

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
<b>American Depositary Shares</b>	<b>New York Stock Exchange</b>
<b>Ordinary Shares of 19<sup>17</sup>/<sub>21</sub> pence each</b>	<b>New York Stock Exchange*</b>

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

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

**None**

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

**None**

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

<b>Ordinary Shares of 19<sup>17</sup>/<sub>21</sub> pence each</b>	<b>190,770,580</b>
--------------------------------------------------------------------	--------------------

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

## Edgar Filing: INTERCONTINENTAL HOTELS GROUP PLC /NEW/ - Form 20-F

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.

Item 17

Item 18

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

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.

**Our brands**

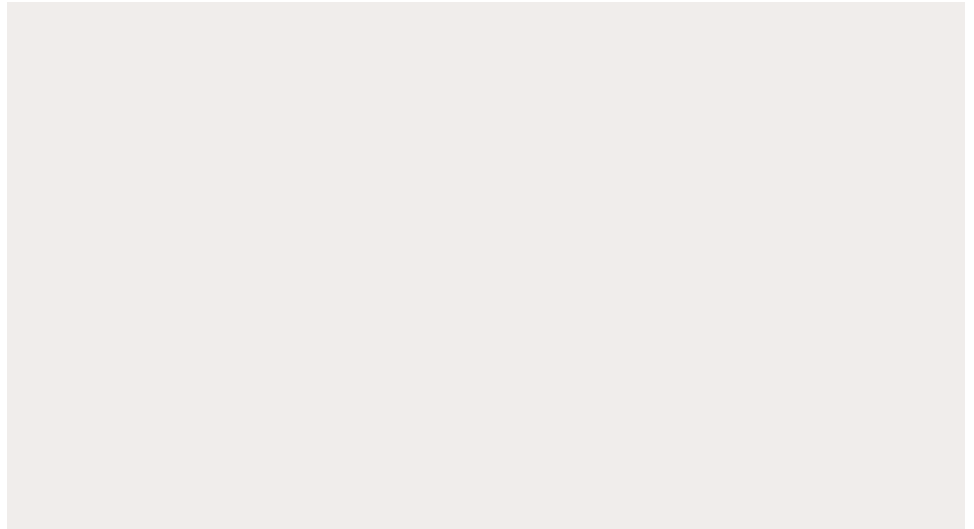
**Mainstream**

**Upscale**

**Luxury**



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<sup>a</sup>

**Revenue from reportable segments<sup>b</sup>**

**\$1,933m** (+11.7%)

2017: \$1,730m<sup>a</sup>

**Operating profit**

**\$566m** (-22.3%)

2017: \$728m<sup>a</sup>

**Operating profit from reportable segments<sup>b</sup>**

**\$816m** (+7.7%)

2017: \$758m<sup>a</sup>

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

\$27.4bn (+6.6%)

2017: \$25.7bn

**Underlying fee revenue growth<sup>b</sup>**

+6.5%

2017: +4.7%<sup>a</sup>

**Total underlying operating profit growth<sup>b</sup>**

\$47m (+6.2%)

2017: \$56m<sup>a</sup>

**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)<sup>b</sup>**

**Group operating profit from**

**reportable segments 2018 (\$816m)<sup>b</sup>**

**Number of rooms (836,541)**

<sup>a</sup> restated to reflect the adoption of IFRS 15 (see pages 109 to 113) in the Financial Statements.

**<sup>b</sup> 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

**Open hotels**

0

**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

**Open hotels**

102

**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.

<b>Type</b>	<b>What is it?</b>	<b>Recent examples</b>
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](http://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
<b>Directors</b>	7	4	11
<b>Executive Committee</b>	7	2	9

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

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](http://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](http://www.ihgplc.com/responsible-business)

<b>Shareholders and investors</b>	<b>Employees</b>	<b>Hotel owners</b>
<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 <a href="http://www.owners.org">www.owners.org</a></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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<b>Risk description</b>	<b>Trend</b>	<b>Impact</b>	<b>Initiatives to manage these risks</b>
<p>IHG's ongoing agenda to <b>accelerate growth</b> 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 <b>programme and project delivery</b> (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**

<b>Risk description</b>	<b>Trend Impact Initiatives to manage these risks</b>
<p>Failure to maintain an effective <b>safety and security</b> 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 <b>financial management and control systems</b> 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**

**Strategic Model and targeted portfolio**

**2018 status and 2019 priorities**

**Net rooms supply**

Net total number of rooms in the IHG System.

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).

**2018 status**

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

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.

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).

Upscale launched voco hotels with two openings in 2018.

Luxury acquired a majority stake in Regent Hotels & Resorts.

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.

<sup>a</sup> Including the acquisition of Regent Hotels & Resorts (2,006 rooms) in 2018.

<sup>b</sup> 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<sup>a, b</sup>**

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<sup>b</sup>**

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).

<sup>a</sup> 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.

<sup>b</sup> 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

**2018 status and 2019 priorities**

**Global RevPAR growth**

**2018 status**

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

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.

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).

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.

**Guest Love**

IHG's guest satisfaction measurement indicator.

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**

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).

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.

<sup>a</sup> 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<sup>a,b</sup>**

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<sup>b,c</sup>**

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<sup>b</sup> 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.

<sup>a</sup> 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.

<sup>b</sup> 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.

<sup>c</sup> 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.

<sup>d</sup> 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).

### **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.

### **Employee Engagement survey scores**

Average of our revised<sup>b</sup> 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**

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.

<sup>a</sup> 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.

<sup>b</sup> 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](http://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.

**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.

**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

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**

	<b>12 months ended 31 December</b>				
	<b>2018</b>	2017 Restated	2018 vs 2017	2016 Restated	2017 vs 2016
	<b>\$m</b>	\$m	% change	\$m	% change
<b>Revenue<sup>a</sup></b>					
Americas	<b>1,051</b>	999	5.2	969	3.1
EMEAA	<b>569</b>	457	24.5	439	4.1
Greater China	<b>143</b>	117	22.2	112	4.5
Central	<b>170</b>	157	8.3	147	6.8
Revenue from reportable segments	<b>1,933</b>	1,730	11.7	1,667	3.8
System Fund revenues	<b>1,233</b>	1,242	(0.7)	1,199	3.6
Reimbursement of costs	<b>1,171</b>	1,103	6.2	1,046	5.4
<b>Total revenue</b>	<b>4,337</b>	4,075	6.4	3,912	4.2
<b>Operating profit<sup>a</sup></b>					
Americas	<b>662</b>	637	3.9	626	1.8
EMEAA	<b>202</b>	171	18.1	157	8.9
Greater China	<b>69</b>	52	32.7	46	13.0
Central	<b>(117)</b>	(102)	(14.7)	(123)	17.1
Operating profit from reportable segments	<b>816</b>	758	7.7	706	7.4
System Fund result	<b>(146)</b>	(34)	(329.4)	35	(197.1)
Operating profit before exceptional items	<b>670</b>	724	(7.5)	741	(2.3)
Exceptional items	<b>(104)</b>	4	(2,700.0)	(29)	113.8
<b>Operating profit</b>	<b>566</b>	728	(22.3)	712	2.2
Net financial expenses	<b>(81)</b>	(72)	(12.5)	(80)	10.0
<b>Profit before tax</b>	<b>485</b>	656	(26.1)	632	3.8
<b>Earnings per ordinary share</b>					
Basic	<b>184.7¢</b>	279.8¢	(34.0)	215.1¢	30.1
Adjusted	<b>292.1¢</b>	244.6¢	19.4	203.8¢	20.0
<b>Average US dollar to sterling exchange rate</b>	<b>\$1:</b>	\$1:		\$1:	
	<b>£0.75</b>	£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<sup>b</sup> revenue and underlying<sup>b</sup> 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<sup>c</sup> increased by 6.5%.

Fee margin<sup>c</sup> 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¢.

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

<sup>b</sup> 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).

<sup>c</sup> 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<sup>a</sup> revenue and underlying<sup>a</sup> 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<sup>b</sup> 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**

		<b>12 months ended 31 December</b>	
<b>Analysed by brand</b>	<b>2017 \$bn</b>	2016 Restated \$bn	% change
InterContinental	<b>5.1</b>	4.8	6.3
Kimpton	<b>1.3</b>	1.1	18.2
Crowne Plaza	<b>4.5</b>	4.3	4.7
Hotel Indigo	<b>0.5</b>	0.4	25.0

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

<sup>a</sup> 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).

<sup>b</sup> 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).

<sup>c</sup> See note 3 of the Group Financial Statements on page 120.



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

<b>At 31 December</b>	<b>2018</b>	<b>Hotels Change over 2017</b>	<b>2018</b>	<b>Rooms Change over 2017</b>
<b>Analysed by brand</b>				
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 <sup>a</sup>	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
<b>Total</b>	<b>5,603</b>	<b>255</b>	<b>836,541</b>	<b>38,466</b>
<b>Analysed by ownership type</b>				
Franchised	4,615	182	576,979	24,145
Managed	965	62	253,566	12,196
Owned, leased and managed lease	23	11	5,996	2,125
<b>Total</b>	<b>5,603</b>	<b>255</b>	<b>836,541</b>	<b>38,466</b>

<sup>a</sup> Includes 45 Holiday Inn Resort properties (11,301 rooms) and 27 Holiday Inn Club Vacations properties (7,927 rooms) (2017: 47 Holiday Inn Resort properties (11,954 rooms) and 26 Holiday Inn Club Vacations properties (7,676 rooms)).

**Total number of hotels**

5,603

**Total number of rooms**

836,541

During 2018, the global IHG System (the number of hotels and rooms which are franchised, managed, owned, leased or managed lease) increased by 255 hotels (38,466 rooms) to 5,603 hotels (836,541 rooms).

Openings of 362 hotels (56,343 rooms) were 27.0% higher than in 2017. Openings in the Americas included 135 hotels (13,392 rooms) in the Holiday Inn brand family. 77 hotels (18,812 rooms) were opened in Greater China in 2018, with the EMEA region also contributing openings of 77 hotels (15,283 rooms). 107 hotels (17,877 rooms) left the IHG System in 2018, a decrease from the previous year (111 hotels, 17,247 rooms).

**Group pipeline**

<b>At 31 December</b>		<b>Hotels</b>		<b>Rooms</b>
<b>Analysed by brand</b>	<b>2018</b>	<b>Change</b>	<b>2018</b>	<b>Change</b>
		<b>over 2017</b>		<b>over 2017</b>
Regent	3	3	514	514
InterContinental	60	(3)	15,795	(1,558)
Kimpton	27	9	4,474	1,678
HUALUXE	21		6,099	(190)
Crowne Plaza	79	(7)	22,134	(913)
voco	8	8	1,510	1,510
Hotel Indigo	92	10	13,078	1,777
EVEN Hotels	18	6	3,184	1,074
Holiday Inn <sup>b</sup>	288	11	55,651	2,095
Holiday Inn Express	784	18	98,424	5,064
avid hotels	171	127	15,811	11,768
Staybridge Suites	182	22	20,849	2,908
Candlewood Suites	102	(10)	9,121	(888)
Other	24	10	4,304	1,963
<b>Total</b>	<b>1,859</b>	<b>204</b>	<b>270,948</b>	<b>26,802</b>
<b>Analysed by ownership type</b>				
Franchised	1,398	175	161,343	21,995
Managed	460	28	109,450	4,652
Owned, leased and managed lease	1	1	155	155
<b>Total</b>	<b>1,859</b>	<b>204</b>	<b>270,948</b>	<b>26,802</b>

<sup>b</sup> Includes 19 Holiday Inn Resort properties (5,229 rooms) (2017: 13 Holiday Inn Resort properties (3,620 rooms)).

**Total number of hotels in the pipeline**

1,859

**Total number of rooms in the pipeline**

270,948

At the end of 2018, the global pipeline totalled 1,859 hotels (270,948 rooms), an increase of 204 hotels (26,802 rooms) on 31 December 2017. The IHG pipeline represents hotels where a contract has been signed and the appropriate fees paid.

Group signings increased from 605 hotels in 2017 to 691 hotels and rooms increased from 83,481 rooms to 98,814 rooms. This included 314 hotels (44,649 rooms) signed for the Holiday Inn brand family, 40.2% of which were contributed by Greater China (99 hotels, 17,958 rooms).

Active management of the pipeline to remove deals that have become dormant or no longer viable reduced the pipeline by 125 hotels (15,669 rooms), compared to 135 hotels (21,224 rooms) in 2017.

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**Strategic Report**

**Performance continued**

Americas

In 2018, we signed the highest number of rooms in 10 years. We expanded our mainstream leadership with innovations to our Holiday Inn Express, Holiday Inn and extended stay brands, and launched avid hotels. We also increased our luxury and upscale presence with the growth of InterContinental, Kimpton and Hotel Indigo and investments in Crowne Plaza.

