 2015 what further transparency we can provide shareholders without disadvantaging the business.

A clawback provision will be introduced in respect of the 2015 APP cash awards and 2015/17 LTIP cycle awards made to Executive Directors. The clawback provision will apply for three years from the date of payment (for the APP cash award) and the date of vesting (for the LTIP award). Clawback may be operated in the event of gross misconduct on the part of the employee and/or material misstatement in Company or Group financial statements.

These new provisions apply in addition to the existing malus provisions on the LTIP and APP deferred awards that provide for unvested awards to be reduced at the discretion of the Remuneration Committee in circumstances including:

discovery of a material misstatement or restatement in the Company's or any Group Company's audited financial accounts (other than as a result of a change in accounting practice) for a period that was wholly or partly before the end of the performance period by reference to which the APP cash award was determined; and/or

action or conduct of a participant that, in the reasonable opinion of the Committee, amounts to fraud or gross misconduct that causes significant damage or potential damage to IHG's prospects, finances or brand reputation.

#### **Fees: Non-Executive Directors**

Non-Executive Directors' fees are reviewed and agreed annually in line with the DR Policy.

Patrick Cescau waived any fee increase for 2015. The following annual fee levels will apply from 1 January 2015:

<b>Non-Executive Director</b>	<b>Role</b>	<b>2015 £</b>	<b>2014 £</b>
Patrick Cescau	Chairman of the Board	<b>412,000</b>	412,000
Ian Dyson <sup>1</sup>	Chairman of Audit Committee	<b>96,550</b>	93,750
Jo Harlow <sup>2</sup>	Non-Executive Director	<b>72,600</b>	68,500
David Kappler <sup>1</sup>	Senior Independent Non-Executive Director and Chairman of Audit Committee	<b>n/a</b>	111,750
Jennifer Laing	Chairman of Corporate Responsibility Committee	<b>85,000</b>	82,500
Jonathan Linen <sup>3</sup>	Non-Executive Director	<b>n/a</b>	70,500
Jill McDonald	Non-Executive Director	<b>72,600</b>	70,500
Luke Mayhew	Chairman of Remuneration Committee	<b>96,550</b>	93,750
Dale Morrison <sup>1</sup>	Senior Independent Non-Executive Director	<b>96,550</b>	93,750
Ying Yeh	Non-Executive Director	<b>72,600</b>	70,500

<sup>1</sup> David Kappler stepped down as Chairman of the Audit Committee on 1 April 2014, succeeded by Ian Dyson, and retired as Senior Independent Non-Executive Director on 31 May 2014, succeeded by Dale Morrison.

<sup>2</sup> Jo Harlow was appointed as Non-Executive Director effective as of 1 September 2014. Her % salary increase for 2015 brings her remuneration in line with the other Non-Executive Directors with similar roles.

<sup>3</sup> Jonathan Linen retired as a Non-Executive Director on 31 December 2014.

#### **Luke Mayhew, Remuneration Committee Chairman**

16 February 2015



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***Book***

Guest Journey Step three

The **Book** phase of the Guest Journey involves guests actually making a reservation.

They can do this using a variety of methods; both direct (through digital and voice) and indirect (through online travel intermediaries, and business and leisure travel agents).



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### ***Statement of Directors Responsibilities***

#### **Financial Statements and accounting records**

The Directors are required to prepare financial statements for the Company and the Group at the end of each financial year in accordance with all applicable laws and regulations. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

select suitable accounting policies and apply them consistently;

make judgements and accounting estimates that are reasonable;

state whether the Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), for use in the EU and Article 4 of the EU IAS Regulation;

state for the Company Financial Statements whether applicable UK accounting standards have been followed; and

prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors have responsibility for ensuring that the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company to enable them to ensure that the Financial Statements comply with the Companies Act 2006 and, as regards the Consolidated Financial Statements, Article 4 of the EU IAS Regulation. The Directors are also responsible for the system of internal control, for safeguarding the assets of the Company and the Group, and taking reasonable steps to prevent and detect fraud and other irregularities.

