

INTERCONTINENTAL HOTELS GROUP PLC /NEW/
Form 20-F
February 28, 2019
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

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

or

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

For the fiscal year ended December 31, 2018

or

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

or

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

Commission file number: 1-10409

InterContinental Hotels Group PLC

(Exact name of registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

Broadwater Park,

Denham, Buckinghamshire UB9 5HR

(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares	New York Stock Exchange
Ordinary Shares of 19¹⁷/₂₁ pence each	New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares of 19¹⁷/₂₁ pence each	190,770,580
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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

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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, every Interactive Data File required to be submitted 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 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

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

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

Yes

No

(Applicable only to Issuers involved in bankruptcy proceedings during the past five years).

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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The Strategic Report on pages 2 to 51 was approved by the Board on 18 February 2019.

George Turner, Company Secretary

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Strategic Report

IHG at a glance

We are one of the world's leading hotel companies and our purpose is to provide True Hospitality for everyone. By recognising and respecting people and creating great guest experiences, we offer hotel brands that are loved by millions of guests and preferred by owners. Through our global reach we ensure True Hospitality also extends to our people, the environment and local communities all around the world.

With our asset-light business model, we predominantly manage and franchise hotel brands, and grow our business by ensuring we have the right offer for both guests and owners, whatever their needs. Focused on high-growth industry segments and geographies, our strategy involves strengthening our established brands and capitalising on opportunities for our brand portfolio; building and leveraging scale; developing lifetime guest relationships; and delivering revenue to our hotels through the lowest-cost direct channels. Underpinning our entire strategy, our business model and partnerships is a clear commitment to operating responsibly, brought to life through our culture and talented colleagues.



Central to our success are the relationships we have with our employees, guests, and third-party hotel owners. Our focus is on: ensuring our high-quality owner proposition is competitive; operating our business with a targeted allocation of resources; and disciplined processes and risk controls. This enables us to drive sustainable growth in our profitability and deliver superior shareholder returns over the long term.

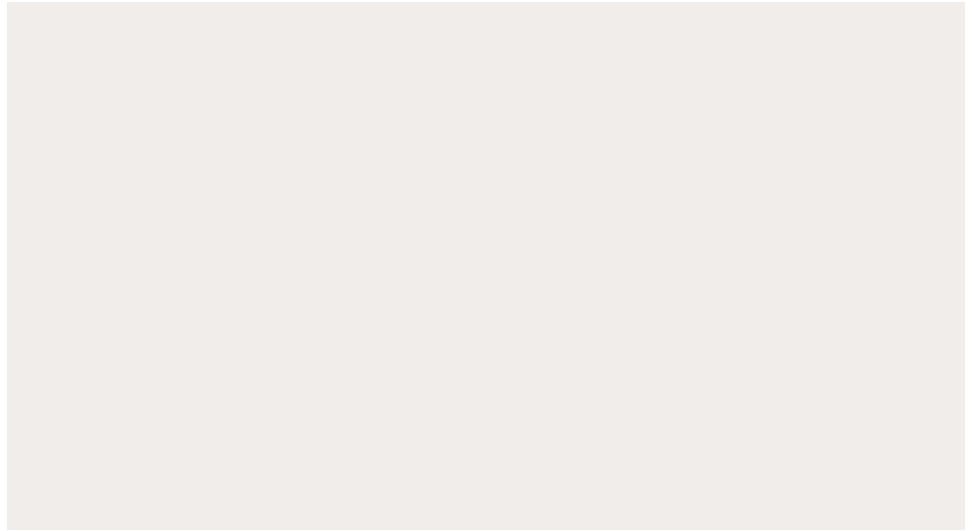


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Financial highlights

Total revenue

\$4,337m (+6.4%)

2017: \$4,075m^a

Revenue from reportable segments^b

\$1,933m (+11.7%)

2017: \$1,730m^a

Operating profit

\$566m (-22.3%)

2017: \$728m^a

Operating profit from reportable segments^b

\$816m (+7.7%)

2017: \$758m^a

Total gross revenue in IHG's System

\$27.4bn (+6.6%)

2017: \$25.7bn

Underlying fee revenue growth^b

+6.5%

2017: +4.7%^a

Total underlying operating profit growth^b

\$47m (+6.2%)

2017: \$56m^a

Revenue per available room (RevPAR) growth

+2.5%

2017: +2.7%

Our scale

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

Total hotels (rooms) in the IHG System

5,603

(836,541)

2017: 5,348 (798,075)

Franchised hotels (rooms)

4,615

(576,979)

2017: 4,433 (552,834)

Managed hotels (rooms)

965

(253,566)

2017: 903 (241,370)

Owned, leased and managed lease hotels (rooms)

23

(5,996)

2017: 12 (3,871)

Total hotels (rooms) in the pipeline

1,859

(270,948)

2017: 1,655 (244,146)

Where we operate

Group revenue from reportable

segments 2018 (\$1,933m)^b

Group operating profit from

reportable segments 2018 (\$816m)^b

Number of rooms (836,541)

^a restated to reflect the adoption of IFRS 15 (see pages 109 to 113) in the Financial Statements.

^b Use of Non-GAAP measures

In addition to performance measures directly observable in the Group Financial Statements (IFRS measures), additional financial measures (described as Non-GAAP) are presented that are used internally by management as key measures to assess performance. Non-GAAP measures are either not defined under IFRS or are adjusted IFRS figures. Further explanation in relation to these measures can be found on page 36, and reconciliations to IFRS figures, where they have been adjusted, are on pages 172 to 175.

Total underlying operating profit growth and underlying fee revenue growth are stated at constant currency.

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Strategic Report

Chair's statement

Final dividend

78.1¢

to be paid on 14 May 2019

(2017: 71.0¢)

Full-year dividend

Five-year progress (¢)

Return of funds

Since March 2003, the Group has returned over \$11 billion of funds to shareholders by way of special dividends, capital returns and share repurchase programmes.

Since 2014:

\$500 million special dividend paid 29 January 2019

\$400 million special dividend paid 22 May 2017

\$1.5 billion special dividend paid 23 May 2016

\$500 million share buyback completed in 2014

\$750 million special dividend paid 14 July 2014

entral to IHG's long-term success has been our commitment to evolve, adapt and innovate in order to keep improving, and in 2018 we took significant steps to strengthen the execution of our strategy and lay the foundations for faster growth.

Whilst the world's changing economic, political and societal landscape means we will always operate amid challenges from competing tensions of globalisation and nationalism, to climate change – the prospects for our industry remain strong. A growing global economy, expanding middle class, increasing disposable incomes and cheaper air travel all underpin exciting growth prospects. Ready to meet that demand is a heavily competitive marketplace vying to serve increasingly high consumer expectations around service, experience and technology.

At IHG, we are well placed to capitalise. Our successful asset-light strategy and focus on distinctive hotel brands that meet guest needs and deliver strong owner returns is a proven one. This is illustrated by our global scale, the millions of guests choosing our brands, the many long-standing owner relationships we have, and our respect within the investment community for delivering strong, consistent shareholder returns. However, as we operate in a landscape of increasing choice for consumers and investors, we continue to seek opportunities to execute our strategy in quicker, more targeted and effective ways.

This was the focus of 2018: introducing clear strategic initiatives that strengthen our brand portfolio and loyalty programme; our work with owners; how we use our scale, resources and technology to drive industry-leading net rooms growth over the medium term; and deliver our purpose of providing True Hospitality for everyone.

To enable these initiatives, we have made necessary large-scale functional, cultural and personnel changes that will transform our organisation and provide a stronger platform for future success. Encouragingly, whilst an acceleration in our growth rate is a long-term commitment, our best openings and signings performance in a decade, alongside strong financial results, shows we are already having an impact.

Focus on growth

As a Board, we want to ensure that a focus on accelerated growth adheres to the high-quality principles we uphold as a business. This means maintaining our discipline, committing resources in keeping with our strategic direction, and working with owners who share our values. Operating in this responsible way is central to IHG's long-term track record of delivering high-quality, sustainable growth for all our stakeholders.

A key role of the Board is to challenge and support the business in its corporate decision making, and we have a breadth of diversity, skills and experience to draw upon in order to add value to the decisions we make as a company. We strongly believe that different perspectives enrich a business and we recognise the importance of gender balance too, with more than a third of our Board being female and half of our committees chaired by women.

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Our focus in 2018 has been strengthening the execution of our strategy, and laying the foundation for faster growth .

In addition to collaborating as a Board with senior leadership on the implementation of organisational changes in 2018, significant moves to strengthen our brand portfolio were also on the agenda, with the \$39 million acquisition of a 51% stake in Regent Hotels & Resorts in July, and an agreement to rebrand and operate a collection of high-quality properties in the UK. Both deals, and our recent acquisition of Six Senses Hotels Resorts Spas, illustrate IHG's commitment to strengthening our luxury presence.

In what was his first full year as Chief Executive Officer, Keith Barr has shown a great ability to lead the business and engage external stakeholders during a significant period of change. On behalf of the Board, I would like to congratulate Keith and his leadership team on injecting a fresh energy into IHG, and a renewed focus on working collectively at speed to drive growth through attractive brands and strong owner support. Illustrative of IHG's inclusive approach is a commitment to launch a share plan for corporate colleagues outside of IHG's senior leadership. The plan, which is subject to shareholder and regulatory approval, recognises the role that all corporate colleagues play in IHG's success and our promise to ensure they have the opportunity to benefit as our Company grows.

Managing risk

Operating a business in more than 100 countries requires a considered and agile approach to managing risks associated with our industry and evolving business model, actively taking opportunities to pursue growth and managing risks carefully where we have less tolerance for uncertainty. Reflecting this and the Board's responsibility to uphold the highest ethical standards and corporate governance, we regularly review areas for improvement, training and development.

In 2018, the Board attended presentations on key corporate governance, consumer, technology and cybersecurity themes, and spent time reviewing opportunities to further increase transparency and enhance IHG's trusted reputation through changes related to the 2018 UK Corporate Governance Code.

On cybersecurity in particular, an external risk assessment was undertaken, which focused on industry specific issues, our current capabilities, recent progress and a forward-looking plan that will remain in focus in 2019.

It's important to remember that our scale also brings many opportunities. Not only does it allow us to manage volatility and continue to grow our business, but it also provides a valuable platform to care for the environment and give back to local communities within which we operate. This is extremely important to IHG. Contributing to a broader social

purpose is something our colleagues are passionate about, and we know the actions we take are increasingly followed by a wider range of stakeholders, from guests and corporate clients to investors.

We're proud of our commitments in this area, and whether it's by helping hotels better manage their carbon footprint, creating a chance to build a career in hospitality, or offering support in times of disaster, it's important to everyone at IHG that we help.

Shareholder returns

I am pleased to announce that the Board is recommending a final dividend of 78.1 cents per ordinary share, an increase of 10% on the final dividend for 2017. This results in a full-year dividend of 114.4 cents per share, up 10% on 2017. During the year, the Board also approved a \$500 million special dividend with share consolidation, which was paid to shareholders in January 2019. This takes the total funds returned to shareholders since 2003 to \$13.6 billion, representing value through both our programme of asset sales (which concluded in 2015), and the strength of our cash generative business model and ability to drive organic growth.

We continue to grow our business in a way that ensures shareholder returns do not come at the expense of other stakeholders. Guided by our successful strategy, we're able to invest in initiatives that drive growth, create a rewarding culture for our colleagues, and deliver strong returns for owners, all whilst delivering on our commitments to shareholders. As a Board, we will continue in 2019 to promote and instill the culture, values, systems and controls that make this possible.

I would like to sincerely thank all colleagues for their hard work and commitment to IHG and our brands in 2018, and our owners and investors for their continued confidence in our business.

Patrick Cescau

Chair

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Strategic Report

Chief Executive Officer's review

Key 2018 highlights

Total room signings

98,814

The highest number in a decade

New brands

2

Regent Hotels & Resorts and voco added to brand portfolio

Total room openings

56,343

The highest number in a decade

IHG Concerto

5,603

Global roll out to all hotels

In almost two decades spent with IHG, I have seen the Company reach many milestones, but the pace and scale of achievements delivered in 2018 mark a period of important change, and an ambition to ensure our already successful business is best

equipped to reach its enormous potential.

As one of the world's leading hotel companies, we already have a family of much-loved brands, a strong loyalty proposition, outstanding hotels, talented teams, and long-standing owner relationships in key markets globally. These elements are the foundation upon which we have executed a clear and effective strategy, helping to significantly grow our business in recent years and create substantial returns for all our stakeholders.

When I became Chief Executive Officer in July 2017, it was with a clear vision to make our strategy work harder, by strengthening our brands, guest experiences and owner proposition. Enabling these are reorganised functions, freed-up capacity and a sharp focus on prioritised initiatives that together will further increase our competitiveness and accelerate our growth, adding more high-quality hotels to our system at a faster pace.

As a result, there has been change within our business in 2018, and it is a real testament to all our colleagues that we made such huge progress, whilst still driving strong operational and financial performance.

Accelerating our growth

As of January 2018, we combined our Asia, Middle East and Africa operating region with Europe, in order to allow us to better use our scale, share best practice, and increase investment in specific markets.