**Elie Maalouf**

Chief Executive Officer, Americas

**Americas revenue 2018 (\$1,051m)**

**Americas number of rooms (510,129)**

**Comparable RevPAR movement**

**on previous year**

(12 months ended 31 December 2018)

**Fee business**

InterContinental	<b>4.6%</b>
Kimpton	<b>1.2%</b>
Crowne Plaza	<b>0.3%</b>
Hotel Indigo	<b>4.7%</b>
EVEN Hotels	<b>9.5%</b>

Holiday Inn	1.8%
Holiday Inn Express	1.6%
Staybridge Suites	3.3%
Candlewood Suites	1.7%
All brands	1.9%
<b>Owned, leased and managed lease</b>	
InterContinental	1.1%
EVEN Hotels	5.6%
Holiday Inn	11.5%
All brands	5.2%

## Regional priorities

Expand our mainstream leadership with the continued roll out of new innovations to Holiday Inn Express and Holiday Inn, as well as the ongoing growth of avid hotels.

Continue to build our luxury presence and broaden the footprints for InterContinental Hotels & Resorts and Kimpton Hotels & Restaurants.

Capitalise on the momentum of the Crowne Plaza Accelerate programme with the continued roll out of new room and public space designs.

Solidify our strong performance in the extended stay market segment. Our new designs for Staybridge Suites and Candlewood Suites will be available to the full Americas estate in 2019.

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.

## Industry performance in 2018

Industry RevPAR in the Americas increased by 3.4%, driven by a 2.9% average daily rate growth and 0.3ppts occupancy growth. Occupancy achieved its highest level ever recorded, topping the record set in 2017. Room demand grew 2.4%, with slower growth in the latter part of 2018 due to lapping of two hurricanes that propelled demand in the US in late 2017. Supply growth remained in line with 2017 at 1.9%.

US lodging industry room demand advanced 2.5% in 2018, its largest increase since 2014, whilst supply growth increased to 2.0%. US industry RevPAR increased by 2.9% in 2018, led by a 2.4% average daily rate growth. RevPAR in the US upper midscale chain scale, where the Holiday Inn and Holiday Inn Express brands operate, increased by 1.4%.

In Canada, industry RevPAR increased by 5.3%, driven by a 4.3% increase in average daily rate, and in Mexico, RevPAR declined by 1.9%, led by a 9.0ppt fall in occupancy.

## Regional highlights

### Successful launch of avid

avid was created to reach an important set of business and leisure travellers in an underserved \$20 billion segment of the US midscale market. Designed with input from target consumers and an advisory board of leading IHG owners, the brand experience delivers exactly what guests have been waiting for in a mainstream hotel – the essentials done exceptionally well – while also being easy to build, operate and maintain.

We have signed more than 170 avid hotels across the US, Canada and Mexico since launch in September 2017, and opened our first hotel in Oklahoma City. This makes it the fastest new development brand to progress from concept to launch for IHG. This strong momentum firmly positions the brand as a long-term driver of Americas growth.

### **IHG's regional performance in 2018**

IHG's comparable RevPAR in the Americas increased by 1.9%, driven by 1.7% average daily rate growth. The region is predominantly represented by the US, where comparable RevPAR increased by 1.3%. In the US, we are most represented by our mainstream brands Holiday Inn and Holiday Inn Express. RevPAR in our mainstream brands increased slightly behind the market segment overall, with RevPAR for the Holiday Inn brand increasing by 1.1%, whilst the Holiday Inn Express brand increased by 1.4%, in line with the market segment.

Canada achieved strong RevPAR growth of 5.2%, whilst Mexico RevPAR grew 2.0%, led by rate growth.

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## Americas results

	<b>2018</b> <b>\$m</b>	<b>12 months ended 31 December</b>			
		2017 Restated \$m	2018 vs 2017 % change	2016 Restated \$m	2017 vs 2016 % change
<b>Revenue from the reportable segment<sup>a</sup></b>					
Fee business	<b>853</b>	811	5.2	796	1.9
Owned, leased and managed lease	<b>198</b>	188	5.3	173	8.7
<b>Total</b>	<b>1,051</b>	999	5.2	969	3.1
<b>Percentage of Group revenue from reportable segments</b>	<b>54.4</b>	57.7	(3.3)	58.1	(0.4)
<b>Operating profit from the reportable segment<sup>a</sup></b>					
Fee business	<b>633</b>	608	4.1	602	1.0
Owned, leased and managed lease	<b>29</b>	29		24	20.8
	<b>662</b>	637	3.9	626	1.8
Exceptional items	<b>(36)</b>	37	(197.3)	(29)	227.6
<b>Operating profit</b>	<b>626</b>	674	(7.1)	597	12.9
<b>Percentage of Group operating profit from reportable segments before central overheads<sup>b</sup></b>	<b>71.0</b>	74.1	(3.1)	75.5	(1.4)

**Highlights for the year ended****31 December 2018**

With 4,161 hotels (510,129 rooms), the Americas represented 61% of the Group's room count. The key profit generating region is the US, although the Group is also represented in Latin America, Canada, Mexico and the Caribbean. 88% of rooms in the region are operated under the franchise business model, primarily under our mainstream brands (including the Holiday Inn brand family). In the upscale market segment, Crowne Plaza is predominantly franchised whereas, in the luxury market segment, InterContinental-branded hotels are operated under both franchise and management agreements, whilst Kimpton is managed. 12 of the Group's 15 hotel brands are represented in the Americas.

Revenue from the reportable segment<sup>a</sup> increased by \$52m (5.2%) to \$1,051m, whilst operating profit decreased by \$48m (7.1%) to \$626m. Operating profit from the reportable segment<sup>a</sup> increased by \$25m (3.9%) to \$662m. On an underlying<sup>c</sup> basis, revenue increased by \$54m (5.4%), whilst operating profit increased by \$26m (4.1%), driven predominantly by RevPAR growth in the fee business and an increase in net rooms.

Revenue and operating profit from the reportable segment are further analysed by fee business and owned, leased and managed lease hotels.

Fee business revenue and operating profit increased by \$42m (5.2%) to \$853m and by \$25m (4.1%) to \$633m respectively, partly impacted by adverse foreign exchange<sup>d</sup> (revenue \$2m, and operating profit \$1m), as RevPAR growth and net rooms growth was partly offset by lower fees from the termination of hotels and the impact from previously disclosed Crowne Plaza Accelerate financial incentives.

Owned, leased and managed lease revenue increased by \$10m (5.3%) to \$198m, whilst operating profit remained flat against 2017.

## Highlights for the year ended

### 31 December 2017

Revenue from the reportable segment<sup>a</sup> increased by \$30m (3.1%) to \$999m and operating profit increased by \$77m (12.9%) to \$674m. Operating profit from the reportable segment<sup>a</sup> increased by \$11m (1.8%) to \$637m. On an underlying<sup>c</sup> basis, revenue increased by \$35m (3.6%), whilst operating profit increased by \$16m (2.6%), driven predominantly by RevPAR growth in the fee business and an increase in net rooms.

Revenue and operating profit from the reportable segment are further analysed by fee business and owned, leased and managed lease hotels.

Fee business revenue and operating profit increased by \$15m (1.9%) to \$811m and by \$6m (1.0%) to \$608m respectively, partly impacted by adverse foreign exchange<sup>d</sup> (revenue \$5m, and operating profit \$5m) as growth from RevPAR and net rooms growth were partly offset by a delay in the recognition of a payroll tax credit, the implementation of the previously disclosed Crowne Plaza Accelerate financial incentives, and the annualisation of our investment in the Americas development team.

Comparable RevPAR grew 1.6%, including 1.9% for Holiday Inn and 1.7% for Holiday Inn Express, whilst net rooms grew 1.9%.

Owned, leased and managed lease revenue increased by \$15m (8.7%) to \$188m, whilst operating profit increased by \$5m (20.8%) to \$29m due to North American inbound business to Holiday Inn Aruba and the ramp up of EVEN Hotels Brooklyn.

<sup>a</sup> Americas reportable segment includes revenue and operating profit before exceptional items, excluding System Fund revenues and expenses and reimbursement of costs, for both fee business and owned, leased and managed lease hotels.

<sup>b</sup> Operating profit from reportable segments before central overheads excludes exceptional items, System Fund revenues and expenses, reimbursement of costs, and central overheads, to assist understanding of the relative



contribution of IHG's regions to the Group.

<sup>c</sup> 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).

<sup>d</sup> The impact of movements between the previous year's average exchange rates and actual average exchange rates in 2018.

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## Performance continued

Americas continued

**Americas hotel and room count**

	<b>2018</b>	<b>Hotels Change over 2017</b>	<b>2018</b>	<b>Rooms Change over 2017</b>
<b>At 31 December</b>				
<b>Analysed by brand</b>				
InterContinental	51	1	17,753	175
Kimpton	64	(1)	12,307	65
Crowne Plaza	156		41,499	221
Hotel Indigo	57	6	7,495	667
EVEN Hotels	10	2	1,551	313
Holiday Inn <sup>a</sup>	774	1	134,492	(1,112)
Holiday Inn Express	2,289	72	206,620	7,210
avid hotels	1	1	87	87
Staybridge Suites	261	17	28,032	1,876
Candlewood Suites	396	20	37,210	1,786
Other	102	13	23,083	1,381
<b>Total</b>	<b>4,161</b>	<b>132</b>	<b>510,129</b>	<b>12,669</b>
<b>Analysed by ownership type</b>				
Franchised	3,853	126	450,102	12,810
Managed	301	6	57,804	(141)
Owned, leased and managed lease	7		2,223	
<b>Total</b>	<b>4,161</b>	<b>132</b>	<b>510,129</b>	<b>12,669</b>
<b>Percentage of Group hotel and room count</b>	<b>74.3</b>	<b>51.8</b>	<b>61.0</b>	<b>32.9</b>

<sup>a</sup> Includes 23 Holiday Inn Resort properties (6,184 rooms) and 27 Holiday Inn Club Vacations properties (7,927 rooms) (2017: 25 Holiday Inn Resort properties (6,787 rooms) and 26 Holiday Inn Club Vacations properties (7,676 rooms)).

**Total number of hotels**

4,161

**Total number of rooms**

510,129

Americas System size increased by 132 hotels (12,669 rooms) to 4,161 hotels (510,129 rooms) during 2018. 208 hotels (22,248 rooms) opened in the year, compared to 190 hotels (21,615 rooms) in 2017. Openings included 135 hotels (13,392 rooms) in the Holiday Inn brand family, representing

64.9% of the region's hotel openings.

76 hotels (9,579 rooms) were removed from the Americas System in 2018, demonstrating our continued commitment to quality, compared to 86 hotels (12,148 rooms) in 2017.

### Americas pipeline

	2018	Hotels Change over 2017	2018	Rooms Change over 2017
<b>At 31 December</b>				
<b>Analysed by brand</b>				
InterContinental	6	(1)	1,477	(416)
Kimpton	16	2	2,335	97
Crowne Plaza	6	(8)	1,263	(1,456)
Hotel Indigo	35	2	4,523	497
EVEN Hotels	10	2	1,296	182
Holiday Inn <sup>b</sup>	126	(2)	16,052	(323)
Holiday Inn Express	499	(25)	47,620	(1,987)
avid hotels	171	127	15,811	11,768
Staybridge Suites	163	17	16,902	1,470
Candlewood Suites	102	(10)	9,121	(888)
Other	22	10	3,882	2,234
<b>Total</b>	<b>1,156</b>	114	<b>120,282</b>	11,178
<b>Analysed by ownership type</b>				
Franchised	1,115	113	113,657	10,813
Managed	41	1	6,625	365
<b>Total</b>	<b>1,156</b>	114	<b>120,282</b>	11,178

<sup>b</sup> Includes one Holiday Inn Resort property (165 rooms) (2017: one Holiday Inn Resort property (165 rooms)).

### Total number of hotels in the pipeline

1,156

### Total number of rooms in the pipeline

120,282

At 31 December 2018, the Americas pipeline totalled 1,156 hotels (120,282 rooms), representing an increase of 114 hotels (11,178 rooms) over the prior year. Strong signings of 416 hotels (42,766 rooms) were ahead of last year by 51 hotels (5,347 rooms). The majority of 2018 signings were within our mainstream brands including the Holiday Inn

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brand family (156 hotels, 15,643 rooms), our extended stay brands, Staybridge Suites and Candlewood Suites (76 hotels, 7,218 rooms) and avid hotels (129 hotels, 12,057 rooms), which continues to make good progress towards becoming IHG's next brand of scale.

94 hotels (9,340 rooms) were removed from the pipeline in 2018 compared to 78 hotels (9,151 rooms) in 2017.

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EMEAA

It has been a strong year of performance for EMEAA. Through expanding our core brand portfolio, launching exciting new brands and step-changing performance, we have increased our signings by more than 20%. Our talented teams, working close to the market, have delivered richer guest experiences and enhanced owner returns.