#### **Disclosure and Transparency Rules**

The Board confirms that to the best of its knowledge:

the Financial Statements have been prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group taken as a whole; and

the Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Group taken as a whole, together with a description of the principal risks and uncertainties that it faces.

### **UK Corporate Governance Code**

Having taken advice from the Audit Committee, the Board considers that this Annual Report and Form 20-F, taken as a whole is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

### **Disclosure of information to Auditor**

The Directors who held office as at the date of approval of this report confirm that they have taken steps to make themselves aware of relevant audit information (as defined by Section 418(3) of the Companies Act 2006). None of the Directors are aware of any relevant audit information which has not been disclosed to the Company's Auditor.

### **Management's report on internal control over financial reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Group, as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Group's internal control over financial reporting includes policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Group's transactions and dispositions of assets;

are designed to provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the Financial Statements in accordance with IFRS as issued by the IASB and the IFRS adopted by the EU, and that receipts and expenditure are being made only in accordance with authorisation of management and the Directors of the Company; and

provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the Group's assets that could have a material effect on the Financial Statements.

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

Management has undertaken an assessment of the effectiveness of the Group's internal control over financial reporting at 31 December 2014 based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). Based on this assessment, management has concluded that as at 31 December 2014 the Group's internal control over financial reporting was effective.

During the period covered by this document the Group transitioned from the 1992 to the 2013 Internal Control-Integrated Framework criteria issued by COSO. There were no other changes in the Group's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the effectiveness of

the internal controls over financial reporting.

The Group's internal control over financial reporting at 31 December 2014, together with the Group's Consolidated Financial Statements, were audited by Ernst & Young LLP, an independent registered public accounting firm. Their report on internal control over financial reporting can be found on page 99.

For and on behalf of the Board

**Richard Solomons**  
**Chief Executive Officer**

16 February 2015

**Paul Edgecliffe-Johnson**  
**Chief Financial Officer**

16 February 2015

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***Independent Auditor's US Report***

**Report of independent registered public accounting firm on internal control over financial reporting**

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

We have audited InterContinental Hotels Group PLC's internal control over financial reporting as of 31 December 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). InterContinental Hotels Group PLC's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the Annual Report and Form 20-F 2014. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

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

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

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

In our opinion, InterContinental Hotels Group PLC maintained, in all material respects, effective internal control over financial reporting as of 31 December 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying Group statement of financial position of InterContinental Hotels Group PLC as of

31 December 2014 and 2013, and the related Group income statement, Group statement of comprehensive income, Group statement of changes in equity and Group statement of cash flows for each of the three years in

the period ended 31 December 2014, and our report dated 16 February 2015 expressed an unqualified opinion thereon.

**ERNST & YOUNG LLP**

**London, England**

16 February 2015

**Report of independent registered public accounting firm**

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

We have audited the accompanying Group statement of financial position of InterContinental Hotels Group PLC as of 31 December 2014 and 2013, and the related Group income statement, Group statement of comprehensive income, Group statement of changes in equity and Group statement of cash flows for each of the three years in the period ended 31 December 2014. These Financial Statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these Financial Statements based on our audits.

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

In our opinion, the Financial Statements referred to above present fairly, in all material respects, the consolidated financial position of InterContinental Hotels Group PLC at 31 December 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended 31 December 2014, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), InterContinental Hotels Group PLC's internal control over financial reporting as of 31 December 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), and our report dated 16 February 2015 expressed an unqualified opinion thereon.