More broadly, we moved to a new organisational structure that allows us to work faster and more effectively as one global team. Two changes formed a key part of this work. Firstly, the integration of our Commercial and Technology functions to help maximise revenue delivery and bring new products and services to market faster. Secondly, the creation of a new Global Marketing Organisation which combines our brand, loyalty and marketing capabilities. This change puts our full might behind new global teams responsible for driving the growth and performance of our mainstream, upscale and luxury brands.

Using our new organisational framework, we outlined a series of strategic growth initiatives in February 2018, funded by a reinvestment of \$125 million in annual cost savings by 2020. These initiatives focus on optimising our brand portfolio; enhancing hotel revenue delivery through digital and technological innovation that enriches the guest experience; improving our owner proposition across development, hotel openings and performance; and strengthening our IHG Rewards Club loyalty programme through personalisation and powerful partnerships.

Financial performance

While our initiatives are multi-year focused, significant progress in 2018, supported by new ways of working, contributed to a strong annual performance. We delivered a 6% increase in underlying operating profit and our best performance for openings and signings in a decade, leaving us well positioned for future growth.

Our Holiday Inn® Brand Family remains IHG's growth engine, and represented almost half of total signings in 2018. Driving this demand is our continued use of consumer and owner

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insights to improve experiences and returns through new designs and services. Equally, the work we are doing to strengthen Crowne Plaza in the Americas through our Accelerate programme is also driving improvements in key hotel metrics.

Another key highlight in 2018 was the growth of Kimpton Hotels & Restaurants, where we doubled signings year-on-year, and secured a presence in 14 countries, including locations in London, Bangkok, Tokyo and Mexico City. Equally impressive was the continued phenomenal demand for our newest mainstream brand, avid hotels, which has 171 hotels in the pipeline and one property already open. On top of that we celebrated openings of our 200th InterContinental, and 100th Hotel Indigo.

To help accelerate our growth, we've been clear that we will capitalise on opportunities for our portfolio too, and the acquisition of a majority stake in Regent Hotels & Resorts was a key moment. Regent is a well-respected brand at the top tier of luxury, where we know many owners want to work with IHG. We have repositioned the brand to appeal to modern luxury travellers, and we are excited about the prospect of growing its portfolio from six hotels to more than 40 in the years ahead.

sit at the very top tier of our luxury offer, and our plans to launch a new all-suites upper midscale brand into the US later this year.

Transformational technology

As well as the right brands, guests and owners want the right technology, and the global rollout in 2018 of IHG Concerto was a significant milestone.

This cloud-based technology platform, which includes our industry-leading Guest Reservation System, allows us to bring together all our core hotel systems, providing the right mix of technology, data and functionality needed to improve stay experiences and help owners drive revenue and performance. In 2019, we will develop a second phase focused on enhancing the reservation experience, with hotels able to highlight attributes they know guests value, from a particular room size to specific views.

Ensuring we offer the right platforms and experiences to deliver revenue to our hotels is crucial to our business. Digital revenue, which is our lowest cost booking channel, grew by 13% in 2018 to \$5.3 billion. Ensuring we find more ways to enrich everything from bookings to stays and marketing, whilst placing the utmost importance on data privacy and security, remains a significant priority for IHG.

Supported by our people,
strategic initiatives and positive
industry trends, we are confident
in our prospects.

We also launched our new upscale brand, voco, which offers a different avenue of growth for IHG and is already attracting strong interest. The brand will principally focus on conversion opportunities and work with owners of high-quality hotels looking to quickly take advantage of a strong brand and systems to drive growth. We've already opened two hotels and have another eight in the pipeline.

Supporting growth of both our Kimpton and voco brands was the deal in May to rebrand and operate a collection of UK portfolio properties – an agreement which made IHG the leading luxury hotel operator in that market.

Continuing this momentum, in February 2019 we announced the \$300 million acquisition of Six Senses Hotels Resorts Spas, which will

Special culture

The scale of change achieved alongside our performance has not been without challenges but as I have travelled around our business, the enthusiasm of colleagues to embrace change encapsulates IHG's special culture, and we continue to focus heavily on keeping people informed and supported.

We are proud to have been recognised as a 2018 Aon Global Best Employer for a second consecutive year, and listed in the 2018 Hampton Alexander Review as one of the top 10 FTSE 100 companies for female representation across our Executive Committee and direct reports. We place huge importance on our diverse and inclusive culture; and several initiatives led by a newly formed Global D&I Board, which I chair, will ensure further progress.

For any company, having the right strategy, structure and growth initiatives in place is of course crucial, but we recognise that ensuring we grow in a responsible way is equally important. Embedded in our business are a range of standards, policies and programmes that engender the right culture among our hotels, offices and suppliers, and helps us have a positive impact on the environment and local communities within which we operate.

Ensuring this is achieved across our operations, we embarked on 2018-2020 Responsible Business Targets during the year, which broadens our focus to areas of environmental sustainability, community impact, our people and procurement. This ranges from providing hospitality skills training to thousands through our IHG® Academy, to helping our hotels reduce their carbon footprint and increasing the diversity of our senior leadership.

Supporting our targets around community impact, we also launched our new True Hospitality for Good programme, which gives colleagues greater involvement in the IHG charity partners they wish to support, and puts more focus on volunteering for great causes. Almost 140,000 colleagues took part in the programme in 2018, helping support charities working to offer education and skills in hospitality, or providing disaster relief efforts globally.

We were delighted to be named an industry leader in sustainability for a second consecutive year on the S&P Dow Jones Sustainability Indices, and more broadly to receive several notable awards that show the progress we continue to make as a business. These include HICAP's Merger and Acquisition of the year award for our Regent deal, and

InterContinental Hotels & Resorts being named the world's leading hotel brand at the World Travel Awards for the 12th time.

Thank you

I truly appreciate the amazing work and efforts of all of our colleagues in our hotels, corporate offices, and service centres globally. The energy and passion that they have put into delivering our purpose of providing True Hospitality is extraordinary. Thank you also to our owners for their partnership and confidence in our brands.

Supported by our people, strategic initiatives and positive industry trends, our prospects for growth are strong and we look forward to 2019 with optimism.

Keith Barr

Chief Executive Officer

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Industry overview

IHG |

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Trends shaping our industry

Demand for branded experiences

Growing consumer demand for branded experiences requires hotel companies to continue to find new ways to work with owners and partners to meet expectations.

Owners recognise the strength of a branded offer, and in addition to traditional opportunities, are looking for ways to affiliate with a brand through light-touch conversions or low-cost construction techniques, combined with features that reduce operating costs. The recent addition of multiple new brands by big-branded players illustrates the level of capacity in the market and industry appetite.

Over the last decade, IHG has added our wellness focus brand, EVEN Hotels, a brand tailored to the Chinese consumer, HUALUXE, and following acquisition, expanded Kimpton in the global luxury space. We have also launched avid hotels in

Diverse consumer needs

The consumer landscape continues to evolve from millennials seeking increasingly unique and authentic experiences, to baby boomers with money and time to travel, both of whom increasingly expect technology to aid, inform and enrich their stays.

From intuitive booking apps, chatbots, and mobile check-in/check-out, to smart artificial intelligence assistants and seamless wifi, today's guests expect technology to be integrated into many areas of the travel experience. To meet this trend, the ability of hotel companies to work in partnership with the right technology providers has become increasingly important.

IHG has made good progress in this area: from bespoke online payment solutions to Artificial Intelligence Smart Rooms in some of our InterContinental hotels,

Power of the cloud

Data generation, storage and use has never been as prevalent and important as it is today. Cloud storage has further changed the game, giving accommodation providers easy access to real-time diverse data, that enables a more personalised and efficient service.

Operationally it allows providers to use data to tailor guest experiences faster, and drive a more personalised relationship with them. With this trend comes a growing responsibility to handle data responsibly, respecting consumer preferences and rights.

IHG is a pioneer in data-centric technology innovation, from loyalty to reservations and hotel solutions. See IHG Concerto case study on page 21 for more details.

the mainstream segment, upscale brand voco, which is principally focused on conversions, and acquired both Regent and Six Senses Hotels Resorts Spas in the top tier of the luxury segment. This reflects a continued strategic focus on offering more tailored experiences to a diverse guest base in the highest opportunity segments and markets.

which allows guests to use voice commands to control opening the curtains through to ordering room service; and the development of IHG Studio with our avid brand, which allows seamless direct casting of entertainment from guest smart devices to in-room TVs.

IHG

Strategic Report | Industry overview

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Strategic Report

Our brands

In 2018, we evolved our marketing function to adopt a comprehensive global approach to marketing and brand development activities. This included organising our brands into mainstream, upscale and luxury segments, in order to maximise efficiencies, better focus resources and drive performance.

With a purpose to provide True Hospitality for everyone at our core, the changes we have made leave us better equipped to keep our existing brands fresh and relevant, and to broaden our portfolio as we create the optimum mix of options for both our guests and owners.

Alongside a strong loyalty proposition, innovation and technology, and enhanced operational solutions for our owners, we are providing the foundations for industry-leading net rooms growth over the medium term. Reflecting the early impact of our changes, we delivered our best openings and signings performance in a decade in 2018.

Mainstream

IHG is the clear global leader within the mainstream segment, with 16% of existing global market share by rooms and 25% of the pipeline. Our mainstream brands operate across the midscale and upper midscale market segments, from full service hotels offering full-service facilities, to extended stay hotels which offer longer term accommodation compared to a traditional hotel. We are focused on enhancing our iconic brands, launching fast-growing new ones and expanding an already strong presence in extended stay.

Building on our mainstream strength, in February 2019 we announced plans to launch into the US a new all-suites upper midscale brand, targeted at an underserved \$18 billion industry segment.

**Annual industry
global segment
revenue**
\$115bn

**Industry revenue
growth potential
to 2025**
\$65bn

Holiday Inn Hotels & Resorts®

One of the world's most iconic and trusted brands, Holiday Inn is delivering warm and welcoming experiences for guests staying for business or pleasure. With a breadth of property types from urban centres to beach resorts, the brand continues to drive demand with a focus on service, improved guest room and public area designs, and new food and beverage offers.

1,224

288

Open hotels

Pipeline hotels

Holiday Inn Express®

Our Holiday Inn Express brand offers guests simpler, smarter travel experiences. Demand for our industry's largest brand by rooms continues to grow, helped by new guest room designs and an enhanced breakfast offer that are leading to greater satisfaction scores. In China, the brand's tailored franchise model has contributed to record growth in 2018, with 71 hotels signed.

2,726

784

Open hotels

Pipeline hotels

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Holiday Inn Club Vacations®

More than 340,000 families now make our Holiday Inn Club Vacations brand their choice for vacation ownership. Continuing its impressive growth, the brand welcomed its 27th resort in 2018, further enhanced brand standards, renovated more than 1,000 villas, and introduced attractive benefits to enhance the member experience.

27

0

Open hotels

Pipeline hotels

Candlewood Suites®

Our US-focused extended stay brand, Candlewood Suites, continues to delight its long-term guests, and was named 2018's number one hotel for midscale extended stay by Business Travel News. The brand has more than tripled in size since it was acquired by IHG in 2004 and continues to grow strongly, with a new 2019 hotel design expected to add further momentum.

396

102

Open hotels

Pipeline hotels

Staybridge Suites®

Featuring thoughtful amenities and spacious suites that provide a break from the norms of conventional travel, our extended stay brand Staybridge Suites was ranked first in its class for guest satisfaction in 2018's J.D. Power survey for North America. Growing strongly in the US and expanding internationally, the brand will benefit from fresh new hotel designs rolling out globally.

276

Open hotels

182

Pipeline hotels

avid hotels

Launched in September 2017, our avid brand has enjoyed huge success, with signings in the US, Canada and Mexico, a development agreement in Germany, and one hotel already open. Priced below Holiday Inn Express, avid delivers the essentials exceptionally well at good value for guests, and provides owners with an attractive brand that's efficient to build, operate and maintain.

1

Open hotels

171

Pipeline hotels

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Strategic Report

Our brands continued

Upscale

In a broad market segment, we continue to focus on ensuring we offer attractive brands that deliver distinct experiences from business travel to wellness-focused stays.

Improved service and modern designs will further enhance our existing brands as we grow them globally, and we are creating new opportunities for owners to quickly take advantage of our scale, systems and expertise.

**Annual industry
global segment
revenue**
\$40bn

**Industry revenue
growth potential
to 2025**
\$20bn

Crowne Plaza® Hotels & Resorts

Our Crowne Plaza brand champions a modern way of business travel through distinctive stay and meeting experiences. Recognised for award-winning innovative designs and marketing, the brand is focused on growing its small-to-mid-size meetings offer and rolling out key service and Sleep Advantage programmes that are helping deliver superior guest stays.

429

79

Open hotels

Pipeline hotels

voco Hotels

Launched in June 2018, our new distinctive upscale brand primarily focuses on conversion opportunities, offering owners of high-quality unbranded hotels the ability to combine the character of an individual property with rich guest experiences and IHG systems. Our first voco hotels are already open in Cardiff and on Australia’s Gold Coast, with signings ahead of expectations.