**Kenneth Macpherson**

Chief Executive Officer, EMEAA

**EMEAA revenue 2018** (\$569m)

**EMEAA number of rooms** (211,099)

**Comparable RevPAR movement**

**on previous year**

(12 months ended 31 December 2018)

**Fee business**

InterContinental

Crowne Plaza

**2.6%**

**3.4%**

Hotel Indigo	4.7%
Holiday Inn	3.0%
Holiday Inn Express	2.0%
Staybridge Suites	1.1%
All brands	2.8%
<b>Owned, leased and managed lease</b>	
InterContinental	(1.6)%
Holiday Inn	6.9%
All brands	(0.7)%

### Regional priorities

EMEA has delivered strong growth with signings increasing by more than 20% in 2018. Through enhancing our core brand portfolio, embedding the new EMEA operating model and focusing on operational performance, as well as continuing to enter new markets with our brands, we will concentrate on delivering growth in 2019.

We have a strategic plan in the UK and a key development in 2018 has been the integration of the UK portfolio properties which is progressing well and will be a focus for 2019. In Germany, one of the world's largest outbound markets, we have developed strong relationships with our Multiple Development Agreement (MDA) partners who are our primary source of growth. We are building an empowered business with increased resource and capability.

The expansion of Kimpton Hotels & Restaurants has gathered momentum across EMEA with key signings in Bangkok, Barcelona, Frankfurt, Paris and Tokyo, as well as the opening of our first UK property – the Kimpton Fitzroy in London. EMEA will look to build further on this momentum in 2019.

### Industry performance in 2018

Industry RevPAR in EMEA increased by 4.3%, driven by a 3.2% average daily rate growth and 0.8ppts occupancy growth. In Europe room demand grew 1.7% and average daily rate advanced 4.3%, resulting in RevPAR growth of 5.5%. UK industry RevPAR was up 2.5%, led by a 1.7% rate increase, as room demand increased 2.6%. In Germany, industry RevPAR was up 2.4%, driven by 1.8% in average daily rate and a 2.8% increase in demand.

RevPAR grew 1.4% in the Middle East. Excluding Egypt, RevPAR declined 5.5% in the Middle East, as supply increased 5.3%. India saw RevPAR increase 2.0%.

Elsewhere in EMEA, several major markets all saw RevPAR growth, including Japan (2.3%), Australia (1.2%), and Thailand (2.8%), driven by both demand and average daily rate.

### Regional highlights

#### Growing our brand portfolio

An agreement to rebrand and operate a portfolio of high-quality hotels established IHG as the UK's leading luxury hotel operator. IHG has subsequently confirmed the UK debut locations for Kimpton Hotels & Restaurants and our new upscale brand, voco, in prime city centre and destination locations around the country.

The launch of new upscale brand voco in June with an ambition to open more than 200 voco hotels over the next 10 years. This distinctive brand will offer owners the ability to drive higher returns through delivering a compelling guest experience and leveraging IHG's powerful systems. The first voco hotels worldwide are already open, in

Australia and the UK.

We announced in October a Multiple Development Agreement (MDA) to bring 15 avid hotels to the German market, where our proactive development approach has delivered exceptional growth in recent years.

### **IHG's regional performance in 2018**

EMEA RevPAR grew 2.7%, driven by 1.8% average daily rate growth. In the UK, where IHG has the largest regional presence, RevPAR increased 1.2%, led by growth in London (2.6%). France and Germany achieved RevPAR growth of 6.5% and 1.0% respectively driven by average daily rate growth. The rest of Europe achieved growth of 8.4%, led by recovery in markets previously impacted by terror attacks and by growth in Russia, driven by the FIFA World Cup.

India RevPAR grew 9.8%, driven by average daily rate, whilst the Middle East declined 6.3%, following oversupply.

Japan grew 3.2% driven by average daily rate whilst growth in Australia (0.8%) was dampened by supply growth in certain cities. Thailand grew by 2.4%.

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## Performance continued

EMEA continued

## EMEA results

	2018 \$m	12 months ended 31 December			
		2017 Restated \$m	2018 vs 2017 % change	2016 Restated \$m	2017 vs 2016 % change
<b>Revenue from the reportable segment<sup>a</sup></b>					
Fee business	320	294	8.8	274	7.3
Owned, leased and managed lease	249	163	52.8	165	(1.2)
<b>Total</b>	<b>569</b>	457	24.5	439	4.1
<b>Percentage of Group revenue from reportable segments</b>	<b>29.4</b>	26.4	3.0	26.3	0.1
<b>Operating profit from the reportable segment<sup>a</sup></b>					
Fee business	200	165	21.2	148	11.5
Owned, leased and managed lease	2	6	(66.7)	9	(33.3)
	202	171	18.1	157	8.9
Exceptional items	(12)	(4)	(200.0)		
<b>Operating profit</b>	<b>190</b>	167	13.8	157	6.4
<b>Percentage of Group operating profit from reportable segments before central overheads<sup>b</sup></b>	<b>21.6</b>	19.9	1.8	18.9	1.0

**Highlights for the year ended****31 December 2018**

Comprising of 1,051 hotels (211,099 rooms) at the end of 2018, EMEAA represented 25% of the Group's room count. Revenues are primarily generated from hotels in the UK and gateway cities in continental Europe, the Middle East and Asia. The largest portion of rooms in the UK and continental Europe are operated under the franchise business model, primarily under our mainstream brands (Holiday Inn and Holiday Inn Express). Similarly, in the upscale market segment, Crowne Plaza is predominantly franchised, whereas, in the luxury market segment, the majority of InterContinental-branded hotels are operated under management agreements. The majority of hotels in markets outside of Europe are operated under the managed business model.



Revenue from the reportable segment<sup>a</sup> increased by \$112m (24.5%) to \$569m and operating profit increased by \$23m (13.8%) to \$190m, both including the benefit of \$7m significant liquidated damages recorded (2017: \$nil). Operating profit from the reportable segment<sup>a</sup> increased by \$31m (18.1%) to \$202m. On an underlying<sup>c</sup> basis, revenue increased by \$14m (3.1%) and operating profit increased by \$25m (14.6%) driven by strong trading, net rooms growth and lower costs associated with the Group wide efficiency programme.

Overall, comparable RevPAR in EMEAA increased by 2.7%, with the UK and Germany increasing by 1.2% and 1.0% respectively.

Recovery in markets previously impacted by terror attacks continued with 6.5% growth in France. The Middle East declined by 6.3%, impacted by increased supply and political instability in certain markets.

Revenue and operating profit from the reportable segment are further analysed by fee business and owned, leased and managed lease hotels.

Fee business revenue increased by \$26m (8.8%) to \$320m, whilst operating profit increased by \$35m (21.2%) to \$200m, partly benefiting from the impact of foreign exchange<sup>d</sup> (revenue \$3m, and operating profit \$2m), and from cost savings associated with the Group-wide efficiency programme. Comparable RevPAR increased by 2.8%, driven by gains in both average daily rate and occupancy.

Owned, leased and managed lease revenue increased by \$86m (52.8%) due to the addition of a portfolio in the UK, and partly benefiting from the impact of foreign exchange<sup>d</sup> (\$2m), whilst operating profit decreased by \$4m (66.7%), partly impacted by adverse foreign exchanged (\$1m).

## Highlights for the year ended

### 31 December 2017

Revenue from the reportable segment<sup>a</sup> increased by \$18m (4.1%) to \$457m and operating profit increased by \$10m (6.4%) to \$167m. Operating profit from the reportable segment<sup>a</sup> increased by \$14m (8.9%) to \$171m. On an underlying<sup>c</sup> basis, revenue increased by \$21m (4.8%) and operating profit increased by \$16m (10.2%) driven by strong trading, 7.0% rooms growth and effective cost control to maintain overheads in line with the prior year.

Overall, comparable RevPAR in EMEAA increased by 4.2%, with the UK and Germany increasing by 4.5% and 2.1% respectively. Recovery in markets previously impacted by terror attacks led to RevPAR growth in the year of 7.1% in France and double digit growth in Belgium and Turkey. Performance was positive in Japan and Australia which grew by 2.7% and 4.5% respectively, however the Middle East decreased by 4.1%, impacted by low oil prices and industry-wide oversupply.

Revenue and operating profit from the reportable segment are further analysed by fee business and owned, leased and managed lease hotels.

Fee business revenue increased by \$20m (7.3%) to \$294m, whilst operating profit increased by \$17m (11.5%) to \$165m, partly impacted by adverse foreign exchange<sup>d</sup> (revenue \$4m, and operating profit \$2m). Comparable RevPAR increased by 4.2%, driven by gains in both average daily rate and occupancy.

Owned, leased and managed lease revenue decreased by \$2m (1.2%), partly benefiting from the impact of foreign exchanged (\$1m) whilst operating profit decreased by

\$3m (33%).

- <sup>a</sup> EMEAA reportable segment includes revenue and operating profit before exceptional items, excluding System Fund revenues and expenses and reimbursement of costs, for both fee business and owned, leased and managed lease hotels.
- <sup>b</sup> Operating profit from reportable segments before central overheads excludes exceptional items, System Fund revenues and expenses, reimbursement of costs, and central overheads, to assist understanding of the relative contribution of IHG's regions to the Group.
- <sup>c</sup> 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).
- <sup>d</sup> The impact of movements between the previous year's actual average exchange rates and actual average rates in 2018.

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

	<b>2018</b>	<b>Hotels Change over 2017</b>	<b>2018</b>	<b>Rooms Change over 2017</b>
<b>At 31 December</b>				
<b>Analysed by brand</b>				
Regent	3	3	769	769
InterContinental	106	2	32,299	508
Kimpton	2	1	608	334
Crowne Plaza	182	6	46,259	1,685
voco	2	2	531	531
Hotel Indigo	35	8	3,748	954
Holiday Inn <sup>a</sup>	385	2	71,353	923
Holiday Inn Express	304	22	43,732	4,557
Staybridge Suites	15	4	2,185	596
Other	17	10	9,615	1,166
<b>Total</b>	<b>1,051</b>	<b>60</b>	<b>211,099</b>	<b>12,023</b>
<b>Analysed by ownership type</b>				
Franchised	726	31	118,122	6,344
Managed	309	18	89,204	3,554
Owned, leased and managed lease	16	11	3,773	2,125
<b>Total</b>	<b>1,051</b>	<b>60</b>	<b>211,099</b>	<b>12,023</b>
<b>Percentage of Group hotel and room count</b>	<b>18.8</b>	<b>23.5</b>	<b>25.2</b>	<b>31.3</b>

<sup>a</sup> Includes 16 Holiday Inn Resort properties (3,391 rooms) (2017: 16 Holiday Inn Resort properties (3,347 rooms)).

**Total number of hotels**

1,051

**Total number of rooms**

211,099

During 2018, EMEAA System size increased by 60 hotels (12,023 rooms) to 1,051 hotels (211,099 rooms). 77 hotels (15,283 rooms) opened in EMEAA in 2018, compared to 52 hotels (16,002 rooms) in 2017.

17 hotels (3,260 rooms) left the EMEAA System in the period, compared to 18 hotels (3,046 rooms) in the previous year.

### EMEAA pipeline

	2018	Hotels Change over 2017	2018	Rooms Change over 2017
<b>At 31 December</b>				
<b>Analysed by brand</b>				
Regent	3	3	514	514
InterContinental	29	1	6,919	439
Kimpton	7	5	1,240	1,041
Crowne Plaza	34	(2)	9,016	361
voco	8	8	1,510	1,510
Hotel Indigo	40	6	5,761	1,021
EVEN Hotels	1		200	
Holiday Inn <sup>a</sup>	106	11	24,339	2,274
Holiday Inn Express	114	6	19,154	1,058
Staybridge Suites	19	5	3,947	1,438
Other	1		143	(271)
<b>Total</b>	<b>362</b>	43	<b>72,743</b>	9,385
<b>Analysed by ownership type</b>				
Franchised	159	6	25,681	853
Managed	202	36	46,907	8,377
Owned, leased and managed lease	1	1	155	155
<b>Total</b>	<b>362</b>	43	<b>72,743</b>	9,385

<sup>a</sup> Includes 10 Holiday Inn Resort properties (2,353 rooms) (2017: five Holiday Inn Resort properties (1,075 rooms)).

#### Total number of hotels in the pipeline

362

#### Total number of rooms in the pipeline

72,743

The EMEAA pipeline totalled 362 hotels (72,743 rooms) at 31 December 2018, representing an increase of 43 hotels (9,385 rooms) over 31 December 2017. Signings of 133 hotels (26,918 rooms), represented an increase of 11 hotels (5,057 rooms) from the prior year.

13 hotels (2,250 rooms) were removed from the pipeline in 2018, compared to 37 hotels (6,098 rooms) in 2017.