**ERNST & YOUNG LLP**

**London, England**

16 February 2015

Notes:

1. The maintenance and integrity of the InterContinental Hotels Group PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the

auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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IHG Annual Report and Form 20-F 2014

**Group Financial Statements****Group income statement**

		2014			2013			2012		
		Before exceptional items (note 5)		Total	Before exceptional items (note 5)		Total	Before exceptional items (note 5)		Total
For the year ended 31 December 2014	Note	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Revenue</b>	2	<b>1,858</b>		<b>1,858</b>	1,903		1,903	1,835		1,835
Cost of sales		(741)		(741)	(784)		(784)	(772)		(772)
Administrative expenses		(382)	(101)	(483)	(374)	(167)	(541)	(372)	(16)	(388)
Share of (losses)/profits of associates and joint ventures	2	(4)		(4)	2	6	8	3		3
Other operating income and expenses		16	130	146	6	166	172	5	(11)	(6)
		<b>747</b>	<b>29</b>	<b>776</b>	753	5	758	699	(27)	672
Depreciation and amortisation	2	(96)		(96)	(85)		(85)	(94)		(94)
Impairment reversal	2								23	23
<b>Operating profit</b>	2	<b>651</b>	<b>29</b>	<b>680</b>	668	5	673	605	(4)	601
Financial income	6	3		3	5		5	3		3
Financial expenses	6	(83)		(83)	(78)		(78)	(57)		(57)
<b>Profit before tax</b>		<b>571</b>	<b>29</b>	<b>600</b>	595	5	600	551	(4)	547
Tax	7	(179)	(29)	(208)	(175)	(51)	(226)	(151)	142	(9)
<b>Profit for the year from continuing operations</b>		<b>392</b>		<b>392</b>	420	(46)	374	400	138	538
Attributable to:										
Equity holders of the parent		391		391	418	(46)	372	399	138	537
Non-controlling interest		1		1	2		2	1		1
		<b>392</b>		<b>392</b>	420	(46)	374	400	138	538

**Earnings per  
ordinary share**

9

Continuing and total  
operations:

Basic	<b>158.3¢</b>	140.9¢	187.1¢
Diluted	<b>156.4¢</b>	139.3¢	183.9¢

Notes on pages 107 to 153 form an integral part of these Financial Statements.

**Table of Contents****Group statement of comprehensive income**

	<b>2014</b>	2013	2012
	<b>\$m</b>	\$m	\$m
<b>For the year ended 31 December 2014</b>			
<b>Profit for the year</b>	<b>392</b>	374	538
<b>Other comprehensive income</b>			
Items that may be subsequently reclassified to profit or loss:			
Gains on valuation of available-for-sale financial assets, net of related tax charge of \$1m (2013 \$nil, 2012 \$nil)	<b>11</b>	28	1
Losses relating to cash flow hedges reclassified to financial expenses			1
Exchange gains/(losses) on retranslation of foreign operations, net of related tax credit of \$1m (2013 \$2m, 2012 \$3m)	<b>42</b>	(35)	24
Exchange losses reclassified to profit on hotel disposal	<b>53</b>	46	26
		39	26
Items that will not be reclassified to profit or loss:			
Re-measurement (losses)/gains on defined benefit plans, net of related tax credit of \$7m (2013 charge of \$20m, 2012 credit of \$5m)	<b>(18)</b>	20	(10)
Tax related to pension contributions	<b>2</b>		18
	<b>(16)</b>	20	8
<b>Total other comprehensive income for the year</b>	<b>37</b>	59	34
<b>Total comprehensive income for the year</b>	<b>429</b>	433	572
Attributable to:			
Equity holders of the parent	<b>428</b>	433	571
Non-controlling interest	<b>1</b>		1
	<b>429</b>	433	572

Notes on pages 107 to 153 form an integral part of these Financial Statements.



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*Group Financial Statements continued***Group statement of changes in equity**

	Equity capital	Capital redemption reserve	Shares held by employee share trusts	Unrealised gains reserves	Currency translation losses reserve	Retained earnings	IHG share-holding equity	Non-controlling interest	Total equity	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>At 1 January 2014</b>	189	12	(38)	(2,906)	100	2,334	(82)	8	(74)	
<b>Profit for the year</b>						391	391	1	392	
<b>Other comprehensive income:</b>										
Items that may be subsequently reclassified to profit or loss:										
Gains on valuation of available-for-sale financial assets					11		11		11	
Exchange differences on retranslation of foreign operations					11	42	42		42	
						42	53		53	
Items that will not be reclassified to profit or loss:										
Re-measurement losses on defined benefit plans						(18)	(18)		(18)	
Tax related to pension contributions						2	2		2	
						(16)	(16)		(16)	
<b>Total other comprehensive income</b>					11	42	(16)	37	37	
<b>Total comprehensive income for the year</b>					11	42	375	428	1	429
Repurchase of shares						(110)	(110)		(110)	
Transaction costs relating to shareholder returns						(1)	(1)		(1)	
			(58)				(58)		(58)	