2

8

Open hotels

Pipeline hotels

HUALUXE® Hotels and Resorts

The first upscale international hotel brand designed for Chinese guests, we've adapted and evolved HUALUXE using consumer and owner insight to deliver a more competitive offer. Receiving awards for best business hotel brand, HUALUXE is driving strong guest satisfaction scores, and will welcome two iconic new openings in 2019 HUALUXE Xi'an Hi-tech Zone and HUALUXE Xi'an Tanghua.

8

21

Open hotels

Pipeline hotels

EVEN® Hotels

With every square-foot of an EVEN property designed for travellers seeking a healthier and happier stay when away from home, our wellness-focused brand is meeting an increasing demand from guests and owners. Predominantly US-based, we are expanding internationally with pipeline properties in both Greater China and New Zealand.

10

18

Open hotels

Pipeline hotels

Hotel Indigo®

Already one of the largest global boutique hotel brands by number of hotels, we celebrated our 100th hotel opening in 2018 and our estate is set to almost double in size in the next five years. Serving growing demand for authentic local neighbourhood experiences, we are increasing guest satisfaction scores and seeing new hotel signings reach record levels.

102

92

Open hotels

Pipeline hotels

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Luxury

With a strong heritage and expertise in luxury, we are growing our offer to ensure we cater for a range of needs in desirable destinations, from the top tier of the luxury segment through to boutique luxury. In February 2019, we further enhanced our offer with a \$300 million acquisition of top tier luxury operator Six Senses Hotels Resorts Spas. A comprehensive luxury proposition strengthens our loyalty offer, attracts more corporate customers and creates a broader owner base to work with.

**Annual industry
global segment
revenue**
\$60bn

**Industry revenue
growth potential
to 2025**
\$35bn

Regent Hotels & Resorts

Our acquisition of a majority stake in the Regent brand in July 2018 gives IHG a vital presence in the top tier of luxury. For decades a benchmark for the top tier of luxury hotels, we see potential to grow the brand to more than 40 key destinations – creating a luxury halo for our entire estate. With new hallmarks, designs and service, we have evolved the brand for modern luxury travellers.

6

3

Open hotels

Pipeline hotels

InterContinental® Hotels & Resorts

The world's first and largest luxury hotel brand celebrated its 200th opening in 2018, with new hotels including Shanghai Wonderland and San Diego, and was named the world's leading hotel brand at the World Travel Awards for a 12th time. An enhanced Club InterContinental experience, global marketing campaign, new designs and luxury B2B focus are helping drive demand.

204

Open hotels

60

Pipeline hotels

Kimpton® Hotels & Restaurants

Known in the US for its highly-personal service and playful design, our Kimpton brand is now attracting strong interest in key international markets. We finished 2018 having secured a presence in 14 countries, including openings in Toronto and London and signings in Barcelona, Tokyo and Bangkok. The brand also ranked 6th on Fortune's 100 Best Companies to Work For list.

66

Open hotels

27

Pipeline hotels

For more information on our

brand portfolio see page 21.

Loyalty

One of the industry's leading loyalty programmes, IHG Rewards Club is our way of ensuring that travel is experienced the way it should be: personal, simple and rewarding.

IHG® Rewards Club

IHG Rewards Club helps build valuable relationships with members, strengthens their bond with our hotel brands, drives direct bookings, and encourages guests to further explore our hotel portfolio. It allows us to create experiences that truly reward guests for their custom, from promotions to partnerships, to welcome amenities and perks. We're focused on making those experiences even better.

In 2018, we launched two new US IHG Rewards Club co-branded credit cards, allowing customers to earn accelerated rewards and enjoy additional travel benefits. We also integrated Kimpton's loyalty programme, Kimpton Karma, into IHG Rewards Club, giving Kimpton members access to all IHG's brands, and IHG Rewards Club members a chance to earn points and redeem Reward Nights at our Kimpton properties.

We continue to innovate IHG Rewards Club to build stronger and deeper relationships with our guests, and to drive high value revenue across our hotel estate. Loyalty members are seven times more likely to book direct, and over the last four years we have increased loyalty room revenue contribution by 4%ppts to 43%. We are currently testing new features designed to increase member engagement with variable point pricing, for roll out during 2019.

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Strategic Report

Our business model

Through our business model, we predominantly franchise our brands and manage hotels on behalf of third-party hotel owners.

As an asset-light business, we focus on growing our fee revenues and fee margins, with limited requirements for capital.

Our asset-light strategy enables us to grow our business whilst generating high returns on invested capital.

Whether we franchise or manage hotels is largely dependent on market maturity, owner preference and, in certain cases, the particular brand. For instance, in more developed markets such as the US and Europe, over 90% of IHG hotels are franchised. By contrast, in emerging markets such as Greater China, 91% of IHG hotels are managed by IHG.

Over time, we believe the Chinese market will move towards a franchised model. We successfully launched the first tailored franchised offer for Holiday Inn Express in 2016 and have since expanded this to include Holiday Inn and Crowne Plaza.

IHG's owner proposition

We focus on ensuring our brand portfolio provides a differentiated offering for both guests and owners, and we continue to invest in building a superior owner proposition. For our owners we have developed state-of-the-art technology to drive hotel demand, be it through our mobile booking app, or our cloud-based hotel solutions. Our distribution channels (call centres and booking sites, through which hotel rooms are marketed and booked), allow hotel owners to reach potential guests at a lower cost. Over the last three years, the proportion of rooms revenue booked through IHG's direct and indirect channels, has been steadily increasing. For guests, we ensure different brands deliver on their expectations, and we continually look to enhance our brand proposition and our IHG Rewards Club loyalty programme.

For further information on

our brands see pages 10 to 13.

While our business model means that we do not employ colleagues in franchised hotels nor do we control their day-to-day operations, policies or procedures, IHG and its franchised hotels are committed to delivering a consistent brand experience, conducting business responsibly, and delivering True Hospitality. See pages 22 to 25 for more information.

How we generate revenue and deliver value

Revenue from reportable segments

Our revenue is directly linked to the revenue generated by the hotels in our system.

Franchised

576,979

rooms

Central

Revenue is principally technology fee income,

(see page 49)

Managed

253,566

rooms

Owned, leased and managed lease

5,996

rooms

Franchised hotels

From our franchised hotels we receive a fixed percentage of the room revenue following a guest staying at the hotel. This is our fee revenue. We deliver value to our hotel owners through cultivation of hotel brands, economies of scale, access to

shared systems and resources, guest demand across the brand estate and centralised marketing activity to drive hotel guest bookings.

Managed hotels

From our managed hotels we generate revenue through a fixed percentage of the total hotel revenue and a proportion of the hotel's profit. As well as the benefits we deliver through our franchise model, we drive value to our managed hotel owners by optimising the performance of their hotels.

Owned, leased and managed lease hotels

For hotels which we own or lease, we record the entire revenue and profit of the hotel in our financial statements. Our owned, leased and managed lease hotels have reduced from over 180 hotels 17 years ago, to 23 hotels at 31 December 2018.

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IHG revenue from reportable segments and the System Fund

System Fund

IHG manages a System Fund on behalf of our third-party hotel owners, who pay a contribution into it. In addition, the System Fund also receives proceeds from the sale of IHG Rewards Club points. The System Fund is managed by IHG for the benefit of hotels within the IHG system, and is run at no profit or loss over the long-term. In 2018 IHG recognised \$1.2 billion of revenue in the System Fund. Key elements of System Fund expenditure included marketing and sales activity, technology investments including our Guest Reservation System and our IHG Rewards Club loyalty programme.

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Strategic Report

Our business model continued

Disciplined approach to capital allocation

Our asset-light business model is highly cash generative and enables us to invest in our brands. We have a disciplined approach to capital allocation ensuring that the business is appropriately invested in whilst maintaining an efficient balance sheet.

Beyond this, we look to return surplus cash to shareholders through ordinary and special dividends and share buybacks.

Our priorities for the uses of cash are consistent with previous years and comprise of:

Our objective is to maintain an investment grade credit rating. One of the measures we use to monitor this is net debt:EBITDA and we aim for a ratio of 2.0-2.5x. The ratio at 31 December 2018 was 1.7x. Following the adoption of IFRS 16 Leases (see page 115), from 1 January 2019 we will aim to maintain a net debt:EBITDA ratio of 2.5-3.0x, which is equivalent to our guidance under the previous accounting standard.

Final dividend

The Board has proposed a final dividend per ordinary share of 78.1¢. With the interim dividend per ordinary share of 36.3¢, the full-year dividend per ordinary share for 2018 will total 114.4¢.

1. Invest in
the business

Through strategic investments and our day-to-day capital expenditures we continue to drive growth.
2. Maintain sustainable growth in the ordinary dividend

IHG has a progressive dividend policy which means we look to grow the dividend per ordinary share each year.
3. Return
surplus funds

In October 2018, we announced a \$500m capital return to shareholders via a special dividend and share consolidation. The special dividend was paid on 29 January 2019.

Capital investments net (\$m)

Ordinary dividend progression (¢)

Shareholder returns 2003-18 (\$bn)

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Dividend policy

The Board constantly reviews the Group's approach to capital allocation and seeks to maintain an efficient balance sheet and investment grade credit rating. IHG has a progressive dividend policy and excellent track record of returning funds to shareholders through ordinary

and special dividends, and share buybacks, with the ordinary dividend seeing 11% CAGR since 2003. This is in addition to special returns of funds detailed on page 198.

When reviewing dividend recommendations, the Directors also take into account

stakeholder interests, the long-term sustainable success of the Company and ensure that there are sufficient, distributable reserves.

For more details on our dividend policy

and approach, see pages 4 and 50.

IHG's outlook on capital expenditure

Capital expenditure incurred by IHG can be summarised as follows.

Type	What is it?	Recent examples
Maintenance capital expenditure, key money and selective investment to access strategic growth.	<p>Maintenance capital expenditure is devoted to the maintenance of our owned, leased and managed lease hotels, which has reduced as we have become increasingly asset-light.</p> <p>Key money is expenditure used to access strategic opportunities, particularly in high-quality and sought-after locations when returns are financially and/or strategically attractive.</p>	<p>Examples of maintenance spend includes maintenance of our offices, systems and our owned, leased and managed lease hotels.</p> <p>Examples of key money include investments to secure representation for our brands in prime city locations.</p>
Recyclable investments to drive the growth of our brands and our expansion in priority markets.	<p>Recyclable investments is capital used to acquire real estate or investment through joint ventures or equity capital. This expenditure is strategic to help build brand presence.</p> <p>Over time, we would look to divest these investments at an appropriate time and reinvest the proceeds elsewhere across the business.</p>	<p>Examples of recent recyclable investments in prior years include our EVEN Hotel brand, where we used our capital to build three hotel properties in the US and established a joint venture in a third to showcase the brand. Over time we expect to divest our interest in these hotels.</p>
System Fund capital investments for strategic investment to drive growth at hotel level.	<p>The development of tools and systems that hotels use to drive performance. This is charged back to the System Fund over the life of the asset.</p>	<p>Recently we rolled out our new pioneering cloud-based Guest Reservation System, one of IHG Concerto's comprehensive set of capabilities, which we developed with Amadeus.</p>

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Strategic Report

Our strategy for high-quality growth

We have a clearly defined strategy designed to drive superior shareholder returns.

Our focus is on delivering high-quality growth, which means consistent, sustained growth in cash flows and profits over the long-term. The execution of our strategy is underpinned by a strong culture, talented people and a commitment to the environment and our stakeholders.

Overview of strategy

Our Strategic Model focuses on value-creation by building preferred brands, delivering a superior owner proposition, strengthening our loyalty programme, leveraging scale and generating revenue through the lowest-cost direct channels. Our targeted portfolio, together with disciplined execution of our strategy and a commitment to doing business responsibly, are designed to achieve industry-leading net rooms growth over the medium term.

Whilst executing our strategy we target the most attractive markets and segments, prioritising our resources and investments based on growth potential, strategic importance and IHG's ability to build scale. This reflects our ambition to accelerate our growth trajectory and build on our strong global competitive position. Our brands operate in the mainstream, upscale and luxury segments which in our view are the highest opportunity segments based on guest needs. In addition, we focus on key countries and cities in markets where there is high growth potential, and look to invest ahead of demand.

Our strategy is executed through a strong set of values, business behaviours and talented people.

Our strategy should be read together with
our culture, key stakeholders and doing
business responsibly (pages 22 to 25),
and our principal risks and uncertainties

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(pages 26 to 30).

For further information on our strategy,

go to www.ihgplc.com/about-us under

Our strategy.

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Strategic Model

Since becoming a stand-alone company 16 years ago our Strategic Model has delivered superior shareholder returns. Our ambition is to accelerate our growth further, delivering industry-leading net rooms growth over the medium term, whilst doing business responsibly and delivering True Hospitality for all.

The individual components of IHG's Strategic Model are at the heart of our success and continue to align our organisation to focus on the most important strategic initiatives and deliver our commitment to True Hospitality. This approach helps us create value for our stakeholders and deliver high-quality growth for our shareholders.

**Build and
leverage scale**

Scale provides significant advantages in the hospitality industry at both global and national level. IHG uses the breadth of its portfolio, combined with our depth in attractive markets and focus on the highest opportunity segments, to drive significant efficiencies, leading to increased operating leverage and ultimately higher margins.

We achieved 4.8% net system size growth in 2018.

In 2018 signings grew by 18% to 98,814 rooms, the highest in a decade.