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**Strategic Report**

**Performance continued**

**Greater China**

Greater China is our fastest growing region and has seen another record year in both new signings and openings in 2018. We continue executing our strategic plans, including a tailored franchise support model and investing in the talent that supports our growth.

**Jolyon Bulley**

Chief Executive Officer, Greater China

**Greater China revenue 2018 (\$143m)**

**Greater China number of rooms (115,313)**

**Comparable RevPAR movement**

**on previous year**

(12 months ended 31 December 2018)

**Fee business**

InterContinental	6.2%
HUALUXE	21.5%
Crowne Plaza	8.2%
Hotel Indigo	9.3%
Holiday Inn	4.8%
Holiday Inn Express	6.9%
All brands	6.9%

**Regional priorities**

Continue to build on our scale and look forward to opening our 400th hotel. This follows strong growth momentum in 2018, when record openings and signings took our combined System size and pipeline to over 700 hotels, with 193,000 rooms.

Strengthen our owner proposition with the continued roll-out of our franchise model for Holiday Inn Express, Holiday Inn and Crowne Plaza brands. This model is attractive to owners and contributed to 56% of total signings in the region in 2018.

Responding to the needs of our guests, we will continue to innovate using digital technologies, including implementing guest digital payment solutions; launching IHG Rewards Club WeChat Mini Program; and testing Artificial Intelligence enabled smart rooms in InterContinental hotels.

Continue our talent development momentum to support growth.

**Industry performance in 2018**

Lodging industry RevPAR in Greater China increased by 3.7% via growth in both demand and average daily rate. RevPAR has now increased for the last two years, as supply growth continues to slow, whilst average daily rate has continued to rise. Supply increase in 2018 (3.8%) was the lowest in the last 19 years.

Tier 1 city RevPAR grew 5.1% for 2018, led by 5.0% increase in average daily rate. Tiers 2, 3 and 4 saw moderate RevPAR growth below 3%. Tier 2 saw the largest increase in demand (6.5%) while tier 1 saw the smallest (2.4%). Whilst supply growth slowed in Greater China overall, certain areas continued to see strong increases, including Mainland China (4.0%) and Macau (3.5%). Demand was also the strongest in those areas with Mainland China increasing 4.8% and Macau increasing 7.5%. Hong Kong RevPAR grew 10.6% led by an average daily rate increase of 9.7% for the year.

**Regional highlights**

**Franchise growth**

Adapting our America’s franchise platform, we have tailored and implemented the Greater China Franchise Performance Support Model. Built to support franchise hotels, it delivers a high quality guest experience and superior owner returns.

Franchise Plus has significantly accelerated Holiday Inn Express growth in China, with 71 hotels signed in 2018, taking the total signed since launch to 143. We extended this franchise offer to Crowne Plaza and Holiday Inn with seven franchise signings under these brands in 2018.

We continue to evolve this franchise model, focusing on improving owner returns through the delivery of the next generation design for Holiday Inn Express and Holiday Inn brands.

### **IHG's regional performance in 2018**

IHG's comparable RevPAR in Greater China increased by 6.9% in 2018, ahead of the industry, driven by 3.5% average daily rate growth and 2.1% occupancy growth. Mainland China RevPAR increased by 6.3%, led by growth in tier 1 and tier 2 cities due to strong transient and meeting demand, ramp-up of new hotels and a strong Chinese New Year. RevPAR grew in Hong Kong and Macau by 8.9% and 8.4% respectively.



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## Greater China results

		<b>12 months ended 31 December</b>			
	<b>2018 \$m</b>	2017 Restated \$m	vs 2017 % change	2016 Restated \$m	2017 vs 2016 % change
<b>Revenue from the reportable segment<sup>a</sup></b>					
Fee business	<b>143</b>	117	22.2	112	4.5
<b>Total</b>	<b>143</b>	117	22.2	112	4.5
<b>Percentage of Group revenue from reportable segments</b>	<b>7.4</b>	6.8	0.6	6.7	0.1
<b>Operating profit from the reportable segment<sup>a</sup></b>					
Fee business	<b>69</b>	52	32.7	46	13.0
Exceptional items	<b>(1)</b>				
<b>Operating profit</b>	<b>68</b>	52	30.8	46	13.0
<b>Percentage of Group operating profit from reportable segments before central overheads<sup>b</sup></b>	<b>7.4</b>	6.0	1.4	5.5	0.5

**Highlights for the year ended****31 December 2018**

Comprising 391 hotels (115,313 rooms) at 31 December 2018, Greater China represented approximately 14% of the Group's room count. The majority of rooms in Greater China operate under the managed business model.

Revenue from the reportable segment<sup>a</sup> increased by \$26m (22.2%) to \$143m and operating profit increased by \$16m (30.8%) to \$68m, both including the benefit of \$6m of significant liquidated damages recorded (2017: \$nil). Operating profit from the reportable segment<sup>a</sup> increased by \$17m (32.7%) to \$69m. On an underlying<sup>c</sup> basis, revenue increased by \$18m (15.4%) and operating profit increased by \$10m (19.2%). The region achieved comparable RevPAR growth of 6.9%, ahead of the industry, reflecting our scale and management strength in Greater China.

These increases in fee business revenue and operating profit were driven by strong trading and 13.6% rooms growth and continued benefits of leveraging the scale of the operational platform we have built in Greater China. Comparable RevPAR growth of 6.9% benefited from strong transient and meetings demand in mainland tier 1 and tier 2 cities.

### Highlights for the year ended

#### 31 December 2017

Revenue from the reportable segment<sup>a</sup> and operating profit increased by \$5m (4.5%) to \$117m and by \$6m (13.0%) to \$52m respectively and on an underlying<sup>c</sup> basis revenue increased by \$7m (6.3%) and operating profit by \$6m (13.0%).

These increases in fee business revenue and operating profit were driven by strong trading in Mainland China and 9.2% rooms growth as well as robust cost control as we continued to leverage the scale of the operational platform we have built in Greater China. RevPAR growth of 6.0% benefited from strong transient, corporate and meetings demand in mainland tier 1 cities.

<sup>a</sup> Greater China reportable segment includes revenue and operating profit before exceptional items, excluding System Fund revenues and expenses and reimbursement of costs, for the fee business.

<sup>b</sup> Operating profit from reportable segments before central overheads excludes exceptional items, System Fund revenues and expenses, reimbursement of costs, and central overheads, to assist understanding of the relative contribution of IHG's regions to the Group.

<sup>c</sup> 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).

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## Performance continued

Greater China continued

**Greater China hotel and room count**

<b>At 31 December</b>	<b>2018</b>	<b>Hotels Change over 2017</b>	<b>2018</b>	<b>Rooms Change over 2017</b>
<b>Analysed by brand</b>				
Regent Hotels	3	3	1,236	1,236
InterContinental	47	7	19,229	2,600
HUALUXE	8	1	2,335	246
Crowne Plaza	91	9	32,410	3,462
Hotel Indigo	10	3	1,506	483
Holiday Inn <sup>a</sup>	92	6	28,007	1,348
Holiday Inn Express	133	32	29,164	5,351
Other	7	2	1,426	(952)
<b>Total</b>	<b>391</b>	<b>63</b>	<b>115,313</b>	<b>13,774</b>
<b>Analysed by ownership type</b>				
Franchised	36	25	8,755	4,991
Managed	355	38	106,558	8,783
<b>Total</b>	<b>391</b>	<b>63</b>	<b>115,313</b>	<b>13,774</b>
<b>Percentage of Group hotel and room count</b>	<b>7.0</b>	<b>24.7</b>	<b>13.8</b>	<b>35.8</b>

<sup>a</sup> Includes six Holiday Inn Resort properties (1,726 rooms) (2017: six Holiday Inn Resort properties (1,820 rooms)).

**Total number of hotels**

391

**Total number of rooms**

115,313

The Greater China System size increased by 63 hotels (13,774 rooms) in 2018 to 391 hotels (115,313 rooms). 77 hotels (18,812 rooms) opened, our highest ever and 34 hotels (8,242 rooms) higher than 2017. Recent growth in the region has focused on tier 2 and 3 cities, which now represent approximately 67% of our open rooms. 47 Holiday Inn brand family hotels (9,090 rooms) were added in the year, compared to 33 hotels (7,184 rooms) in 2017.

14 hotels (5,038 rooms) were removed in 2018 compared to seven hotels (2,053 rooms) in 2017.

### Greater China pipeline

At 31 December	2018	Hotels Change over 2017	2018	Rooms Change over 2017
<b>Analysed by brand</b>				
InterContinental	25	(3)	7,399	(1,581)
Kimpton	4	2	899	540
HUALUXE	21		6,099	(190)
Crowne Plaza	39	3	11,855	182
Hotel Indigo	17	2	2,794	259
EVEN Hotels	7	4	1,688	892
Holiday Inn <sup>b</sup>	56	2	15,260	144
Holiday Inn Express	171	37	31,650	5,993
Other	1		279	
<b>Total</b>	<b>341</b>	<b>47</b>	<b>77,923</b>	<b>6,239</b>
<b>Analysed by ownership type</b>				
Franchised	124	56	22,005	10,329
Managed	217	(9)	55,918	(4,090)
<b>Total</b>	<b>341</b>	<b>47</b>	<b>77,923</b>	<b>6,239</b>

<sup>b</sup> Includes eight Holiday Inn Resort properties (2,711 rooms) (2017: seven Holiday Inn Resort properties (2,380 rooms)).

### Total number of hotels in the pipeline

341

### Total number of rooms in the pipeline

77,923

At 31 December 2018, the Greater China pipeline totalled 341 hotels (77,923 rooms) compared to 294 hotels (71,684 rooms) at 31 December 2017. Signings (142 hotels, 29,130 rooms) were the highest ever, representing an increase of 20.3% (4,929 rooms) from the prior year. 99 hotels (17,958 rooms) were signed for the Holiday Inn brand family, including 71 franchised Holiday Inn Express hotels.

18 hotels (4,079 rooms) were removed from the pipeline in 2018, compared to 20 hotels (5,975 rooms) in 2017.

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Central

**Central results**

	<b>2018</b>	<b>12 months ended 31 December</b>			
		2017	vs	2016	2017
	<b>\$m</b>	Restated	2017	Restated	vs 2016
		\$m	% change	\$m	% change
Revenue	<b>170</b>	157	8.3	147	6.8
Gross costs	<b>(287)</b>	(259)	(10.8)	(270)	4.1
Exceptional items	<b>(55)</b>	(102)	(14.7)	(123)	17.1
<b>Operating loss</b>	<b>(172)</b>	(131)	(31.3)	(123)	6.5

**Highlights for the year ended****31 December 2018**

Net operating loss increased by \$41m (31.3%) compared to 2017. Central revenue, which mainly comprises technology fee income, increased by \$13m (8.3%) to \$170m (an increase of \$12m (7.6%) at constant currency), driven by increases in both comparable RevPAR (2.5%) and IHG System size (4.8%).

Gross costs increased by \$28m (10.8%), partly impacted by \$2m of adverse foreign exchange<sup>a</sup> and driven by reinvestment of a portion of savings delivered elsewhere in the business and higher healthcare costs.

Net operating loss before exceptional items increased by \$15m (14.7%) to \$117m (a \$14m or 13.7% increase to \$116m at constant currency).

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

The net operating loss increased by \$8m (6.5%) compared to 2016. Central revenue, which mainly comprises technology fee income, increased by \$10m (6.8%) to \$157m (an increase of \$11m (7.5%) at constant currency),

driven by increases in both comparable RevPAR (2.7%) and IHG System size (4.0%). Gross costs decreased by \$11m (4.1%), benefiting from the impact of \$4m of foreign exchange<sup>a</sup> and the impact of our cost management programme.

Net operating loss before exceptional items decreased by \$21m (17.1%) to \$102m (an \$18m or 14.6% decrease at constant currency).

<sup>a</sup> The impact of movements between the previous year's average exchange rates and actual average rates in 2018.

Other financial information

### **System Fund**

In the year to 31 December 2018, System Fund revenues decreased by 0.7% from \$1,242m to \$1,233m (2016: \$1,199m). The primary driver was a favourable adjustment in 2017 (as restated) relating to a change in the actuarial assumptions around the ultimate rate of consumption of IHG Rewards Club points (breakage). This adjustment was immaterial in 2018. This is largely offset by an underlying growth of 6.3% in assessment fees and contributions from hotels, reflecting increased RevPAR and System size, and increased revenue relating to co-branding agreements.

The Group operates a System Fund to collect and administer cash assessments from hotel owners for the specific purpose of use in marketing, the Guest Reservation Systems, and hotel loyalty programme. The Fund also receives proceeds from the sale of loyalty points under third-party co-branding arrangements. The Fund is not managed to generate a profit or loss for IHG, although an in-year surplus or deficit can arise, but is managed for the benefit of hotels in the IHG System with the objective of driving revenues for the hotels.