Purchase of own shares by employee share trusts										
Release of own shares by employee share trusts			60				(60)			
Equity-settled share-based cost							28	28		28
Tax related to share schemes							12	12		12
Equity dividends paid							(942)	(942)	(1)	(943)
Exchange adjustments	(11)		1	10						
<b>At 31 December 2014</b>	<b>178</b>	<b>12</b>	<b>(35)</b>	<b>(2,896)</b>	<b>111</b>	<b>269</b>	<b>1,636</b>	<b>(725)</b>	<b>8</b>	<b>(717)</b>

All items above are shown net of tax.

Notes on pages 107 to 153 form an integral part of these Financial Statements.

**Table of Contents****Group statement of changes in equity continued**

	Equity share capital	Capital exemption reserve	Shares held by employee share trusts	Unrealised gains and losses Other reserves	Currency translation reserve	Retained earnings	IHG share- holders equity	Non- controlling interest	Total equity	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>At 1 January 2013</b>	179	11	(48)	(2,901)	72	214	2,781	308	9	317
<b>Profit for the year</b>						372	372	372	2	374
<b>Other comprehensive income:</b>										
Items that may be subsequently reclassified to profit or loss:										
Gains on valuation of available-for-sale financial assets					28			28		28
Exchange differences on retranslation of foreign operations						(33)		(33)	(2)	(35)
Exchange losses reclassified to profit on hotel disposal						46		46		46
					28	13		41	(2)	39
Items that will not be reclassified to profit or loss:										
Re-measurement gains on defined benefit plans						20		20		20
						20		20		20
<b>Total other comprehensive income</b>					28	13	20	61	(2)	59
<b>Total comprehensive income for the year</b>					28	13	392	433		433
Issue of ordinary shares	5							5		5
Repurchase of shares						(283)		(283)		(283)
Purchase of own shares by employee share trusts			(53)					(53)		(53)
Release of own shares by employee share trusts			64			(61)		3		3

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Equity-settled share-based cost							27	27		27
Tax related to share schemes							11	11		11
Equity dividends paid							(533)	(533)	(1)	(534)
Exchange adjustments	5	1	(1)	(5)						
<b>At 31 December 2013</b>	189	12	(38)	(2,906)	100	227	2,334	(82)	8	(74)

All items above are shown net of tax.

Notes on pages 107 to 153 form an integral part of these Financial Statements.

**Table of Contents****IHG** Annual Report and Form 20-F 2014**Group Financial Statements** *continued***Group statement of changes in equity** *continued*

	Equity share capital	Capital redemption reserve	Shares held by employee share trusts	Unrealised gains and losses reserve	Currency translation reserve	Retained earnings	IHG share- holder equity	Non- controlling interest	Total equity	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>At 1 January 2012</b>	162	10	(27)	(2,893)	71	189	3,035	547	8	555
<b>Profit for the year</b>						537	537	537	1	538
<b>Other comprehensive income:</b>										
Items that may be subsequently reclassified to profit or loss:										
Gains on valuation of available-for-sale financial assets					1			1		1
Losses reclassified to financial expenses on cash flow hedges					1			1		1
Exchange differences on retranslation of foreign operations					(1)	25		24		24
					1	25		26		26
Items that will not be reclassified to profit or loss:										
Re-measurement losses on defined benefit plans						(10)		(10)		(10)
Tax related to pension contributions						18		18		18
						8		8		8
<b>Total other comprehensive income</b>					1	25	8	34		34
					1	25	545	571	1	572

**Total comprehensive  
income for the year**

Issue of ordinary shares	10	10
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