We have built a strategic position in Greater China with a domestic business that has continued to outperform the market.

For further information see our accelerating our growth case study

on page 20.

Strengthen loyalty programme

Having an attractive, differentiated loyalty offering tailored to our guests' needs is critical to IHG's continuing success. We are continually innovating IHG Rewards Club to build lifetime relationships with our guests. This creates a sustainable long-term revenue source and transforms previously unaffiliated travellers into powerful advocates for our brands.

Over the past four years we have increased our loyalty contribution by 4%ppts to 43%.

For further information on loyalty and IHG Rewards Club see page 13.

Enhance revenue delivery

By striving to drive business through our direct channels, IHG maximises returns for our owners, as these channels are less costly than alternatives such as third-party intermediaries.

13% growth in room revenues delivered through digital (web and mobile) channels to \$5.3bn.

Successful roll out of IHG Concerto, including the Guest Reservation System.

Digital and technological innovation, alongside strong brands and compelling loyalty, is key in ensuring IHG continues to manage revenue delivery effectively.

For further information on IHG Concerto see page 21.

Evolve owner proposition

Within our asset-light business model, maintaining positive relationships with long-standing owners and constantly forging new owner relationships is vital for IHG. Our outstanding operational support, preferred brands, industry-leading franchise offer and continued investment in

We invest in our hotel lifecycle capabilities, providing strong support for our owners from signing to opening a hotel, to future refurbishments.

For further information on how we evolve our owner proposition see our

innovation delivers a compelling owner proposition and strong returns.

accelerating our growth case study on page 20.

Optimise our preferred portfolio of brands for owners and guests

As competition intensifies, distribution channels proliferate and consumers become more demanding, actively building a strong portfolio of distinctive, preferred brands for both our owners and guests is fundamental to IHG's success and future growth.

We have successfully launched two new brands, avid and voco, during the last two years, and acquired Regent Hotels.

Continuing this momentum, in February 2019 we announced the \$300 million acquisition of Six Senses Hotels Resorts Spas, which will sit at the top tier of our luxury offer, and our plans to launch a new all-suites upper midscale brand into the US later this year.

For further information on our brands

see pages 10 to 13.

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Our Strategic Model in action

Accelerating our growth

**Strengthen loyalty
programme**

Build and leverage scale

Enhance revenue delivery

Evolve owner proposition

**Optimise our preferred
portfolio of brands for
owners and guests**

IHG

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IHG Concerto

IHG Concerto provides our hotels with the most sophisticated cloud-based technology platform in the industry.

A pivotal point in IHG's ambitious technology roadmap, the global roll out of IHG Concerto was completed in 2018, with additional functionality set to be introduced in a phased launch later in 2019.

IHG Concerto brings together a comprehensive set of capabilities, including IHG's industry-leading Guest Reservation System and an enhanced Revenue Management System, into one single, seamless hotel management tool. In 2018, hotel feedback has been overwhelmingly positive with regards to the simplicity and ease of navigation of the new system, the modern intuitive interface, and the ease of the General Manager's dashboard, which enables them to better manage a hotel's performance.

As IHG Concerto enters the next phase of its development and we continue to evolve our industry-leading Guest Reservation System, we will deliver an even richer guest experience, with better presented content and attributes that guests value, such as views and room sizes, highlighted for ease.

IHG Concerto adding value:

Thanks to a more efficient management system, hotel colleagues have more time to deliver richer experiences to guests;

Owners benefit from smarter revenue management tools; and

In the future, guests will be able to customise their stay based on features they find important – made possible by new ways of classifying and selling room inventory.

5,603 hotels

Global roll out of IHG Concerto

to all hotels

For further information about

our Brands see pages 10 to 13.

Enhancing our brand portfolio

IHG's continued success relies on ensuring our existing brands remain fresh and relevant to changing guest and owner needs, and that we add new brands in areas of high demand.

We made significant progress in 2018, including:

Continued roll out of new room and public space designs and service enhancements for our Holiday Inn and Holiday Inn Express brands.

Extending our franchise offer in Greater China to our Holiday Inn and Crowne Plaza brands, following the rapid success of our tailored Holiday Inn Express Franchise Plus model.

Continued international expansion of Kimpton Hotels & Restaurants in key destinations including Tokyo, Barcelona, Frankfurt and London.

Agreement to rebrand and operate a collection of UK portfolio properties – a deal which made IHG the UK's leading luxury hotel operator.

In mainstream: our first avid property is open in Oklahoma, US; we have 171 properties in our pipeline; and we've signed a Multi Development Agreement in Germany.

In upscale we launched our voco brand in June, with two hotels already open and another eight in the pipeline across our EMEAA region.

In the top tier of luxury we acquired a majority stake in the Regent Hotels & Resorts brand. Following a brand repositioning, we have signed three hotels since acquisition in Kuala Lumpur, Bali and Chengdu.

Continuing this momentum, in February 2019 we announced the \$300 million acquisition of Six Senses Hotels Resorts Spas, which will sit at the top tier of our luxury offer, and our plans to launch a new all-suites upper midscale brand into the US later this year.

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Strategic Report

Our culture, key stakeholders and doing business responsibly

Our focus on doing business responsibly and the way we interact with our stakeholders, helps create a diverse, healthy and inclusive culture.

Our culture

Creating and reinforcing a culture of strong leadership, diversity and inclusion, robust business ethics and respect for the environment and society, underpins our ability to deliver our purpose and strategy. It is essential to our long-term success that we have an excellent reputation and are a trusted company.

Commitment starts at the top, with our Board focused on promoting a healthy and responsible culture across the business, and our CEO and senior executives accountable for embedding and reinforcing our unique culture. The Board receives regular updates on employee matters and culture from the Chief Human Resources Officer, whilst our CEO ensures our culture is aligned with our Company purpose.

Our growth behaviours and values

During 2018 as part of our strategic initiatives programme, we enhanced our culture by reviewing and updating our corporate behaviours. Our growth behaviours encourage our corporate employees to be decisive, work at pace, be collaborative, develop talent and focus on performance.

These behaviours are being brought to life through virtual learning summits, which are a chance for our people to hear from IHG leaders, peers and external thought leaders. It also brings opportunities to exchange views and ideas with others, to explore and apply tools and to enhance their understanding.

Our growth behaviours are aligned to our values, which provide a lasting strong sense of shared purpose and are critical to providing True Hospitality for everyone.

Our Code of Conduct

The bedrock of our culture is our Code of Conduct, (Code), which sets out our commitment to operating honestly and with the highest ethical standards. The Code principles help us to act responsibly and set out the value we place on being trusted by our colleagues and guests, those who do business with us, and the communities we work in. The Code is an introduction to our key global policies, including anti-bribery, diversity and inclusion, environment, confidential reporting and human rights. It is reviewed annually by the Audit Committee and Board to ensure it reflects and responds to changes in the external environment, and supports our purpose and strategy. All colleagues working in IHG corporate offices, reservation centres and managed hotels must comply with the Code and the policies and procedures it refers to. The principles, spirit, and purpose of the Code are also relevant to our franchised hotels, which are independently operated.

In 2018 we launched our refreshed Code, updated our e-learning module and reminded colleagues where to go for further details. The module is for colleagues working in IHG corporate offices, reservation centres and managed hotels.

Human rights and modern slavery

Helping combat human rights abuses, including modern slavery, is an important part of our commitment to responsible business. We have procurement targets to increase ethical supplier awareness, and policies and procedures applicable to employees, suppliers, and managed hotels.

All our Board and Executive Committee, along with colleagues across the organisation, have affirmed their commitment to the Code of Conduct.

IHG Human Rights policy available in 40+ languages all IHG hotels must adopt the policy (or an equivalent one).

Human Rights e-learning module available for corporate and hotel colleagues.

Commitment to the International Tourism Partnership's Principles on Forced Labour.

Vendor Code of Conduct minimum standards under which IHG suppliers are expected to operate, including human rights and modern slavery.

In 2018 we undertook a human rights impact assessment across IHG's operations, covering our supply chains, hotels and corporate offices. The findings, presented to senior leaders in early 2019, will help us develop our human rights programme, which includes a focus on human trafficking, labour risks, forced labour and modern slavery.

Bribery and financial crime

Bribery and financial crime, including improper payments, money laundering and tax evasion, are not permitted at IHG under any circumstances. This also applies to any agents, consultants and other service providers who do work on IHG's behalf.

Our Anti-Bribery policy sets out IHG's zero tolerance approach and is applicable to all IHG employees, Directors and our managed hotels. It is accompanied by a mandatory anti-bribery e-learning module. Our Gifts and Entertainment Policy supports our approach to anti-bribery and corruption. It sets out reporting and approval thresholds for gifts and entertainment given or received, and applies to all IHG employees, Directors and our managed hotels. The policy and guidance was updated in 2018.

As a member of the Business Integrity Forum, IHG participated in Transparency International UK's Corporate Anti-Corruption Benchmark in 2018. IHG is using the results from this exercise to identify areas for improvement in its anti-bribery and corruption programme.

We carry out risk-based due diligence checks on new third parties with whom we enter into hotel agreements. A committee of senior management reviews any material issues identified.

Information security and data protection

It is everyone's responsibility at IHG to safeguard information, to follow legal requirements and comply with IHG's information security and personal data policies, standards and procedures. In 2018 we updated training for colleagues on handling information responsibly. We continue to enhance our privacy programme to address evolving privacy requirements and best practice including the EU General Data Protection Regulation. The Board and Audit Committee regularly reviews information security risk and controls, including our approach to incidents. (see pages 27, 61, 66, 157 and 185).

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Our people

Highlights

400,000+

Colleagues worldwide

12,812

Number of employees whose costs were borne by the Group or the System Fund. As we franchise 82% of our hotels globally, we do not employ the vast majority of people working in IHG branded hotels.

We are a business on the move, with a new organisational structure, new behaviours and a sharper focus on accelerating our growth – we can only succeed by working as one team. Our people are key to delivering our purpose of True Hospitality and our strategic initiatives and ambition to accelerate our growth. We look to employ talented people, develop and train them, and provide a diverse and inclusive culture in which they can thrive. The Board has overarching responsibility for the Company’s direct employee policies and activities, whilst senior management have day-to-day responsibility for people issues. Both the CEO and Chief Human Resources Officer have people goals, and whilst the CEO chairs a Diversity and Inclusion Board, the Chief Human Resources Officer updates the Board on workforce matters and culture. Our progress against our people 2018-2020 Responsible Business Target is monitored by the Corporate Responsibility Committee. More information, along with details of our other targets, is available on our website; please find a link at the bottom of page 24. We are currently assessing the most appropriate long-term approach to enhance Board engagement with the workforce; please see page 69 for more details.

Engagement, diversity and inclusion

IHG is a global business with a global outlook. Working in hotels and offices in more than 100 countries, our colleagues represent multiple nationalities, as well as many cultures, religions, races, sexualities, backgrounds and

beliefs. It makes for a diverse, innovative and inclusive culture which we are proud of, and it's why our purpose to provide True Hospitality is for everyone. Our employee engagement is measured through a bi-annual survey,

(Colleague HeartBeat); Corporate, managed hotel and customer reservations office employees take part. Available in 30+ languages, this year our overall engagement score was 86%.

In 2018 we launched our Diversity and Inclusion Board, led by the CEO and senior leaders across IHG. As part of our 2018-2020 Responsible Business targets we have committed to increasing the level of diversity among IHG's senior leadership in terms of gender and nationality or ethnicity. We also have committed to increasing the number of females working in General Manager and operations roles within managed hotels.

Listed by the Hampton Alexander Review in the top 10 of FTSE 100 companies for female representation.

100% rating in the Human Rights Campaign's Corporate Equality Index making IHG a best place to work for LGBTQ equality in the US for the last four years.

Aon Hewitt Global Best Employer for two years running.

Top Employer in the UK by the Top Employers Institute for the fourth year running, for providing an exceptional environment for employees to develop.

Attracting, building and retaining talent is dependent on a diverse and inclusive culture. We are committed to rolling out programmes to areas of the business where they are needed the most. For example Rise, IHG's mentoring initiative that supports female General Managers, will roll out in Europe, the Americas and Greater China in 2019. This scheme is already established in Australia, Japan, South East Asia and Korea.

To further strengthen our diverse and inclusive culture, we are focused on increasing our employees' awareness of our Global Diversity and Inclusion policy through focused events and communications, colleague programmes, inclusive leadership and unconscious bias training and taking our existing employee resource groups global.

We are committed to a continual review of our practices and policies such as reducing bias at all levels in our hiring processes, and reviewing flexible working processes and policies. We have signed up to the Diversity in Hospitality, Travel and Leisure Charter, a 10-point action plan that ensures diversity

and inclusion not only remain a priority but that we openly track progress towards our goals. And we support the UN LGBTI Standards for Business, which focuses on tackling discrimination against lesbian, gay, bi, trans and intersex people.

As at 31 December 2018

	Male	Female	Total
Directors	7	4	11
Executive Committee	7	2	9

Executive Committee			
Direct Reports	38	26	64
Senior Managers			
(including directors of subsidiaries)	71	23	94
All employees			
(whose costs were borne by the Group or the System Fund)	5,467	7,345	12,812
Attracting, rewarding and developing talent			

We took steps in 2018 to evolve our talent and employee development practices. We launched our new approach to performance, and initiated frequent check-in conversations, giving our people more opportunities to gather feedback on their performance, as well as discussing their development and career aspirations.