### **Reimbursement of costs**

In the year to 31 December 2018, reimbursable revenue increased 6.2% from \$1,103m to \$1,171m (2016: \$1,046m), primarily due to an increase in the number of managed hotels in the Americas driving additional payroll cost.

Cost reimbursements revenue represents reimbursements of costs incurred on behalf of managed and franchised properties and

relates, predominantly, to payroll costs at managed properties where we are the employer. As we record cost reimbursements based upon costs incurred with no added mark up, this revenue and related expenses has no impact on either our operating profit or net income.

### **Exceptional items**

Pre-tax exceptional items are treated as exceptional by reason of their size or nature and are excluded from the calculation of adjusted earnings per ordinary share as well as other Non-GAAP measures (see page 36) in order to provide a more meaningful comparison of performance and can include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals, and restructuring costs (for more information see page 124).

2018 pre-tax exceptional items totalled a charge of \$104m. The charge included: \$18m of litigation costs primarily relating to a material settlement agreed in respect of a lawsuit filed against the Group in the Americas region, together

with associated legal fees; \$56m relating to reorganisation costs (see below); \$15m arising from the termination of the US funded Inter-Continental Hotels Pension Plan and \$15m relating to the acquisition of the Regent Hotels and Resorts brand and associated management contracts ( Regent ), the UK portfolio and Six Senses Hotels Resorts Spas ( Six Senses ).

On 1 July 2018, the Group completed the acquisition of a 51% controlling interest in an agreement with Formosa International Hotels Corporation ( FIH ) to acquire Regent.

On 25 July 2018, the Group completed a deal to operate nine hotels under long-term leases from Covivio (formerly Foncière des Régions), which operated under the Principal and De Vere Hotels brands. An additional leased hotel was added to the portfolio on 13 November 2018, bringing the total to ten ( UK portfolio ) at 31 December 2018. Two further leased hotels were added on 14 February 2019. On 12 February 2019, the Group completed the acquisition of Six Senses for \$300m paid in cash.

### Reorganisation costs

In September 2017, the Group launched a comprehensive efficiency programme funding a series of new strategic initiatives to drive an acceleration in IHG's future growth. The programme is centred around strengthening the Group's organisational structure to redeploy resources to leverage scale in the highest opportunity markets and segments. The programme is expected to be completed in 2019.

The programme is expected to realise c.\$125m in annual savings by 2020, of which c.\$75m will benefit the System Fund. These savings, primarily in administrative expenses, are planned to be reinvested as they are realised to accelerate medium-term revenue growth. There will be an estimated \$200m cost to achieve these savings, (of which \$103m was incurred in 2018 (2017: \$45m)), including amounts charged to the System Fund. The exceptional cost charged to the Group income statement in 2018 of \$56m includes consultancy fees of \$25m and severance costs of \$18m.

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#### **Net financial expenses**

Net financial expenses increased by \$9m to \$81m. The increase is primarily due to the unwind of \$5m interest on deferred and contingent consideration relating to the Regent and UK portfolio acquisitions and interest on the 500m bond issued in November 2018. On an underlying basis, interest increased from \$85m to \$100m.

Financing costs included \$48m (2017: \$44m) of interest costs on the public bonds and \$20m (2017: \$20m) in respect of the InterContinental Boston finance lease, both of which are fixed rate debt.

#### **Taxation**

The effective rate of tax on profit before exceptional items and System Fund was 22% (2017: 29%). Excluding the impact of prior year items, the equivalent tax rate would be 23% (2017: 30%). This rate is higher than the average UK statutory rate of 19% (2017: 19.25%), due mainly to certain overseas profits (particularly in the US) being subject to statutory tax rates higher than the UK statutory rate, unrelieved foreign taxes and disallowable expenses.

Taxation within exceptional items totalled a credit of \$27m (2017: credit of \$88m). This included a current tax credit of \$11m on reorganisation costs, a \$5m current tax credit in respect of litigation costs, a \$6m tax credit (\$5m current tax and \$1m deferred tax) arising from a US pension scheme settlement, a \$2m current tax credit in respect of acquisition costs, a \$2m prior year current tax charge on the sale of Avendra, and a \$5m exceptional prior year tax credit in respect of significant US tax reform.

Net tax paid in 2018 totalled \$68m (2017: \$172m). The 2018 tax paid was less than 2017 principally due to material tax repayments from the UK and US tax authorities in 2018 and exceptional tax paid on the sale of Avendra in 2017.

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

The Group's Approach to Tax

document is available on IHG's website at



[www.ihgplc.com/responsible-business](http://www.ihgplc.com/responsible-business)

Tax liabilities or refunds may differ from those anticipated, in particular as a result of changes in tax law, changes in the interpretation of tax law, or clarification of uncertainties in the application of tax law. Procedures to minimise risk include the preparation of thorough tax risk assessments for all transactions carrying material tax risk and, where appropriate, material tax uncertainties are discussed and resolved with tax authorities in advance. As a result of its business profile as a hotel manager, and also as a residual legacy from prior acquisitions, IHG does have a small number of subsidiaries in jurisdictions commonly portrayed as tax havens. IHG manages such subsidiaries on a basis consistent with its business principles (for example, by making some foreign incorporated companies UK tax resident or by operating others so that local profits are commensurate with local activity).

IHG's contribution to the jurisdictions in which it operates includes a significant contribution in the form of taxes borne and collected, including taxes on its revenues and profits and in respect of the employment its business generates. IHG earns approximately 75% of its revenues in the form of franchise, management or similar fees, with over 82% of IHG-branded hotels

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

### **Dividends**

The Board has proposed a final dividend per ordinary share of 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¢, an increase of 10% over 2017.

On 19 October 2018, the Group announced a \$500m return of funds to shareholders by way of a special dividend and share consolidation. The special dividend (\$2.621 per ordinary share) was paid on 29 January 2019.

IHG pays its dividends in pounds sterling and US dollars. The sterling amount of the final dividend will be announced on 26 April 2019 using the average of the daily exchange rates from 23 April 2019 to 25 April 2019 inclusive. See page 17 for details of IHG's dividend policy.

### **Earnings per ordinary share**

Basic earnings per ordinary share decreased by 34.0% to 184.7¢ from 279.8¢ in 2017 whilst adjusted earnings per ordinary share and underlying earnings per ordinary share increased by 19.4% to 292.1¢ and by 18.8% to 290.5¢ respectively.

### **Share price and market capitalisation**

The IHG share price closed at £42.37 on 31 December 2018, down from £47.19 on 31 December 2017. The market capitalisation of the Group at the year-end was £8.1bn.

Liquidity and capital resources

## Sources of liquidity

In November 2018, the Group issued a 500m, 2.125% euro bond repayable in May 2027. The bond extends the maturity profile of the Group's debt. Currency swaps were transacted at the same time the bonds were issued in order to swap the proceeds and interest flows into pounds sterling. The currency swaps fix the bond debt at £436m, with interest payable semi-annually at a rate of 3.5%. This is in addition to £400m of public bonds which are repayable on 28 November 2022, £300m repayable on 14 August 2025 and £350m repayable on 24 August 2026.

The Group is further financed by a \$1.275bn revolving syndicated bank facility (the Syndicated Facility) and a \$75m revolving bilateral facility (the Bilateral Facility) which mature in March 2022, both of which were undrawn at the year-end. The Syndicated and Bilateral Facilities contain the same terms and two financial covenants; interest cover; and net debt divided by operating profit before exceptional items, depreciation and amortisation and System Fund revenue and expenses. The Group is in compliance with all of the financial covenants in its loan documents, none of which is expected to present a material restriction on funding in the near future. Financial covenants will not be affected by the adoption of IFRS 16 Leases.

Additional funding is provided by the 99-year finance lease (of which 87 years remain) on InterContinental Boston and other uncommitted bank facilities (see note 20 to the Group Financial Statements). In the Group's opinion, the available facilities are sufficient for the Group's present liquidity requirements. Borrowings included bank overdrafts of \$104m (2017: \$110m), which were matched by an equivalent amount of cash and cash equivalents under the Group's cash pooling arrangements.

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## Liquidity and capital resources continued

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

Net debt of \$1,530m (2017: \$1,851m) is analysed by currency as follows:

	<b>2018</b>	2017
	<b>\$m</b>	\$m
<b>Borrowings</b>		
Sterling*	<b>1,895</b>	1,416
US dollar	<b>329</b>	601
Euros	<b>8</b>	2
Other	<b>2</b>	
<b>Cash and cash equivalents</b>		
Sterling	<b>(479)</b>	(13)
US dollar	<b>(91)</b>	(75)
Euros	<b>(23)</b>	(13)
Canadian dollar	<b>(12)</b>	(13)
Chinese renminbi	<b>(58)</b>	(12)
Other	<b>(41)</b>	(42)
<b>Net debt</b>	<b>1,530</b>	1,851
<b>Average debt level</b>	<b>1,755</b>	1,810

\*2018 includes the impact of currency swaps.

Cash balances at 31 December 2018 include \$502m of the proceeds from the euro bond invested in short-term deposits and repurchase agreements. Cash and cash equivalents include \$2m (2017: \$3m) that is not available for use by the Group due to local exchange controls. In January 2019, \$500m was returned to shareholders via a special dividend.

Information on the maturity profile and interest structure of borrowings is included in notes 20 and 22 to the Group Financial Statements.

Information on the Group's approach to allocation of capital resources can be found on pages 16 and 17.

The Group had net liabilities of \$1,077m at 31 December 2018, (\$1,301m, restated at 31 December 2017).

### **Cash from operating activities**

Net cash from operating activities totalled \$666m for the year ended 31 December 2018, an increase of \$89m on the previous year, reflecting the benefit of lower cash tax (see page 50).

Cash flow from operating activities is the principal source of cash used to fund the

ongoing operating expenses, interest payments, maintenance capital expenditure and normal dividend payments of the Group. The Group believes that the requirements of its existing business and future investment can be met from cash generated internally, disposition of assets, and external finance expected to be available to it.

### **Cash from investing activities**

Net cash outflows from investing activities decreased by \$17m to \$189m, reflecting a lower level of expenditure on IHG Concerto in the current year and a \$43m investment in one of the Group's associates in 2017, offset by Avendra sale proceeds of \$75m received last year. In the current year, \$38m was spent on the acquisition of businesses and a one-off distribution of \$32m was received from a joint venture.

The Group had committed contractual capital expenditure of \$136m at 31 December 2018 (2017: \$104m).

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

Net cash from financing activities totalled \$86m, which was \$532m higher than 2017, primarily due to a \$133m increase in borrowings, including the issue of a new

500m long-term bond, offset by repayment of other borrowings and the cash outflow from the \$400m special dividend paid in 2017.

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

At 31 December 2018, the Group had no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Group's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Contingent liabilities**

Contingent liabilities include performance guarantees with possible cash outflows totalling \$42m, guarantees over the debt of equity investments of \$43m and outstanding letters of credit of \$29m. The Group may also be exposed to additional liabilities resulting from security incidents. See note 30 to the Group Financial Statements for further details.

### **Contractual obligations**

The Group had the following contractual obligations outstanding as of 31 December 2018. See table below.

	Total amounts committed	Less than			After 5 years
		1 year	1 3 years	3 5 years	
	\$m	\$m	\$m	\$m	\$m
<b>Long-term debt obligations<sup>a,b</sup></b>	1,913			511	1,402
<b>Interest payable<sup>b</sup></b>	359	50	112	92	105
<b>Derivatives</b>	46	12	15	15	4
<b>Finance lease obligations<sup>c</sup></b>	3,300	16	32	40	3,212
<b>Operating lease obligations<sup>d</sup></b>	509	56	121	66	266
<b>Agreed pension scheme contributions</b>	6	6			
<b>Capital contracts placed<sup>e</sup></b>	136	136			
<b>Deferred and contingent purchase consideration<sup>f</sup></b>	314	7	30	15	262
<b>Total</b>	6,583	283	310	739	5,251

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

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

<sup>c</sup> Mainly represents the minimum lease payments related to the 99-year lease (of which 87 years remain) on InterContinental Boston. Payments under the lease step up at regular intervals over the lease term.

<sup>d</sup> See note 28 to the Group Financial Statements for further details.

<sup>e</sup> Includes a commitment to spend \$33m on the acquired UK portfolio (see note 11 to the Group Financial Statements for further details) within two and a half years of the acquisition date.

<sup>f</sup> Relates to the acquisitions of Regent and the UK portfolio (see note 11 to the Group Financial Statements for further details).

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### **Governance**

#### **Chair's overview**

**Good governance is integral to IHG's success and ensuring long-term, sustainable value creation and our ability to create a diverse and inclusive culture built on strong values and ethics.**

At IHG, we recognise the importance of maintaining the highest standards of corporate governance which supports our culture, our values and our commitment to conducting business responsibly. Good corporate governance underpins a successful business and recognises the importance of all stakeholders.