We are also establishing forums to help identify and retain top talent, and add rigour to our succession planning, ensuring we are developing a diverse pipeline of talent for the future. In 2018 we launched a new toolkit to help individuals navigate their careers. We are also investing in our leadership development programmes, including Leading Others and Career Insights, to ensure we are developing the next generation of leaders.

Case study

To support IHG's fast expansion in Greater China, our Greater China team launched a new virtual development centre in 2018 that helps us assess and prepare c100 hotel leaders on a yearly basis, with the potential to increase that number three-fold in the future.

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Strategic Report

Our culture, key stakeholders and doing business responsibly continued

IHG's purpose and strategy go beyond a simple hotel stay and shareholder returns; it also includes the impact we have on the environment and the communities we work in.

We embrace our responsibility to focus on ensuring that the growth of our business contributes towards the objectives of the UN Sustainable Development Goals and we drive a positive contribution towards seven of the 17 goals, (see our website link at the bottom of the page). We recognise it is imperative that we continue to review our impact on the world and use a materiality matrix to align our responsible business priorities with IHG's strategic approach and principal risks. Our Corporate Responsibility team lead our day-to-day activities, with the Corporate Responsibility Committee reviewing the Company's approach and reporting to the Board. During 2018 we initiated a review of our approach to help identify a new set of targets to take us beyond 2020, building on our 2018-2020 targets.

Community and our impact

on society

We aim to maximise the positive contribution we make by creating shared value in our communities. By working in partnerships, we look closely at issues such as skills shortages, infrastructure development, community resilience and disaster relief support, in areas where we operate.

We create real-life, career-building opportunities through the IHG® Academy. Our hotels and corporate offices partner with local education providers and community groups to train and educate local people.

Since 2016 we supported communities and charitable giving through the IHG® Foundation, an independent charity. In 2018, IHG switched its support to our newly created True Hospitality for Good programme. This new programme for communities and charitable giving, provides colleagues in our hotels and offices with a greater say in how we support important causes around the world. Our aim is to help change lives for the better through building skills and education in hospitality, and supporting communities when disasters strike.

Environmental

sustainability

It is important to us that our corporate offices and hotels are mindful of the resources they use and opportunities to protect the environment, particularly in areas of water stress and environmental preservation. We continually work to understand our impact, taking into account our business model, as well as the markets in which we operate, to help us set targets and guidance for our partners, hotels and their owners. Our environmental policy is available in 40+ languages and sets out our approach.

Key to helping us reduce our environmental impact is our digital sustainability platform, the IHG Green Engage system. A global standard across the Group, it helps hotels manage and report their energy, carbon, water and waste use through more than 200 Green Solutions and implementation plans, driving profitability for owners, whilst minimising environmental impact.

In 2018, we made good progress against our new environmental targets. Working with our hotels and owners to reduce our carbon footprint per occupied room globally, we achieved a 2.2% reduction. And building on our previous risk mapping exercise, we launched the first two of our water stewardship projects in London and Delhi, which aim to help us identify a best practice water stewardship strategy that can be implemented across our estate.

IHG is aware of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and of the need for companies to align efforts to cut greenhouse gas emissions with climate science (science based targets). We will be taking this into consideration as part of our wider strategy refresh.

As part of our broader efforts to reduce plastic waste, in 2018 IHG committed to remove single-use plastic straws from our global estate by the end of 2019 eliminating annually an average of 50 million straws from our hotels.

Responsible

procurement

Supported by corporate responsibility and procurement functions, a Supply Chain Risk Council and oversight from the Chief Financial Officer, IHG seeks to work with partners and suppliers who share our commitment to responsible business. Our Vendor Code of Conduct, available in 40+ languages, sets out the requirements, principles and practices IHG has adopted to promote ethical conduct in the workplace, safe working conditions in the supply chain, treatment of persons with respect and dignity and environmentally responsible practices. They are the minimum standards by which IHG suppliers are expected to operate.

In 2018 we built a new responsible procurement function to drive our responsible business agenda across our supply chain. We also established a Strategic Supplier Management Office, who work with our strategic suppliers to maximise realised supplier value and minimise risk through effective supplier relationship management.

We previously commissioned external providers to undertake supply chain audit pilots in high-risk locations. In 2018 we partnered with the British Standards Institute (BSI) and participated in their Supplier Assurance Programme, the aim of which is to gain insight into risks associated with IHG's supply chain.

New suppliers joining our procurement system are required to complete due diligence questions and adhere to the UN Global Compact Principles on human rights, labour, environment, and anti-corruption.

Non-financial information statement

Non-financial information described above and in the preceding pages, should be read together with the description of our business model on pages 14 to 17, risk descriptors and initiatives to mitigate them on pages 26 to 30, KPIs on pages 31 to 35, and Board and Committee Reports on pages 60 to 69.

Copies of our policies, including diversity and inclusion, reports, responsible business targets, statements, commitment to the UN Sustainable Development Goals and further information are available on our website www.ihgplc.com/responsible-business

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Stakeholders

The long-term sustainable success of IHG is determined by our ability to identify and foster relationships with our key stakeholders, not only at Board level but throughout the organisation. The following information should be read in conjunction with the description of Board activities on pages 60 to 62 and stakeholder information in our Responsible Business Report, available on our website www.ihgplc.com/responsible-business

Shareholders and investors	Employees	Hotel owners
<p>Our commitment to good governance means taking our shareholder and investor concerns about the environment, employee relations, executive remuneration, long-term financial performance and corporate governance seriously. We engage with shareholders and investors through a variety of mechanisms including the AGM, meetings with the Chair and Committee Chairs, Investor Relations, investor presentations and regular correspondence. We welcome their feedback and over the course of 2018 have engaged across a broad range of topics including remuneration, the environment and data privacy.</p>	<p>Employing and retaining talented people ensures that we can deliver against our purpose and strategy. We engage in a number of ways with our direct employees including conferences, colleague surveys, Town Halls, skip level feedback, newsletters and blogs. We are aware of the issues that concern them such as wellbeing, diversity and inclusion, training and development. During 2018 we prioritised our diverse and inclusive culture, launched a well-being programme for our leaders, announced a new Colleague Share Plan for our employees and reviewed our UK gender pay gap. In addition we held a series of engagements with employees on our new organisation design and re-designed processes and ways of working. Employee matters were a regular Board and Executive Committee agenda item.</p>	<p>Through the IHG Owners Association, which represents the interests of more than 3,400 hotel owners and operators worldwide, we share and implement our purpose and culture. It's important for the Company's reputation and long-term success to have a strong relationship with our hotel owners and we ensure this through regular meetings, surveys and regional conferences. Of particular note in 2018, together we launched the Renovation Donation Initiative in the US, a programme to donate old hotel fixtures and fittings to charity. For more information on the IHG Owners Association see www.owners.org</p>

Guests and corporate clients

We engage with hotel guests and corporate clients through our corporate and brand websites, IHG Rewards Club, surveys, guest relations and our social media channels. We know they value our green credentials, such as our policies on water stewardship, but also look for consistent brand service and reward for their loyalty. Over half of our corporate clients ask questions about our environmental and social governance approach before they book with us. Our shared commitment means we continually review our approach to responsible business.

Society including suppliers

We work with a broad range of NGOs, community organisations and suppliers who share our commitment to doing business responsibly and who we work with and respond to. We engage with them to ensure that we take care of the environment, support local communities, have strong payment practices, clear vendor guidelines and robust business ethics. We do this through the IHG® Academy, charitable work and procurement practices. In September 2018 we had a Giving for Good month, where 130,000 colleagues participated in fund-raising activities for 11 charity partners.

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Strategic Report

Risk management

We continue to assess our risk management system, ensuring it remains appropriate to support our growth ambitions and decision making in line with our appetite and tolerance for risk.

Strategy and risk

Our strategy, business model and the way we do business present a number of risks and opportunities. There are risks we are willing to take, and areas where we have less tolerance for uncertainty. The Board is ultimately accountable for the effectiveness of our risk management and internal control systems, and is supported by the Audit Committee, Executive Committee and delegated committees, who oversee our risk management system to ensure that risks and opportunities are appropriately identified and managed to an acceptable level in relation to IHG's appetite and tolerance for risk.

Risk appetite

IHG's risk appetite is visible through the nature and extent of risk taken by the Board in pursuit of strategic and other business objectives. This risk appetite is cascaded through the goals we set, our Code of Conduct, decisions we make and how we allocate resources and it evolves with the strategy of the organisation. Examples of how we articulate our risk appetite are included in note 22 to the Group Financial Statements, see page 144.

IHG's appetite and tolerance for risk is further articulated and implemented through our governance committees, structures, policies and targets we select, as well as in development guidelines for new hotels. In 2018 the Board and Board Committees again reviewed many of these aspects directly through their meetings and discussions of principal risks, and through their close oversight of IHG's organisational changes and the portfolio of growth initiatives.

This section should be read together with the rest of the Strategic

Report, the Governance Report on pages 52 to 71 going concern on page 181, and Risk Factors on pages 182 to 186.

Our risk management system

Our risk management system is fully integrated with the way we run the business through our culture, processes, controls and reporting, and is reflected in our strategy. The Risk and Assurance function is responsible for the support, enhancement and monitoring of the effectiveness of this system and focuses on culture, process, control, monitoring

and reporting.

IHG's principal risks, uncertainties and review process

Our risk profile remains dynamic – we continue to face inherent uncertainties linked to a challenging external environment. Our efficiency programme to realise savings for reinvestment, organisational changes and focus on strategic initiatives have also required us to evaluate and evolve our risk management system to maintain an appropriate level of control within our levels of risk tolerance.

Throughout 2018 the Risk and Assurance team has co-ordinated assessments of the principal risks facing the Group, including those which would threaten its business model, future performance, solvency or liquidity and reputation. These risks are formally reviewed with the Group's Directors on bi-annual basis and considered in more detail through the activities of the Board and Committees. The review of our principal risks this year again focused both on the internal and external risk environment. We have included factors relating to third parties across many of our risks, reflecting the increasing importance of our relationships with partners to our growth ambitions. We have also considered within our approach to financial planning, a separate risk responding to an increasingly volatile macro-economic environment (for example trade wars, environmental and climate-related matters) which creates inherent uncertainties to our performance and prospects.

The focus on executing our strategy at a faster pace emphasises the importance of the steps we take to consider risk explicitly as part of decision making. During 2018 this has been supported by the continued development of IHG's risk culture and governance processes, including review of the delegation of authority, and

communication of revised leadership behaviours and performance management processes, which continue to reflect the principles of our Code of Conduct. The implementation of organisation and process changes creates inherent risks of disruption to control routines and accountabilities, and these have been actively considered by management teams.

Frequent senior leadership discussions throughout the year, and our more structured strategic programme management and financial planning processes, have also included regular pulse checks of emerging risks requiring management attention. These are considered both in the context of individual initiatives, and at an aggregated level, as part of resilience planning. The Risk and Assurance team provides support and intelligence on emerging threats and will continue to provide advice to management on procedures for risk identification and mitigation and control.

Our principal risks remain structurally similar to those reported in previous years. We continue to highlight uncertainties relating to our growth agenda and conclude that the potential impact of Brexit on IHG is not likely to have a material impact on our overall strategy or operations although, as with other external factors, this is considered as part of routine operational risk management and resilience planning. The impact of a potential movement in the value of sterling is articulated in note 22 of the Financial Statements, see page 145.

The Group's asset-light business model, diverse brand portfolio and wide geographical spread however contribute to IHG's resilience to events that could affect specific segmental or geographical areas.

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Risk trend and speed of impact

We assess whether the risk area is stable or dynamic in its impact and/or likelihood (inherent risk trend), and the rate at which there could be a material impact on IHG if unmanaged or managed inappropriately. The trend and speed of impact are summarised in the diagram (on the right) with further detail on activities to manage each of these risks in the table below.

Principal risks descriptions

Inherent risk trend	Risk impact	Link to our strategic priorities	
Dynamic/Rapid	Targeted Portfolio	Disciplined Execution	Doing Business Responsibly
Dynamic/Gradual	Build and leverage scale	Strengthen loyalty programme	Enhance revenue delivery
Stable/Rapid	Evolve owner proposition	Optimise our preferred portfolio of brands for owners and guests	

Risk description
Inherent threats to **cybersecurity and information**

Trend Impact Initiatives to manage these risks

We continue to align efforts across multiple business teams to manage the risk within tolerance, and appointed a dedicated Chief Information Security Officer to facilitate this. We also monitor and update our

governance continue to present risk to our operations. Customer and other forms of sensitive data remain valuable to various threat actors (including organised criminals and nation states), and increasing societal, regulatory and media scrutiny of privacy arrangements mean that the potential impact of data loss to IHG financially, reputationally or operationally remains a dynamic risk factor.

information security policies and practices to respond to the risks we face, including those relating to evolving privacy requirements, and our third-party hosted infrastructure, systems and services. We have undertaken critical GDPR compliance activity, and have a roadmap for other activities in 2019, including policies, training and guidance. The nature of our operating model means that significant amount of IHG's confidential information assets are also held by or shared with third-party suppliers and parties, and we review those risks as part of our broader supply chain risk management arrangements.

We continue to evolve our monitoring capabilities in relation to our technology environment and our broader security culture, business process security and physical security. An external risk assessment was concluded in 2018, which focused on industry specific issues, our current capabilities and recent progress. Our information security programme is supported and reviewed by internal and external assurance activities, including our Internal Audit and SOX teams and PCI assessments. Regular management reporting uses a scorecard aligned with the NIST cyber security framework, and enables tracking of key risk indicators and planned initiatives. Our information security specialists have also been an integral part of our acquisition activities during 2018.

We also recognise the need for an appropriate response to incidents, by developing our incident management capability and working closely with our insurers to review the adequacy of protection for our risks as our cybersecurity and technology environment evolves.

Failure to deliver **preferred brands and loyalty** could impact our competitive positioning, our growth ambitions and our reputation with guests and owners. Competitor and intermediation activity creates inherent risks and opportunities for the hospitality industry and is relevant to the longer-term value of IHG's franchised/managed proposition and our ability to deliver returns to current and potential owners of our

Our organisational changes in 2018 have brought focus to make IHG a stronger business partner and ensure we have appropriate business models deployed in each region to meet our owners' needs.

This includes targeted market strategies for franchising (where scale is important) and globally-led initiatives to increase the pace of openings/ramp up of hotel performance and tackle key pain points and systems across the hotel lifecycle and improve owner experience with IHG.

The evolution of our marketing organisation, loyalty programme and enhancements to our brand portfolio described on page 20 is key to managing these risks and taking the opportunities for growth. Our marketing leadership has evolved during the year with increased capability in category, brand and customer insights; and the formation of a shared

various brands.

services organisation for guest experience.

Trading and performance of properties and brands (signings) are reviewed as part of monthly business reviews. During 2018 this included a proactive focus on licence expirations which will continue into 2019.

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Strategic Report

Risk management continued

Risk description Trend Impact Initiatives to manage these risks

Leadership and talent risk is inherent to all businesses and failure to effectively attract, develop and retain talent in key areas could impact our ability to achieve growth ambitions and execute effectively. Risks relating to our people underpin many of our objectives. Capacity, capability, motivation, clarity of role, accountability for leadership, and behaviour are all significant aspects of this risk.

Our approach to managing our people is outlined in detail on pages 22 to 25 and our annual business planning process includes a review of workforce risks. IHG has the ability to manage the risk directly in relation to IHG staff but relies on owners and third-party suppliers to manage the risk in related activities.

We consider workforce risks when designing business initiatives and we prioritise delivery accordingly. Our Human Resources leaders partner directly with other leadership teams across IHG, and have supported and advised directly on our organisational changes during 2018 within transformation management meetings. Our Supply Chain Risk Council also considers more indirect workforce risks relating to our third-party relationships.

Performance management systems have been enhanced and a talent acquisition programme focuses our attraction strategy, recruiting, and employer brand management.

Several policies in our Code of Conduct (for example our Human Rights Policy) relate to the management of our people, describing our intolerance for inappropriate behaviours and appropriate adherence to those helps manage our risk.

Whilst the hotel sector is not subject to stringent industry specific regulations, the global business

Our dedicated ethics and compliance specialists define and oversee IHG's global policy framework and Code of Conduct, (see page 22), and manage the compliance programmes for anti-bribery, antitrust/competition law and sanctions. During 2018, there has been focus to respond to the changing regulatory requirements around privacy and data (including GDPR, China

regulatory and contractual environment (for example relating to data privacy, human rights including modern slavery, labour laws and financial crime) and societal expectations are continuously evolving and failure to ensure **legal, regulatory and ethical compliance** would impact IHG operationally and reputationally. Regulators are also moving to impose significant fines for non-compliance.

Failure to capitalise on innovation in booking technology and to maintain and enhance the functionality and resilience of our **channel management and technology platforms** (including those of third-parties on which we rely directly or indirectly), and to respond to changing guest and owner needs remains a dynamic risk and opportunity to IHG's revenues and growth ambitions. This is particularly important with the emergence of both evolutionary and disruptive technologies and innovative uses of data to generate value.

cybersecurity and California privacy laws), and continuing compliance and contractual responsibilities. We also continue to assess our broader role in relation to, for example human rights and modern slavery.

The Ethics and Compliance team provides training to teams across IHG and is informed of incidents that may involve a potential breach of regulations to enable advice to be provided, including on any reporting or notification requirements. The Code of Conduct is increasingly requested from various stakeholders seeking transparency and understanding of our approach. It forms a key focal point for our risk management activity.

The Board receives regular reports on matters directly related to our responsible business agenda, and there are also different functions, (from corporate responsibility to procurement), focused on supporting the business in relation to these matters. Our Confidential Disclosure Channel allows confidential reporting of ethical, social and environmental performance issues (including those with regulatory implications).

Several changes to our organisational structure were implemented in 2018 to support our ability to meet the evolving (and accelerating) technological needs of owners and guests. This includes the integration of a single commercial and technology organisation incorporating our sales, channels, revenue management and technology capabilities, allowing us to maximise revenue delivery and bring new products and services to market faster. Our new global marketing organisation will work closely with commercial and technology in relation to our in-hotel guest experiences.

We have also implemented the IHG Concerto platform during 2018 (see case study on page 21) and continue to seek opportunities to align systems to improve consistency and manage inherent delivery risks between IHG and our owners. Our Guest Reservation System (GRS) is hosted by a third-party vendor, Amadeus, in the cloud and supported by infrastructure which serves to decrease the likelihood of downtime. Availability of GRS and other key systems continues to be monitored on a 24/7 basis by the Network Operations Centre. Metrics are reported to Commercial and Technology leadership on a frequent basis.

Effective and appropriate leveraging of data which we have a right to use is a key aspect of the interface between our marketing and our commercial and technology activity. We take account of regulatory and ethical factors as part of the decision making processes in relation to marketing and technological

initiatives. We also rely on appropriate governance arrangements to mitigate risks that the validity of data that we use is undermined by cyber-attacks or operational failures. This risk is also impacted by strategic and operational factors relating to the location and structure of our assets including use of third-parties and cloud computing arrangements. Several policies which form part of our Code of Conduct relate to this area of risk and adherence is monitored appropriately.

We have an established approach to System Development Lifecycle and specific risks to delivery of the Global Reservations System have been managed throughout the programme of implementation (including those relating to technical delivery, business process testing and operation readiness testing).

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Risk description	Trend	Impact	Initiatives to manage these risks
<p>IHG's ongoing agenda to accelerate growth and strategic initiatives give rise to inherent risks, for example as we transition systems, operating models and processes. The changes which have been made to IHG's extended enterprise raises inherent risk levels from third parties for example before, during and after structural sourcing changes. These risks can include short-term disruption, reputational damage and longer-term breakdown of a commercial relationship.</p>			<p>Our focus on accelerating growth has included structured review (by senior management and the Board), of risks relating to offshoring and outsourcing. We have formed a strategic sourcing and management office to establish policies, support and advise on management processes, and oversee governance arrangements for IHG's most important suppliers.</p> <p>A new Supply Chain Risk Council also reviews risks and control arrangements for IHG's direct supply base across both corporate functions and hotel operations, for example where IHG has agreements in place and/or interacts directly with suppliers, including outsourced providers. Our legal teams review contracts and provide advice on litigation, where required, and our insurance programme also provides a degree of protection in the event of supplier failure.</p>
<p>Inability to realise value from our programme and project delivery (including reinvestment initiatives and culture and process changes) may result in failure to</p>			<p>Aspects of the risk relating to change have been managed explicitly by a dedicated programme management team during 2018 and we have implemented a framework for addressing risks within, and as a result of, change initiatives across IHG.</p> <p>Oversight teams, including our finance experts, have evolved governance and control frameworks to support key transformation programmes, for</p>

improve commercial performance, financial loss and undermining of stakeholder confidence. Following the organisational adjustments during 2018, there is an inherent risk that changes we have made could be unsustainable or that we are unable to achieve the return envisaged through reinvestment of the savings into growth initiatives.

example in our commercial and technology operations. We also regularly review delegated approval authorities and processes to enable decisions on investments to be made quickly and efficiently with consideration of the risks involved.

Macro external factors

such as political, economic, environmental and societal could have a mass impact on our ability to perform and grow.

While these factors are mostly outside our direct control, we track uncertainties which may impact the hospitality industry and which need to be considered in our strategic and financial planning. These types of risks are addressed in strategy setting (including the review of our corporate responsibility approach, see page 68). They are also addressed in the annual business planning process and in regional risk management activities and reporting. We are increasingly using formal and informal scenario planning to anticipate the potential impact of these risks. The Board receives regular updates on these types of factors so that possible implications for IHG can be considered.

Our house threat intelligence capability, supplemented by third-party expertise and methodology, supports growth, hotel operations and customer facing sales teams with planning and response to macro factors, for example concerns relating to terrorism or extreme weather events. Additionally, specific elements of our risk management framework relate to these areas, such as codes of conduct in relation to trade restrictions and the environment.

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Strategic Report

Risk management continued

Risk description	Trend Impact Initiatives to manage these risks
<p>Failure to maintain an effective safety and security system and to respond appropriately in the event of disruption or incidents affecting our operations more broadly could result in an adverse impact to IHG, such as reputational and/ or financial damage and undermining stakeholder confidence. This risk relates both to our direct operations but also in relation to outsourced activities and others with whom we collaborate and trade.</p>	<p>The environment in which IHG develops and operates hotels continues to evolve and impacts the safety and security risks faced by IHG. Although these risks are assessed as stable overall, our established management approach is subject to continuous review and improvement to minimise the risk of an incident relating to IHG’s management damaging the Group’s reputation.</p> <p>Our design and engineering, hotel opening and operations teams work together with our risk management experts to evaluate standards and develop capability to respond to an incident via training, advanced intelligence tracking and standard operating procedures, and also deploy crisis management procedures where required for less predictable events.</p>
<p>A material breakdown in financial management and control systems would lead to increased public scrutiny, regulatory investigation and litigation. This risk includes our ongoing (and stable) operational risks</p>	<p>We continue to operate an established set of processes across our financial control systems, which is verified through testing relating to our Sarbanes-Oxley compliance responsibilities. See pages 50 and 125 to 129 for details of our approach to taxation, page 66 for details of our approach to internal financial control, and pages 144 to 146 for specific details on financial risk management policies. These processes and our financial planning continue to evolve to reflect the changes in our management structure and business targets.</p>

relating to our financial management and control systems, and also the continuing expectations of IHG's management decision making and financial judgements, in response to evolving accounting standards and our own business model and transactions.

During 2018 we have established a centre of excellence for financial planning and accounting to drive improved reporting, accelerated decision making, process standardisation, automation and talent alignment. Our Group insurance programmes are also maintained to support financial stability.

Viability statement

The Group's annual planning process builds a robust three-year plan. The detailed three-year plan takes into consideration the principal risks, the Group's strategy, and current market conditions. That plan then forms the basis for strategic actions taken across the business. The plan is reviewed annually by the Directors, and approved towards the end of the calendar year. Once approved, the plan is then cascaded to the business and used to set performance metrics and objectives. Performance against those metrics and objectives is then regularly reviewed by the Directors. The key assumptions included in the three-year plan relate to RevPAR, System size and no change to our stated dividend policy. There are no significant debt maturities in the period under consideration and therefore no assumptions have been included in relation to refinancing.

In assessing the viability of the Group, the Directors have reviewed a number of scenarios, weighting downside risks that would threaten the business model, future performance, solvency and liquidity of the Group more heavily than opportunities. The scenario testing focuses mostly, but not exclusively, on the impact of declining RevPAR on the viability of the Group, as most of the principal risks outlined on pages 26 to 30 will cause a deterioration in RevPAR.

The scenarios included a severe but plausible downturn like the financial crisis that occurred from 2008 to 2009 (when the Board maintained the ordinary dividend despite the severity of the downturn in trading), a widespread cybersecurity breach and a reverse stress test of the business starting from the presumption

of the Group having insufficient liquidity to continue trading. In the severe scenarios, the Directors also considered actions that would be taken if such events became a reality. These actions included a reduction in capital expenditure, salary freezes and suspension of bonus plans and the ordinary dividend. The results confirmed that the Group would be able to withstand the impact of each scenario.

The Directors have determined that the three-year period to 31 December 2021 is an appropriate period to be covered by the viability statement. Although hospitality industry business cycles are on average longer than three years, the end of those cycles has only resulted in declining RevPAR when that has been caused by exogenous shocks, and the decline in RevPAR has only lasted two years. The Board has therefore determined that no additional insight can be gained from assessing these scenarios over a longer period.

The Directors have assessed the viability of the Group over a three-year period to 31 December 2021, taking account of the Group's current position, the Group's strategy and the principal risks documented in the Strategic Report. Based

on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021.

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Key performance indicators (KPIs)

Our KPIs are carefully selected to allow us to monitor the performance of indicators that are critical to delivering our strategy and long-term success.