The Board oversees the long-term strategic aims of the Group and is responsible for the leadership of the Group, ensuring our actions are in keeping with the strong ethics and values that shape our culture and deliver long-term, sustainable value for our stakeholders.

#### **Focus areas and activities**

During 2018, the Board and Executive leadership team worked together in a constructive and effective collaboration to develop our shared commitment to our strategy, with growth as the central focus. Our two day Annual Strategy Meeting concentrated on the competitive landscape and dynamics, our performance and progress against our growth plans, and the potential challenges ahead.

During the year, the Board regularly reviewed progress against strategic and operational goals, ensured that risk management controls (in line with the Group's risk appetite) were incorporated within key decisions and that the impact on key stakeholders was considered.

Culture featured prominently on the Board agenda, as the Board believes that continuing to evolve our culture (and continuing to focus on diversity and the talent pipeline) is critical for the long-term.

The increasing challenge posed by cybersecurity meant that the Board strengthened governance and oversight of cyber risk. The conclusions of an independent external assessment of vulnerabilities and cybersecurity maturity and a forward-looking action plan were presented to the Board, and regular Board updates provided.

Other key focus areas in 2018 included (i) a review of changes in corporate governance regulations; (ii) compliance with the hosting and processing of personal data requirements under GDPR; and (iii) reporting and disclosure requirements to support greater transparency, including those relating to the UK Gender Pay Gap.

#### **Governance framework**

The Board delegates certain responsibilities to the Audit, Corporate Responsibility, Nomination and Remuneration Committees (the Principal Committees) to assist in ensuring that effective corporate governance permeates throughout



the business.

We have reviewed the new 2018 UK Corporate Governance Code (the 2018 Code) and The Companies (Miscellaneous Reporting) Regulations 2018, to determine how we can further enhance our governance processes. Our Principal Committees Terms of Reference have been amended and we are assessing processes to ensure effective Board engagement with our workforce. This work will continue into 2019 and we will report on our compliance with the 2018 Code next year.

The Audit Committee has this year been focused on risk and assurance, given changes to the organisational structure and the programme of strategic initiatives, and overseeing the external audit tender process; the Corporate Responsibility Committee has been focused on the delivery of targets for 2018-2020 and the continuing development of our responsible business approach; the Nomination Committee has been focused on the composition and diversity of the Board and the continuing development of our diversity and inclusion framework; and the Remuneration Committee has been focused on ensuring that the delivery against our strategic objectives are appropriately incentivised.

### **Board culture and composition**

We have a disciplined approach to Board composition to ensure that the Board collectively has the appropriate skills, competencies, diversity of style, gender and perspective, as well as geographical representation to effectively contribute and add value.

Last year we identified the need to increase our US representation and appointed Elie Maalouf to the Board as a result. As Chief Executive Officer of the Americas, Elie is responsible for IHG's largest operating region and details of the induction process for Elie can be found on page 62.

### **Training, development and Board performance review**

The training and development needs of each Director are regularly reviewed. During 2018, Directors received training on a variety of topics, further details of which can be found on page 62.

We continue to run our three-year Board evaluation cycle and in 2018, as part of our internal Board effectiveness review, we confirmed that the Board processes were operating effectively. We also conducted another peer-to-peer Chair and Non-Executive Director assessment. Further details can be found on page 63.

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

As a dual-listed company with a premium listing on the London Stock Exchange and a secondary listing on the New York Stock Exchange, we are required to file an Annual Report in the UK and a Form 20-F in the US. To ensure consistency of information provided to both UK and US investors, we have again produced a combined Annual Report and Form 20-F. Our statement of compliance with the 2016 UK Corporate Governance Code (the Code) is located on pages 70 and 71. I am pleased to report that, during 2018, we complied fully with all principles and provisions of the Code. A statement outlining the differences between the Group's UK corporate governance practices and those followed by US companies can be found on page 196.

### **Looking forward**

We recognise the importance of good corporate governance in facilitating effective management that can deliver the long-term success of our organisation for our stakeholders. In 2019 we will continue to monitor and support our strategic initiatives, continue our focus on culture and diversity, risk appetite and cybersecurity, and ensure that our ways of working, structures of reporting, systems of control and commitment to conducting business responsibly,

continue to underpin our strategic and operational goals, and align with the revised governance regime.

**Patrick Cescau**

Chair of the Board

18 February 2019

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### **Corporate Governance**

Our Board and Committee governance structure

We are committed to maintaining the highest standards of corporate governance. Our governance framework is led and directed by the Board, which in turn delegates certain responsibilities to its Committees to support IHG's culture, values and commitment to conducting business responsibly.

### **The Board and its Committees**

The Board leads the strategic direction and long-term objectives, and is responsible for the success of the Group, setting strategic aims and monitoring the performance of the Group and its risk management controls. A number of key decisions and matters are reserved for the Board and are not delegated to management. The schedule of matters reserved was reviewed at the December 2018 Board meeting and is available on our website. The Board will now be responsible for reviewing the means for the workforce to raise concerns in confidence and the reports arising from its operation, which to date had been reviewed by the Audit Committee.

The Board is supported by its Principal Committees, namely the Audit Committee, Corporate Responsibility Committee, Nomination Committee and Remuneration Committee, to assist it in carrying out its functions, overseeing the delivery of strategic objectives and driving sustainable value for shareholders and considering the impacts on, and interests of, key stakeholders. Details of how the Board spent its time during 2018 can be found on pages 60 to 62.

### **Management Committees**

Operational matters, routine business and information disclosure procedures are delegated by the Board to Management Committees.

The Executive Committee is chaired by the CEO and considers and manages a range of day-to-day strategic and operational issues facing the Group, including the development of the Group's strategy and budget for the Board's approval, executing the strategic plan once agreed by the Board, monitoring the Group's performance and providing assurance to the Board in relation to overall performance and risk management.

The General Purposes Committee is chaired by an Executive Committee member and attends to business of a routine nature and to the administration of matters, the principles of which have been agreed previously by the Board or an appropriate Committee.

The Disclosure Committee is chaired by the Group's Financial Controller and ensures that proper procedures are in place for statutory and listing requirements. This Committee reports to the Chief Executive Officer, the Chief Financial Officer and the Audit Committee.

More information on our Board and Committees is available on our website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under Corporate governance.

**Board and Committee membership and attendance in 2018**

	Appointment date	Committee appointments	Board	Audit Committee	Corporate Responsibility Committee	Nomination Committee	Remuneration Committee
ings held			8	5	3	2	
scau <sup>c</sup> utive	01/01/13		8/8			2/2	
	01/07/17		8/8				
Johnson	01/01/14		8/8				
uf	01/01/18		8/8				
nt							
utive							
son utive	01/06/11		8/8	5/5		2/2	
uet	01/03/15		8/8	5/5	3/3	2/2	
	01/09/13		8/8	5/5		2/2	
	01/09/14		7/8			2/2	
new	01/07/11		8/8	5/5	3/3	2/2	
ald	01/06/13		8/8	5/5	3/3	2/2	
ai	01/03/17		7/8		2/3 <sup>b</sup>	2/2	

<sup>a</sup> Ian Dyson was unable to attend one Remuneration Committee meeting due to a prior commitment.

<sup>b</sup> Malina Ngai was unable to attend one Corporate Responsibility Committee meeting and one Remuneration Committee meeting due to a prior commitment.

<sup>c</sup>

In principle the Chair attends all Committee meetings, and the full Board attends the relevant sections of the Audit Committee meetings when results and risk management processes and controls are discussed and considered.

**Board Committee membership key**

Audit Committee member

Remuneration Committee member

Corporate Responsibility Committee member

Chair of a Board Committee

Nomination Committee member

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### **Governance**

#### **Corporate Governance continued**

##### **Our Board of Directors**

#### **Patrick Cescau**

##### **Non-Executive Chair**

Appointed to the Board: 1 January 2013

**Skills and experience:** From 2005 to 2008, Patrick was Group Chief Executive of Unilever Group, having previously been Chair of Unilever PLC, Vice-Chair of Unilever NV and Foods Director, following a progressive career with the company, which began in France in 1973. Prior to being appointed to the board of Unilever PLC and Unilever NV in 1999, as Finance Director, he was Chair of a number of the company's major operating companies and divisions, including in the US, Indonesia and Portugal. He was formerly a Senior Independent Director and Non-Executive Director of Pearson plc and Tesco PLC, and a Director at INSEAD.

**Board contribution:** Patrick has held board positions for nearly 16 years in leading global businesses and brings

extensive international experience in strategy, brands, consumer products, and finance. As Chair, Patrick is responsible for leading the Board and ensuring it operates in an effective manner, and promoting constructive relations with shareholders and wider stakeholders. As Chair of the Nomination Committee, he is responsible for reviewing and making recommendations on the Group's leadership needs.

**Other appointments:** Currently a Senior Independent Non-Executive Director of International Airlines Group, Patrick is also a trustee of The Leverhulme Trust, Patron of the St Jude India Children's Charity and Member of the TEMASEK European Advisory Panel.

#### **Keith Barr**

##### **Chief Executive Officer (CEO)**

Appointed to the Board: 1 July 2017

**Skills and experience:** Keith has spent more than 25 years working in the hospitality industry across a wide range of roles. He started his career in hotel operations and joined IHG in 2000. Since April 2011 he has been a member of IHG's Executive Committee. Directly before being appointed Chief Executive Officer, Keith served as Chief Commercial Officer for four years. In this role, he led IHG's global brand, loyalty, sales and marketing functions, and oversaw IHG's loyalty programme, IHG Rewards Club. Prior to this, Keith was CEO of IHG's Greater China business for four years, setting the

foundations for growth in a key market and overseeing the launch of the HUALUXE® Hotels and Resorts brand.

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

**Other appointments:** Keith is a graduate of Cornell University's School of Hotel Administration and is currently a member of its Cornell SC Johnson College of Business Dean's Advisory Board.

### **Paul Edgecliffe-Johnson**

#### **Chief Financial Officer (CFO)**

Appointed to the Board: 1 January 2014

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

Officer of the Europe, Middle East and Africa region (prior to the reconfiguration of our operating regions).

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

**Other appointments:** Currently a Non-Executive Director of Thomas Cook Group plc.

### **Elie Maalouf**

#### **Chief Executive Officer, Americas**

Appointed to the Board: 1 January 2018

**Skills and experience:** Elie was appointed Chief Executive Officer, Americas in February 2015, with nearly 15 years experience working in a major global franchise business. He joined the Group having spent six years as President and Chief Executive Officer of HMSHost Corporation, a global travel and leisure company, where he was also a member of the board of directors. Elie brings broad experience spanning hotel development, branding, finance, real estate and operations management as well as food and beverage expertise. Prior to joining IHG, Elie was Senior Advisor with McKinsey & Company from 2012 to 2014.

**Board contribution:** Elie is responsible for business development and performance of all hotel brands and properties in the Americas region and brings a deep understanding of the global hospitality sector to the Board.

**Other appointments:** Currently a member of the American Hotel & Lodging Association Executive Committee of the Board and the US Travel Association CEO Roundtable. Elie also sits on the Investment Advisory Council of the U. S. Department of Commerce. In addition, Elie serves as a member of the Global Advisory Council at the University of Virginia Darden School of Business and is a board member of the Atlanta Committee for Progress.

## Dale Morrison

### Senior Independent Non-Executive Director (SID)

Appointed to the Board: 1 June 2011

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

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

in the branded foods sector. Dale's role as Senior Independent Non-Executive Director is fundamental to the successful operation of the Board.

**Other appointments:** Currently a Non-Executive Director of International Flavors & Fragrances Inc., and Non-Executive Chair of Marlin 1 (holding company for Young's Seafood International Holdings Ltd.).

## Anne Busquet

### Independent Non-Executive Director

Appointed to the Board: 1 March 2015

**Skills and experience:** Anne began her career at Hilton International in Paris, before joining American Express in New York, where she held several executive positions and served for 23 years. Anne was also the Chief Executive Officer of Local and Media Services at InterActiveCorp.



**Board contribution:** Anne brings more than 20 years' experience in senior positions in multinational companies, predominantly in the financial, branded and digital-commerce sectors.

**Other appointments:** Anne is currently the President of AMB Advisors, an independent consulting firm, and Managing Director at Golden Seeds LLC, an angel investment company. She also serves on the boards of Pitney Bowes, MTBC and Elior Group and on the advisory boards of JEGI and SheSpeaks.

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**Ian Dyson**

**Independent Non-Executive Director**

Appointed to the Board: 1 September 2013

**Skills and experience:** Ian has held a number of senior executive and finance roles, including Group Finance and Operations Director for Marks and Spencer Group plc for five years from 2005 to 2010, where he oversaw significant changes in the business. In addition, Ian was Chief Executive Officer of Punch Taverns plc, Finance Director for the Rank Group Plc, a leading European gaming business, and Group Financial Controller and Finance Director for the hotels division of Hilton Group plc.