Our KPIs are organised around our Strategic Model and targeted portfolio, which is underpinned by disciplined execution and doing business responsibly, (see page 18). They are reviewed annually by senior management to ensure continued alignment to our strategy and Responsible Business targets, and are included in internal reporting and regularly monitored. Measures included are those considered most relevant in assessing the performance of the business, and relate to our growth agenda and commitment to our major stakeholders including owners, guests, colleagues, shareholders and the communities in which we work. During 2018 our doing business responsibly KPIs were reviewed and changed to reflect the new Responsible Business 2018-2020 targets. The updated KPIs track IHG's progress in creating career building opportunities, managing our environmental impact, and our success in maintaining a motivated workforce. KPIs should be read in conjunction with the other sections of the Strategic Report, and where applicable, references to specific relevant topics are noted against each KPI.

A guide to this KPI section

Link between KPIs and Director remuneration

As we continued our focus on delivering high-quality growth as in prior years, Directors' Remuneration for 2018 was directly related to key aspects of our Strategic Model and targeted portfolio. The following indicates which KPIs have impacted Directors' Remuneration:

The Annual Performance Plan

70% was linked to EBIT

30% was linked to strategic measures, of which:

15% was linked to improvements in net System size growth

15% was linked to the delivery of our comprehensive efficiency programme
The Long Term Incentive Plan

50% was linked to Total Shareholder Return

25% was linked to rooms growth

25% was linked to RevPAR growth

For more information on Directors

Remuneration see pages 72 to 85

Link to our Strategic Model

Our Strategic Model is at the heart of our success. The five strategic initiatives are represented as follows:

- 1 Build and leverage scale
- 2 Strengthen loyalty programme
- 3 Enhance revenue delivery
- 4 Evolve owner proposition
- 5 Optimise our preferred portfolio of brands for owners and guests

Link to Doing Business Responsibly

We consult with our stakeholders to determine the issues that are most relevant to them and IHG. Based on this feedback there are four priority areas, which are indicated by the following icons:

**Our
people**

**Environmental
sustainability**

**Community and
society impact**

**Responsible
procurement**

KPIs

2018 status and 2019 priorities

Strategic Model and targeted portfolio

Net rooms supply

2018 status

Net total number of rooms in the IHG System.

Accelerated net System size growth to 4.8%, and achieved our highest number of signings in 10 years driven by:

Increasing our rooms supply provides significant advantages of scale, including increasing the value of our loyalty programme. This measure is a key indicator of achievement of our growth agenda, (see page 19).

Further growth of our mainstream brands with Holiday Inn and Holiday Inn Express representing nearly half of all signings.

Expansion of our portfolio of brands:

Mainstream opened the first avid hotel, made 129 signings in 2018 and signed a partnership agreement to bring avid to Germany.

Signings

Gross total number of rooms added to the IHG pipeline.

Upscale launched voco hotels with two openings in 2018.

Luxury acquired a majority stake in Regent Hotels & Resorts.

Continued signings secures the future growth of our System and continued efficiencies of scale. Signings indicate our ability to deliver sustained growth (see page 19).

Bringing our existing brands to new markets:

Continued global expansion of Kimpton with 18 deals signed.

Opened 13 InterContinental hotels, our highest number in 10 years.

2019 priorities

Continue progression towards industry-leading net System size growth.

Further scale avid hotels including more openings (see page 40).

Scale our new upscale brand, voco hotels (see page 43).

Build greater international scale for Kimpton.

Launch new upper midscale US Suites brand, and scale Six Senses Hotels Resorts Spas.

^a Including the acquisition of Regent Hotels & Resorts (2,006 rooms) in 2018.

^b Including the acquisition of Kimpton (11,325 rooms) in 2015.

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Strategic Report

Key performance indicators (KPIs) continued

KPIs

Strategic Model and targeted portfolio continued

Growth in underlying fee revenues^{a, b}

Group revenue excluding revenue from owned, leased and managed lease hotels, significant liquidated damages and current year acquisitions.

Underlying fee revenue growth demonstrates the continued attractiveness to owners and guests of IHG's franchised and managed business (see page 14).

Total gross revenue from hotels in IHG's System^b

Total rooms revenue from franchised hotels and total hotel revenue from managed, owned, leased and managed lease hotels. Other than for owned, leased and managed lease hotels, it is not revenue wholly attributable to IHG, as it

2018 status and 2019 priorities

2018 status

Expansion of Holiday Inn Express Franchise Plus model in Greater China with 146 hotels open or in the pipeline.

Combined our Commercial and Technology functions allowing us to maximise revenue delivery and bring new products and services to market faster.

Grew digital (web and mobile) revenue, by 13% to \$5.3 billion.

Launched two new US IHG Rewards Club-branded credit cards (see page 13 for details).

2019 priorities

Leverage the expansion of our franchise offer for Holiday Inn and Crowne Plaza in Greater China, alongside Holiday Inn Express Franchise Plus model.

Continue to innovate our loyalty offering to provide greater opportunities for our members to earn and redeem IHG Rewards Club points.

is mainly derived from hotels owned by third parties.

Maintain our focus on increasing contribution from IHG Rewards Club members, and through direct bookings via our website or call centres.

The growth in gross revenue from IHG's System illustrates the value of our overall System to our owners (see page 15).

Continue to grow our share of bookings through the IHG App, whilst also increasing engagement within the App.

Enhance our owner offer by leveraging technology and increasing investment in owner support.

System contribution to revenue

The percentage of room revenue booked through IHG's direct and indirect systems and channels.

System contribution is an indicator of IHG value-add and the success of our marketing distribution channels (see page 14).

^a In 2018 the underlying fee revenue calculation was restated for 2016 onwards following implementation of IFRS 15. The 2015 and 2016 growth figures are not comparable and thus excluded from comparison.

^b Use of Non-GAAP measures: In addition to performance measures directly observable in the Group Financial Statements (IFRS measures), additional financial measures (described as Non-GAAP) are presented that are used internally by management as key measures to assess performance. Non-GAAP measures are either not defined under IFRS or are adjusted IFRS figures. Further explanation in relation to these measures can be found on page 36 and reconciliations to IFRS figures, where they have been adjusted, are on pages 172 and 173. Total underlying fee revenue growth is stated at constant currency.

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KPIs

Strategic Model and targeted portfolio continued

Global RevPAR growth

Revenue per available room: rooms revenue divided by the number of room nights that are available.

RevPAR growth indicates the increased value guests ascribe to our brands in the markets in which we operate and is a key measure widely used in our industry (see page 8).

Guest Love

IHG's guest satisfaction measurement indicator.

Guest satisfaction is fundamental to our continued success and is a key measure to monitor the risk of failing to deliver preferred brands that meet guests expectations (see page 27 for details).

2018 status and 2019 priorities

2018 status

Completed the global roll out of IHG Concerto (see page 21).

Created a new global marketing function bringing together our brand, loyalty and marketing capabilities to drive greater agility and efficiencies.

Continued roll out of new guest room designs across all regions and rapid deployment of new Holiday Inn Express breakfast offering in the US to over 1,500 hotels.

In 2018 one third of the US Crowne Plaza estate underwent or completed renovations or property improvements as part of the Crowne Plaza Accelerate programme, a multi-year programme to transform Crowne Plaza in the Americas region.

2019 priorities

Continue to build on IHG Concerto with phased roll out of additional functionality.

Continue to invest in brand innovation, including room design and hotel layout to meet evolving guest needs, including refresh of our extended stay brands.

Ensure that, whilst driving strong rooms supply growth, we maintain a high level of guest satisfaction across our entire portfolio with removals from the System.

^a Changes to the method for calculating IHG's guest satisfaction scores (previously Guest HeartBeat) were introduced in 2016. The comparative for 2015 has been restated.

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Strategic Report

Key performance indicators (KPIs) continued

KPIs

Disciplined execution

Fee margins^{a,b}

Operating profit as a percentage of revenue, excluding System Fund, reimbursement of costs, revenue and operating profit from owned, leased and managed lease hotels, significant liquidated damages, current year acquisitions and exceptional items.

Our fee margin progression indicates the profitability of our fee revenue growth and benefit of our asset-light business model (see page 14).

2018 status and 2019 priorities

2018 status

Merged our Europe and Asia, Middle East and Africa regions to leverage scale and focus investment.

On track to deliver ~\$125 million in annual savings, including System Fund, by 2020 for reinvestment to drive growth.

2019 priorities

Continuation of our strong cost and efficiency focus.

Leverage our increasing scale in operations and systems to drive economies of scale.

Continue to strengthen our delivery capabilities to ensure that critical in-hotel initiatives are embedded on time and on target.

Enhance our supplier management capabilities to drive efficiencies.

Continue to look for further operational efficiencies through greater application of technology.

Free cash flow^{b,c}

Cash flow from operating activities (after interest and tax paid), less purchase of shares by employee share trusts and maintenance capital expenditure, including key money paid.

Free cash flow provides funds to invest in the business, sustainably grow the dividend and return any surplus to shareholders (see page 16). It is a key component in measuring the ongoing viability of our business (see page 30).

2018 status

Free cash flow grew by \$93 million to \$609 million, due to growth in operating profit from reportable segments^b and reduction in cash tax.

2019 priorities

Continue to deliver consistent, sustained growth in profits and cash flow.

Control capital deployment in line with business priorities.

Continue programme to recycle capital invested in minor equity positions and joint ventures, over time, when conditions are favourable.

^a In 2018 the fee margin calculation was restated for 2016 onwards following implementation of IFRS 15. The 2015 figure is not comparable and is thus excluded from comparison.

^b Use of Non-GAAP measures: In addition to performance measures directly observable in the Group Financial Statements (IFRS measures), additional financial measures (described as Non-GAAP) are presented that are used internally by management as key measures to assess performance. Non-GAAP measures are either not defined under IFRS or are adjusted IFRS figures. Further explanation in relation to these measures can be found on page 36 and reconciliations to IFRS figures, where they have been adjusted, are on pages 172 to 175.

^c Cash flow was introduced as a new measure for the 2017/19 LTIP cycle. Cumulative free cash flow over the three-year performance period forms part of the measure, with some adjustments. The target for each successive cycle is determined annually, taking into account IHG's long-range business plan, market expectations and circumstances at the time.

^d In 2016, free cash flow excluded the \$95 million cash receipt from renegotiation of long-term partnership agreements.

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KPIs

Doing business responsibly

IHG® Academy

Number of people participating in IHG Academy programmes.

Sustained participation in the IHG Academy indicates the strength of our progress in creating career building opportunities and engagement with the communities in which we operate (see page 24).

2018 status and 2019 priorities

2018 status

We undertook a comprehensive review of the IHG Academy programme to create a series of recommendations to help us grow in the coming years.

We ran 2,203 IHG Academy programmes across 70 countries.

2019 priorities

Continue to provide skills and improved employability to people through IHG Academy, ensuring a positive impact for local people, our owners and IHG.

Build on programme review and refresh supporting materials to drive greater participation and deliver engaging candidate experience.

Deliver a globally scaled approach to IHG Academy, utilising it as a frontline recruitment tool.

Enhancing IHG Academy's reputation amongst academic institutions and community partners, as being an outstanding programme for students.

Continue to drive quality growth in the programme towards our longer-term target of 30,000 40,000 IHG Academy participants by 2020.

Carbon footprint

Carbon footprint per occupied room.

We work with our hotels to drive reductions in carbon emissions, to reduce our overall carbon footprint (see page 24).

Employee Engagement survey scores

Average of our revised^b bi-annual Colleague HeartBeat survey, completed by our corporate, customer reservations office and managed hotel employees (excluding our joint ventures).

We measure employee engagement to monitor risks relating to talent (see page 28) and to help us understand the issues that are relevant to our people as we build a diverse and inclusive culture (see page 23).

2018 status

Achieved 2.2% reduction in our carbon footprint per occupied room from 2017 baseline.

2019 priorities

Continue to reduce our carbon footprint across our entire estate.

Partner with owners and our hotels to share best practices to help drive greater reductions.

2018 status

Launched improved and simplified performance management process.

Launched a new tool to help IHG assess and prepare hotel leaders in Greater China, our fastest growing region (see page 23).

2019 priorities

Continue to refine performance management processes, in order to focus on productive development conversations.

Further drive adoption of improvements to our human resources systems, including online colleague training, to further our ability to develop and retain talent.

Support the recruitment and development of General Managers for our managed hotels.

Drive adoption of our learning solutions, such as the IHG Frontline training curriculums, and branded service culture programmes across all IHG hotels.

^a In 2018 the carbon reduction measure was restated in line with a new baseline for the 2018-2020 target. The 2016 and 2015 figures could not be restated and are not comparable.

^b In 2017 the employee engagement survey was revised and relaunched as the Colleague HeartBeat survey. The 2016 and 2015 figures relate to previous survey results, which could not be restated and are not comparable.

Please see www.ihgplc.com/responsible-business

for our 2018-2020 Responsible Business targets.

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Strategic Report

Performance

Key performance measures (including Non-GAAP measures) used by management

As well as the performance measures found in the Group Financial Statements, the following key performance measures are included in the performance review (and IHG at a glance on pages 2 and 3).

These financial measures are either not defined under IFRS or are adjusted IFRS figures and are therefore described as Non-GAAP measures. They should be viewed as complementary to, and not as a substitute for, the measures prescribed by GAAP.

Where applicable the definitions have been amended to reflect the adoption of IFRS 15 Revenue from Contracts with Customers and the 2017 and 2016 comparatives have been restated accordingly (see pages 109 to 113 for further information).