**Board contribution:** Ian has gained significant experience from working in various senior finance roles, predominantly in the retail, leisure and hospitality sectors. Ian became Chair of the Audit Committee on 1 April 2014, and, as such, is responsible for leading the Committee to ensure effective internal controls and risk management systems are in place.

**Other appointments:** Currently a Non-Executive Director and Chair of the Audit Committee of SSP Group plc, Senior Independent Non-Executive Director and Chair of the Audit Committee of ASOS plc and Senior Independent Non-Executive Director of Paddy Power Betfair plc.

**Jo Harlow**

**Independent Non-Executive Director**

Appointed to the Board: 1 September 2014

**Skills and experience:** Jo most recently held the position of Corporate Vice President of the Phones Business Unit at Microsoft Corporation. She was previously Executive Vice President of Smart Devices at Nokia Corporation, following a number of senior management roles at Nokia from 2003. Prior to that, she held marketing, sales and management roles at Reebok

**Board contribution:** Jo has over 25 years' experience working in various senior roles, predominantly in the branded and technology sectors. Jo became Chair of the Remuneration Committee on 1 October 2017, and as such she is responsible for setting the remuneration policy. Jo is also a member of the Nomination

International Limited from 1992 to 2003 and at Procter & Gamble Company from 1984 to 1992.

Committee.

**Other appointments:** Currently a member of the Supervisory Board of Ceconomy AG, and a Non-Executive Director of Halma plc and J Sainsbury plc.

**Luke Mayhew**

Independent Non-Executive Director

Appointed to the Board: 1 July 2011

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

**Board contribution:** Luke has over 30 years experience in senior roles in the branded sector and was Remuneration Committee Chair at Brambles Limited from 2006 to 2014 and at IHG from July 2011 to September 2017.

**Other appointments:** Currently a Senior Independent Director of DFS Furniture plc, a trustee of BBC Children in Need and a Governor of the Southbank Centre.

**Jill McDonald**

Independent Non-Executive Director

Appointed to the Board: 1 June 2013

**Skills and experience:** Jill started her career at Colgate-Palmolive Company, spent 16 years with British Airways Plc and has held a number of senior marketing positions in the UK and overseas. Jill was Chief Executive Officer UK and President for the North West Europe division for McDonald's, and held a number of other senior roles in the company from 2006. From May 2015 until September 2017, Jill served as Chief Executive Officer of the Halfords Group plc.

**Board contribution:** Jill has over 30 years experience working with high-profile international consumer-facing brands at both marketing and operational level. As Chair of the Corporate Responsibility Committee, she is responsible for corporate responsibility objectives and strategy and approach to sustainable development.

**Other appointments:** Currently Managing Director, Clothing, Home and Beauty, at Marks and Spencer plc.

**Skills and experience:** Malina is Group Chief Operating Officer of A.S.

**Board contribution:** Malina has over 20 years experience gained

**Malina Ngai**

**Independent Non-Executive Director**

Appointed to the Board: 1 March 2017

Watson Group, which is part of Hong Kong-based conglomerate CK Hutchison Holdings Limited. A.S. Watson Group is the largest international health and beauty retailer in Asia and Europe with 13 brands including Watsons, Superdrug, Savers, The Perfume Shop, Kruidvat, ICI Paris XL and ParknShop. In addition, Malina is Vice Chair of the Hong Kong Retail Management Association and was previously a member of the Board of Directors of the Hong Kong Sports Institute Limited.

from working in senior positions in global organisations across a broad range of sectors, with particular understanding of consumer-facing branded companies and the role that technology and digital commerce play in transforming the consumer experience.

**Other appointments:** Currently Group Chief Operating Officer of A.S.Watson Group and Vice Chair of the Hong Kong Retail Management Association.

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**Governance**

Corporate Governance continued

Our Executive Committee

**In addition to Keith Barr, Paul Edgecliffe-Johnson and Elie Maalouf, the Executive Committee from 1 January 2019 comprises:**

**Claire Bennett**

Chief Marketing Officer

Appointed to the Executive Committee:

October 2017 (joined the Group: 2017)

**Skills and experience:** Claire joined IHG with an in-depth knowledge of the travel and tourism industry having spent 11 years at American Express in a range of senior leadership roles across marketing, consumer travel and loyalty. Most recently, Claire was General Manager (GM), Global Travel and Lifestyle, where she led a team responsible for delivering luxury lifestyle services. Prior to this, Claire held roles as GM for Consumer Loyalty, GM for US Consumer Travel, and Senior Vice President, Global Marketing and Brand Management, where she led worldwide advertising, media, sponsorship and marketing research teams.

Claire has also held senior marketing positions at Dell, as well as finance and general management roles at The Quaker Oats Company, building significant expertise across technology, consumer packaged goods, financial services, and travel and hospitality sectors. Claire has been an Executive Board Member of the World Travel and Tourism Council (WTTC), served as a Board Member of Tumi Inc. and participated on multiple industry advisory boards. Claire is a Certified Public Accountant and holds an MBA from the J.L. Kellogg Graduate School of Management at Northwestern University.

**Key responsibilities:** These include all aspects of our brands, loyalty strategy and programmes, sponsorships, strategic partnerships, insights and analytics and marketing execution.

**Jolyon Bulley**

**Skills and experience:** Prior to Jolyon's appointment as Chief Executive Officer for Greater China, Jolyon was Chief Operating Officer (COO) for the

Jolyon joined IHG in 2001, as Director of Operations, New South Wales in Australia, and then held roles of increasing responsibility

**Chief Executive Officer, Greater China**

Appointed to the Executive Committee:

November 2017 (joined the Group: 2001)

Americas, leading the region's operations for franchised and managed hotels, in addition to cultivating franchisee relationships and enhancing hotel operating performance. Jolyon has also served as COO for Greater China for almost four years, with oversight of the region's hotel portfolio and brand performance, food and beverage brand solutions, new hotel openings and owner relations.

across IHG's Asia-Pacific region. He became Regional Director Sales and Marketing for Australia, New Zealand and South Pacific in 2003, relocated to Singapore in 2005 and held positions of Vice President Operations South East Asia and India, Vice President Resorts, and Vice President Operations, South East and South West Asia. Jolyon graduated from William Angliss institute in Melbourne with a concentration on Tourism and Hospitality.

**Key responsibilities:** These include the management, growth and profitability of IHG's fastest growing region, Greater China.

**Yasmin Diamond**

**Executive Vice President, Global Corporate Affairs**

Appointed to the Executive Committee:

April 2016 (joined the Group: 2012)

**Skills and experience:** Before joining IHG in April 2012, Yasmin was Director of Communications at the Home Office, where she advised the Home Secretary, Ministers and senior officials on the strategic development and daily management of all the Home Office's external and internal communications. She was previously Director of Communications at the Department for Environment, Food and Rural Affairs; Head of Communications for Welfare to Work and New Deal; and Head of Marketing at the Department for Education and Skills. Before joining government communications, Yasmin was Publicity Commissioner for the BBC, where she led communications activity around the launch of a new digital learning channel and around the BBC's educational output for both adults and children.

In 2011, Yasmin was awarded a Companion of the Order of the Bath (CB) in the New Year's honours list in recognition of her career in government communications. In addition, Yasmin sits on the Board of Trustees for the British Council, the UK's international organisation for cultural relations and educational opportunities.

**Key responsibilities:** These include all global communications activity, ensuring that it supports and enables IHG's broader strategic priorities. This includes all external and internal activity, covering both corporate and brand communications, as well as leading IHG's Corporate Responsibility strategy and key public affairs work.

**Skills and experience:** Kenneth Macpherson became Chief Executive

**Key responsibilities:** Kenneth is responsible for the management,

**Kenneth Macpherson**

**Chief Executive Officer, EMEAA**

Appointed to the Executive Committee:

April 2013 (joined the Group: 2013)

Officer, EMEAA in January 2018. Kenneth was previously IHG's CEO for Greater China, a role he held from 2013 to 2017. Kenneth has extensive experience across sales, marketing strategy, business development and operations. In addition to 12 years living and working in China, Kenneth's career includes experience in Asia, the UK, France and South Africa. Before IHG, Kenneth worked for 20 years at Diageo, one of the UK's leading branded companies. His senior management positions included serving as Managing Director of Diageo Greater China, where he helped to build the company's presence and led the landmark deal to acquire ShuiJingFang, a leading manufacturer of China's national drink, and one of the first foreign acquisitions of a Chinese listed company.

growth and profitability of the EMEAA region. He also manages a portfolio of hotels in some of the world's most exciting destinations, in both mature and emerging markets.

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<p><b>Ranjay Radhakrishnan</b></p> <p>Chief Human Resources Officer</p> <p>Appointed to the Executive Committee:</p> <p>December 2016 (joined the Group: 2016)</p>	<p><b>Skills and experience:</b> Ranjay joined IHG as Chief Human Resources Officer in December 2016. He previously spent 23 years at Unilever, in a range of senior leadership roles at global, regional and country levels. At Unilever, Ranjay was most recently Executive Vice President Global HR (Categories and Market Clusters), where he led HR for Unilever's eight regions (Market Clusters) and four global Product Categories under a unified global HR leadership role. Ranjay has worked and lived in several countries, including the UK, the Netherlands, Singapore, UAE and India.</p>	<p><b>Key responsibilities:</b> These include global talent management, learning and capability building, diversity, organisation development, reward and benefit programmes, employee relations, and all aspects of the people and organisation strategy for the Group.</p>
<p><b>George Turner</b></p> <p>Executive Vice President, Chief Commercial and Technology Officer</p> <p>Appointed to the Executive Committee:</p> <p>January 2009 (joined the Group: 2008)</p>	<p><b>Skills and experience:</b> George joined IHG in 2008 and spent a decade as IHG's EVP, General Counsel and Company Secretary, with responsibility for corporate governance, risk and assurance, corporate responsibility and information security. He is a solicitor and qualified to private practice in 1995. Prior to joining the Group, George spent over 10 years with Imperial Chemical Industries PLC, where he held various key positions including Deputy Company Secretary and Senior Legal Counsel. In February 2019 George was appointed as Chief Commercial and Technology Officer, continuing as Company Secretary until</p>	<p><b>Key responsibilities:</b> As EVP, General Counsel and Company Secretary, these included corporate governance, risk management, information security, insurance, regulatory compliance, internal audit, legal and hotel standards. As EVP, Chief Commercial and Technology Officer, these include global sales, distribution, revenue management, property systems, digital and voice, information security and technology.</p>



1 March 2019.

## Changes to the Executive Committee

### Nicolette Henfrey

Executive Vice President, General Counsel and Company Secretary

Appointed to the Executive Committee:

February 2019 (joined the Group: 2001)

**Skills and experience:** Nicolette joined IHG in 2001, and was appointed Deputy Company Secretary in August 2011, during which time she worked very closely with the Board, Executive Committee and wider organisation to ensure best-in-class delivery and compliance across our legal and regulatory areas. Nicolette is a solicitor and prior to joining IHG worked for Linklaters in London and Findlay & Tait (now Bowman Gilfillan) in South Africa. She will be appointed as Company Secretary from 1 March 2019.

**Key responsibilities:** These include overseeing our approach to corporate governance, risk management, insurance, regulatory compliance, internal audit, legal and hotel standards.

### Eric Pearson

It is with deep sadness that we report that Eric Pearson, our Chief Commercial and Technology Officer, passed away on 26 December 2018. Eric was an incredibly unique, talented and well respected individual, both within IHG and across industries. In over 20 years with IHG, he played an integral part in our success, and his expertise, passion, leadership and friendship will be sorely missed. During his tenure, he led many key parts of

our business and helped shape and deliver our strong digital offer, launching several industry firsts and building an excellent leadership team with great strength and depth. He touched many people's lives, and a fitting tribute to him will be the scholarships in his name with Junior Achievement of Georgia, where he was a Board member, which will ensure his legacy goes on to inspire future generations.

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**Governance**

**Corporate Governance continued**

**Board meetings**

The Chair and Company Secretary continue to operate a thorough two-tiered collaborative process for setting the Board agenda to ensure that the focus and discussion strikes the appropriate balance between short-term needs of the business and the longer-term. The Chair, CEO and Company Secretary also meet in advance of each Board and Committee meeting to finalise the agendas and ensure that sufficient time is allocated and in which order each matter is considered. The Company Secretary maintains an annual agenda schedule for Board meetings that sets out strategic and operational matters to be considered. Board papers are circulated to all Board members at least one week in advance of each meeting, to ensure that Directors have sufficient time to fully prepare for the meetings and ensure that effective, focused and relevant discussions take place. Each Board meeting begins with an update from the Chair and CEO, and the CFO then provides a review of the Group's financial performance. Executive Committee members and other members of senior management present updates and deep dives on key initiatives and developments throughout the year, including functional, market and brand reviews, enabling all Directors to engage with senior management, have a strong understanding of Group operations, challenges and successes and contribute to strategic discussions.