Total gross revenue in IHG's System

Total gross revenue provides a measure of the overall strength of the Group's brands. It comprises total rooms revenue from franchised hotels and total hotel revenue from managed, owned, leased and managed lease hotels. Other than owned, leased and managed lease hotels, total gross revenue is not revenue

attributable to IHG as it is derived from hotels owned by third parties. A reconciliation of total gross revenue to the owned, leased and managed lease revenue included in the Group Financial Statements is set out on page 38.

Revenue and operating profit measures

In each of the following measures, System Fund results are excluded as the System Fund is not managed to a profit or loss for IHG, although an in-year surplus or deficit can

Underlying revenue and underlying operating profit adjusts the above to exclude the impact of owned asset disposals, significant liquidated damages, current year

arise. Revenues related to the reimbursement of costs, and the related costs, are excluded as operating profit is unaffected and an increase in these does not indicate growth for the business. Exceptional items are also excluded as they can be significantly skewed by one off events, for example reorganisation costs (see note 6 on page 124).

acquisitions, all translated at constant currency using prior year exchange rates. The presentation of these performance measures allows a better understanding of comparable year-on-year trading and enables an assessment of the underlying trends in the Group's financial performance.

Operating profit measures are, by their nature, before interest and tax. A pre-interest and pre-tax measure excludes the impact of the Group's financing and external factors such as legislative changes, respectively. A pre-interest and pre-tax measure is considered more reflective of the Group's success in executing against its strategy.

Underlying fee revenue and fee margin further analyses the above for the Group's fee business only, reflecting the Group's core fee-based business model. Underlying fee revenue is at constant currency using prior year exchange rates, fee margin is at actual exchange rates.

Revenue from reportable segments and operating profit from reportable segments comprises the Group's fee business and owned, leased and managed lease hotels. This measure is disclosed in note 2 to the Group Financial Statements.

Operating profit from reportable segments before central overheads used only to assist in understanding the relative contribution of IHG's regions to the Group, and as such central overheads are excluded.

Underlying interest

This is a new measure in the year following the adoption of IFRS 15 and includes the interest payable to the System Fund on the outstanding cash balance relating to the IHG Rewards Club programme.

capitalised interest (see note 7), this interest is related to the assets attributable to the System Fund. These are adjusted as the System Fund is not managed to a profit or loss for IHG therefore removing these provides a better view of the Group's underlying interest expense.

In addition the Group's financial expenses are presented net of System Fund

Tax excluding the impact of exceptional items and System Fund

This is a new measure in the year following the adoption of IFRS 15 which gives a more meaningful understanding of the Group's ongoing tax charge. Exceptional items represent

a profit or loss for IHG and is, in general, not subject to tax either. Therefore, removing these provides a better view of the Group's underlying tax rate on ordinary

distorting or non-recurring items and therefore often skew the current year's tax charge. The System Fund is not managed to operations and aids comparability year-on-year.

Adjusted earnings per ordinary share, Underlying earnings per ordinary share

Adjusted earnings per ordinary share excludes System Fund revenues and expenses, any interest and tax relating to the System Fund, exceptional items, and their related tax impacts. Adjusted earnings per ordinary share provides a per share measure that is not skewed by the result of the System Fund or exceptional items. Underlying earnings per ordinary share is calculated by dividing underlying profit for the period available for IHG equity holders by

the weighted average number of ordinary shares in issue during the period, excluding investment in own shares. The presentation of underlying earnings per ordinary share allows a better understanding of comparable year-on-year trading and thereby allows an assessment of the underlying trends in the Group's financial performance.

Net debt, Net capital expenditure, Free cash flow

Net debt is used in the monitoring of the Group's liquidity and capital structure, and is used to calculate the key ratios attached to the Group's bank covenants. Net debt comprises loans and other borrowings, derivatives hedging debt values, less cash and cash equivalents, and is reconciled to the amounts included in the Group Financial Statements in note 21 on page 143.

Net capital expenditure is defined as cash flow from investing activities less contract acquisition costs, excluding the acquisition of businesses net of cash acquired, tax paid on disposals and adjusted for System Fund depreciation and amortisation (recovery of previous System Fund capital expenditure). For internal management reporting, capital expenditure is reported as either maintenance, recyclable, or System Fund.

The disaggregation of net capital expenditure provides useful information as it enables users to distinguish between System Fund capital investments and recyclable

Free cash flow is defined as cash flow from operating activities (after interest and tax paid) and excluding contract acquisition costs net of repayments, less purchase of shares by employee share trusts and maintenance capital expenditure (including key money paid). Free cash flow is a useful measure for investors, as it represents the cash available to invest back into the business to drive growth, pay the ordinary dividend, with any surplus being available for additional returns to shareholders.

These measures have limitations as they omit certain components of the overall cash flow statement. They are not intended to represent IHG's residual cash flow available for discretionary expenditures, nor do they reflect our future capital commitments. These measures are used by many companies, but there can be differences in how each company defines the terms, limiting their usefulness as a comparative measure. Therefore, it is important to view these measures only as a complement to the Group statement of cash flows.

investments (such as investments in associates and joint ventures), which are intended to be recoverable in the medium term, compared with maintenance capital expenditure (including key money paid), which represents a permanent cash outflow.

The performance review should be read in conjunction with the Non-GAAP reconciliations on pages 172 to 175 and the glossary on pages 204 to 205.

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Group

Group results

	12 months ended 31 December				
	2018	2017 Restated	2018 vs 2017	2016 Restated	2017 vs 2016
	\$m	\$m	% change	\$m	% change
Revenue^a					
Americas	1,051	999	5.2	969	3.1
EMEAA	569	457	24.5	439	4.1
Greater China	143	117	22.2	112	4.5
Central	170	157	8.3	147	6.8
Revenue from reportable segments	1,933	1,730	11.7	1,667	3.8
System Fund revenues	1,233	1,242	(0.7)	1,199	3.6
Reimbursement of costs	1,171	1,103	6.2	1,046	5.4
Total revenue	4,337	4,075	6.4	3,912	4.2
Operating profit^a					
Americas	662	637	3.9	626	1.8
EMEAA	202	171	18.1	157	8.9
Greater China	69	52	32.7	46	13.0
Central	(117)	(102)	(14.7)	(123)	17.1
Operating profit from reportable segments	816	758	7.7	706	7.4
System Fund result	(146)	(34)	(329.4)	35	(197.1)
Operating profit before exceptional items	670	724	(7.5)	741	(2.3)
Exceptional items	(104)	4	(2,700.0)	(29)	113.8
Operating profit	566	728	(22.3)	712	2.2
Net financial expenses	(81)	(72)	(12.5)	(80)	10.0
Profit before tax	485	656	(26.1)	632	3.8
Earnings per ordinary share					
Basic	184.7¢	279.8¢	(34.0)	215.1¢	30.1
Adjusted	292.1¢	244.6¢	19.4	203.8¢	20.0
Average US dollar to sterling exchange rate	\$1:	\$1:		\$1:	
	£0.75	£0.78	(3.8)	£0.74	5.4

Highlights for the year ended

31 December 2018

During the year ended 31 December 2018, total revenue increased by \$262m (6.4%) to \$4,337m, whilst revenue from reportable segments increased by \$203m (11.7%) to \$1,933m, primarily resulting from 4.8% rooms growth, 2.5% comparable RevPAR growth and the addition of a portfolio in the UK. Operating profit and profit before tax decreased by \$162m (22.3%) and \$171m (26.1%) respectively, due to a \$108m increase in exceptional items, largely associated with restructuring costs related to the comprehensive efficiency programme as well as a \$112m higher in-year System Fund deficit. Operating profit from reportable segments increased by \$58m

(7.7%) to \$816m.

Underlying^b revenue and underlying^b operating profit increased by \$98m (5.7%) and \$47m (6.2%) respectively.

Comparable RevPAR increased by 2.5% (including an increase in average daily rate of 1.8%). IHG System size increased by 4.8% to 836,541 rooms, whilst underlying fee revenue^c increased by 6.5%.

Fee margin^c was 52.4%, remaining in line with 2017 (up 0.1 percentage points at constant currency, removing the impact of foreign exchange movements). Fee margin was impacted by growth investment in excess of realised savings from the comprehensive efficiency programme and a one-off marketing assessment in 2018 and would otherwise have continued to grow, benefiting from efficiency improvements and our global scale.

Basic earnings per ordinary share decreased by 34.0% to 184.7¢, whilst adjusted earnings per ordinary share increased by 19.4% to 292.1¢.

^a Americas, EMEAA and Greater China include revenue and operating profit before exceptional items from both fee business and owned, leased and managed lease hotels.

^b Underlying revenue and underlying operating profit both exclude System Fund revenue and expenses, reimbursement of costs, the impact of owned asset disposals, significant liquidated damages and current year acquisitions, all translated at constant currency using prior year exchange rates. Underlying operating profit also excludes the impact of exceptional items (see pages 172 and 173).

^c Underlying fee revenue and fee margin are defined as excluding revenue from owned, leased and managed lease hotels, System Fund revenue, reimbursement of costs, the impact of owned asset disposals, significant liquidated damages and current year acquisitions (see pages 172 and 173). Underlying fee revenue is at constant currency using prior year exchange rates, fee margin is at actual exchange rates.

Accounting principles

The Group results are prepared under International Financial Reporting Standards (IFRS) and following the adoption of IFRS 15 Revenue from Contracts with Customers the 2017 and 2016 comparatives have been restated. 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 page 108 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. An analysis of exceptional items is included in note 6 on page 124 of the Group Financial Statements.

Table of Contents**Strategic Report****Performance continued**

Group continued

Highlights for the year ended**31 December 2017**

During the year ended 31 December 2017, total revenue increased by \$163m (4.2%) to \$4,075m, whilst revenue from reportable segments increased by \$63m (3.8%) primarily due to 4.0% rooms growth and 2.7% comparable RevPAR growth. Operating profit and profit before tax increased by \$16m (2.2%) and \$24m (3.8%) respectively. Operating profit from reportable segments increased by \$52m (7.4%) to \$758m.

Underlying^a revenue and underlying^a operating profit increased by \$74m (4.4%) and \$56m (7.9%) respectively.

Comparable RevPAR increased by 2.7% (including an increase in average daily rate of 1.1%). IHG System size increased by 4.0% to 798,075 rooms, whilst underlying fee revenue^b increased by 4.7%.

Fee margin was 52.4%, up 1.8 percentage points (up 1.7 percentage points at constant currency, removing the impact of foreign exchange movements) on 2016. Fee margin benefited from efficiency improvements and by leveraging our global scale.

Basic earnings per ordinary share increased by 30.1% to 279.8¢, reflecting the increase in operating profit and the impact of the share capital reduction as a result of the share consolidation in May 2017 whilst adjusted earnings per ordinary share increased by

20.0% to 244.6¢.

Group total gross revenue in IHG's System

			12 months ended 31 December
Analysed by brand	2018	2017 Restated	
	\$bn	\$bn	% change
InterContinental	5.1	4.8	6.3
Kimpton	1.3	1.1	18.2
Crowne Plaza	4.5	4.3	4.7
Hotel Indigo	0.5	0.4	25.0

EVEN Hotels	0.1	0.1	
Holiday Inn	6.5	6.3	3.2
Holiday Inn Express	7.1	6.7	6.0
Staybridge Suites	0.9	0.9	
Candlewood Suites	0.8	0.8	
Other	0.6	0.3	100.0
Total	27.4	25.7	6.6
Analysed by ownership type			
Fee business	27.0	25.3	6.6
Owned, leased and managed lease ^c	0.4	0.4	
Total	27.4	25.7	6.6

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

Total gross revenue in IHG's System increased by 6.6% (6.2% increase at constant currency) to \$27.4bn, driven by IHG System size and comparable RevPAR growth.

^a Underlying revenue and underlying operating profit both exclude System Fund revenues and expenses, reimbursement of costs, the impact of owned asset disposals, significant liquidated damages and current year acquisitions, all translated at constant currency using prior year exchange rates. Underlying operating profit growth also excludes the impact of exceptional items (see pages 172 and 173).

^b Underlying fee revenue is defined as Group revenue excluding revenue from owned, leased and managed lease hotels, System Fund revenues, reimbursement of costs, the impact of owned asset disposals, significant liquidated damages and current year acquisitions (see pages 172 and 173).

^c See note 3 of the Group Financial Statements on page 120.

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

At 31 December	2018	Hotels Change over 2017	2018	Rooms Change over 2017
Analysed by brand				
Regent	6	6	2,005	2,005
InterContinental	204	10	69,281	3,283
Kimpton	66		12,915	399
HUALUXE	8	1	2,335	246
Crowne Plaza	429	15	120,168	5,368
voco	2	2	531	531
Hotel Indigo	102	17	12,749	2,104
EVEN Hotels	10	2	1,551	313
Holiday Inn ^a	1,251	9	233,852	1,159
Holiday Inn Express	2,726	126	279,516	17,118
avid hotels	1	1	87	87
Staybridge Suites	276	21	30,217	2,472
Candlewood Suites	396	20	37,210	1,786
Other	126	25	34,124	1,595
Total	5,603	255	836,541	38,466
Analysed by ownership type				