The Board continues to receive presentations in the less formal context of pre-dinner meetings, scheduled the day before Board meetings, and invites external experts to provide outside-in perspectives. This year the Board

discussed technological agility and innovation, and the trends and competitive dynamics shaping the digital environment with external experts.

The Board held eight scheduled meetings during the year, and individual attendance is set out on page 55. All Directors are expected to attend all Board meetings and relevant Committee meetings unless they are prevented from doing so by prior commitments, illness or a conflict of interest. If Directors are unable to attend Board or Committee meetings, they are sent the relevant papers and asked to provide comments to the Chair of the Board or Committee in advance of the meeting so that their comments can be duly considered.

Time is set aside at the start and end of each Board meeting for the CEO to meet with the Chair and Non-Executive Directors, and for the Chair to meet privately with the Senior Independent Non-Executive Director (SID) and Non-Executive Directors to discuss any matters arising. The SID continues to be available to discuss concerns with shareholders, in addition to the normal channels of shareholder communication.

During 2018, the Board focused on strategic and operational matters, corporate governance, investor relations and risk management. The interests of key stakeholders were considered throughout all discussions. The key focus areas for the Board during 2018 are outlined below:

**Area of discussion**

**Discussion topic**

## Edgar Filing: INTERCONTINENTAL HOTELS GROUP PLC /NEW/ - Form 20-F

Strategic and operational matters	Accelerating our growth	Regular updates were received on key milestones including organisational structures and workforce transition, progress against key strategic initiatives and risk management and culture change.
	Strategic initiatives	Regular consideration of merger and acquisition activity, including the acquisition of the Regent brand and entry into a managed lease transaction in the UK.
	Operating regions	Operating performance, competitive positioning, outlook and strategy, including progress against KPIs, were considered at each Board meeting and deep-dive sessions on each region were also presented during the year, considering our guest and owner proposition throughout.
	Commercial delivery	Updates on progress against our channels and sales strategy and updates on the roll out of IHG Concerto, including the approach to risk mitigation and future initiatives.
	Brands	Brand performance and initiatives for all brands, including approving the launch of voco, and monitoring progress following the launch of avid hotels.
	Our people and culture	Presentations from the Chief Human Resources Officer on people, and culture change, including updates on engagement scores, feedback sessions, and key learnings. The Board discussed the conclusions reached and next steps, including how the interests of the workforce had been considered and the importance of ensuring key learnings were implemented.
	Finance	In addition to approving the budget, review of the Group's funding and liquidity position and approving a 500 million bond.
Corporate governance	Updates from each of the Board Committees	Details of Committee activities during 2018 can be found on pages 64 to 69 and 72 to 85.
	Corporate Governance Code and The Companies (Miscellaneous Reporting) Regulations	Presentations were received on corporate governance developments, including statutory duties, stakeholder engagement, workforce voice, Board composition, diversity, remuneration, culture and stewardship.
	Quarterly corporate governance and regulatory updates, including reviews of regulatory developments and any upcoming legislative changes affecting the business, the Board and/or its Committees	Internal quarterly updates are provided to the Board covering key regulatory and corporate governance developments and how the Group is responding. Further information can be obtained from the Company Secretary.

Year-end matters, including the Annual Report and Form 20-F

Details of the review process of the Annual Report and Form 20-F can be found on page 64.

Board effectiveness evaluation

Details of the process and outcome of the internal Board effectiveness review can be found on page 63.

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	<b>Area of discussion</b>	<b>Discussion topic</b>
Risk management	Cybersecurity	Presentations from the Chief Information Security Officer on cybersecurity, including the threat landscape, information security priorities, and updates on key initiatives and metrics.
	Internal controls and risk management systems, our risk appetite and our global insurance programme	Regular updates were received on internal controls, risk management systems, our risk appetite and global insurance programme. Reports on risk topics were delivered by the Chair of each Committee.
	Terms of Reference for each Board Committee	Changes to the Terms of Reference of the Committees were approved during the year, in preparation for the implementation of the new 2018 UK Corporate Governance Code. The Terms of Reference for all Committees and the Matters Reserved for the Board can be found on our website.
Investor relations, stakeholder engagement and communications	Updates on investor perceptions and shareholder relations, consideration of analysts reports and media updates	The Board receives a regular report outlining share register movement, relative share price performance, Investor Relations activities and engagement with shareholders. The Board also considered feedback from the regular investor and analyst perception survey.
	Stakeholder engagement	The Board continued to consider stakeholders throughout all Board discussions. In addition separate updates and presentations were provided on the workforce, the Group's owners engagement strategy, and outsource suppliers.
	Global communications updates	The Board receives a regular report on global communications, including the external landscape and communications activity across key regions, our brands and our people.
	Review and approval of shareholder returns strategies for 2018	During the year, the Board considered and after taking into account stakeholder interests, distributable reserves and long-term success of the Company, recommended

two dividends and a \$500 million return to shareholders via a special dividend with share consolidation, which was approved by shareholders on 11 January 2019 and paid on 29 January 2019.

Preparations for the AGM

Details of the 2019 AGM can be found on page 62.

### **Annual Strategy Meeting March 2018**

The Board maintains overall responsibility for the establishment and review of the long-term strategic aims and objectives of the Group. Substantial time is spent considering Group strategy and monitoring performance during the regular Board meetings and, in addition, the Board holds an Annual Strategy Meeting, dedicated to reviewing and discussing our global strategy in detail.

The 2018 Annual Strategy Meeting was held in London and the Board undertook a thorough review of the Group's performance across all business areas, as well as completing a strategic assessment of the competitive landscape and the commercial strategy and

priorities for the Group. This assessment led to a discussion regarding the priorities for the Group going forward and in particular, on all of the initiatives supporting the continuation and delivery of our continued ambition for growth.

Each Board member received a full briefing in advance of the Annual Strategy Meeting to ensure they had the time to reflect on the key information ahead of engaging in the discussions at the meeting.

### **Engagement with stakeholders**

We remain committed to maintaining an active and effective dialogue with our shareholders and all of our key stakeholders. We encourage engagement with investors and other stakeholders through our planned programme of investor relations activities, as well as responding to queries from shareholders, analysts and other stakeholders. Our Registrar, Equiniti, and J.P. Morgan, as custodians of our American Depositary Receipts (ADR) programme, have teams equipped to deal with shareholder and ADR holder queries. A formal external review of investor perceptions is presented to the Board on an annual basis and both the Executive Committee and the Board receive regular updates on shareholder relations to ensure that they are made aware and understand the issues and concerns of major shareholders in order to develop a balanced understanding of any such concerns.

### **Shareholder engagement during the year**

The Board's engagement with shareholders included:

Meeting shareholders and responding to any queries raised at the 2018 AGM and the General Meeting in January 2019.

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Presentations by Keith Barr and Paul Edgecliffe-Johnson to institutional investors, analysts and the media following half-year and full-year results announcements.

Investor roadshow events in the US, Canada, Europe and Edinburgh.

Telephone conferences after the release of the first and third-quarter trading updates, including Q&A sessions with sell-side analysts.

IFRS 15 event, with Paul Edgecliffe-Johnson outlining and presenting the reporting changes to investors and analysts.

Seeking feedback via an annual investor perception survey, facilitated by our capital markets advisers.

Attendance at key institutional investor conferences.

A programme of one-to-one meetings with major institutional shareholders, including Non-Executive Director meetings hosted by the Chair.

The SID remains available to shareholders if they have concerns they wish to discuss.

In addition to the Board's formal engagement with shareholders, Elie Maalouf attended an investor conference in the US and Kenneth Macpherson attended an investor conference in London. In addition, investor hotel tours took place in both China and London.

To enable as many shareholders as possible to access conferences and presentations, telephone dial-in facilities were made available

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### **Governance**

#### **Corporate Governance continued**

Engagement with stakeholders continued

in advance and live audio webcasts were made available after results presentations in 2018, together with associated data and documentation. These can be found at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under Results and presentations. Details of the sell-side research analysts who publish research on the Group are available at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under Analyst details and consensus.

#### **AGM**

The AGM is an opportunity for shareholders to vote on certain aspects of Group business and to discuss matters with the Board. A presentation regarding the Group's performance and financial results is given before the Chair deals with the formal business of the meeting. All shareholders present can ask questions of the Board, during the meeting and more informally over lunch. The Board considers the AGM an invaluable forum for communicating with investors and we encourage participation at this meeting.

The 2019 AGM will be held at 11:00 on Friday 3 May 2019. The notice convening this meeting will be sent to shareholders and will be available at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under Shareholder centre in the AGMs and meetings section.

#### **General Meeting**

A General Meeting was held on 11 January 2019 to consider the consolidation of IHG's share capital and seek authority to purchase our own shares. Shareholders were encouraged to attend and participate in this meeting and all resolutions were passed. Further details can be found at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under Shareholder centre in the AGMs and meetings section.

#### **Shareholder services**

As a result of the special dividend and share consolidation, the annual share-dealing programme was postponed.

#### **Stakeholder engagement**

During the year, the Board also engaged with a number of our key stakeholders, including:

Attendance at the 2018 World Economic Forum in Davos, engaging with a wide variety of clients, owners, suppliers and various country tourism organisations and officials;



Meetings with a number of hotel owners in our Greater China region during the UK China CIIE Business Reception and Dinner;

Joining our Senior Leaders for the annual meeting in Miami; and

Meetings with the workforce and guests during various hotel visits, including in Atlanta and London. In addition, members of the Board engaged with key credit investors as part of the Group's bond roadshow.

Director induction, training and development

### **New Director inductions**

All new Directors, upon appointment, undergo a comprehensive and formal induction programme which is tailored to meet their individual needs. We believe this is crucial to ensure our Directors have an in-depth understanding of and familiarity with the Group's business model, key stakeholders, our principal activities and our strategy, which is key to enabling all Directors to contribute to the Board effectively.

Elie Maalouf was appointed an Executive Director on 1 January 2018. Having been Chief Executive Officer of the Americas since February 2015, Elie already had a thorough understanding of the Group's business model and strategies and had already participated in a number of Investor Relations events. As such, his induction was tailored to provide a thorough outline of his responsibilities and duties as a Director of a public limited company. This included:

The provision of a detailed briefing pack outlining the roles, responsibilities and duties of an Executive Director;

Board induction meetings with the Company Secretary, Deputy Company Secretary and external Corporate Legal Adviser focusing on Director's duties under the Companies Act, key corporate governance and corporate transaction issues, compliance with Listing Rules and relevant regulations;

Induction meetings with the Group Financial Controller and Auditor to review key financial considerations and responsibilities of an Executive Director;

Meeting with Dr Tracy Long, an independent external Board evaluator, to discuss the Board review process and outcomes from past evaluations; and

One-to-one meetings with the Committee Chairs and SID to ensure a thorough understanding of the focus areas of each Committee and the SID.

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

We believe that an ongoing and progressive training programme enables all Board members to fully understand the Group's business and operations and how it interacts with the ever changing external landscape. The Chair continues to review the training and development needs with each Director on a regular basis and the Board is made aware of training opportunities.

Board and Committee meetings are regularly used to update Directors on developments in the environment in which the business operates and in-depth presentations are provided on key topical areas. The Company Secretary provides regular updates on regulatory, corporate governance and legal matters and individual meetings with senior management are arranged if necessary. Focus trends and areas in 2018 included corporate governance changes, consumer and technology developments and information security and cybersecurity trends and developments. In addition, Directors are encouraged to attend external training events to update their skills and knowledge.

Board meetings continue to be held at IHG hotels around the world to provide first-hand experience of our different brands. We believe that this opportunity to meet our workforce, suppliers and owners across the business broadens the Board's understanding of the markets in which we operate. In 2018, Board members attended Board and Committee meetings at our Ravinia offices in Atlanta, the InterContinental® London Park Lane and the Crowne Plaza, Kensington in the UK, as well as meetings at the Group's head offices in Denham, UK. Directors are also encouraged to continue to visit hotels across our brands on an informal basis.

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Board effectiveness evaluation

**Board performance evaluation**

IHG recognises the benefits of the Board undertaking a rigorous evaluation of its own performance and that of its main Committees and individual Directors on an annual basis, in line with the UK Corporate Governance Code recommendations.

In accordance with the Code, we rotate a three-year Board evaluation cycle with an external Board evaluation taking place every three years. Dr Tracy Long of Boardroom Review Limited, an external facilitator with no connection to IHG, completed our external evaluation in 2016. The intention is to complete the next external evaluation in 2019 and therefore during 2018, the Board completed an internal evaluation.

The evaluation this year was conducted by the Chair and the SID through a confidential, structured interview process. The key topics covered in the evaluation included:

Board composition and alignment with the needs of the business;

Board work processes including agenda setting, information flow, areas of engagement and use of time;

Board engagement with strategy;

Board dynamics and effectiveness of meetings, including relations with executives; and

The structure and effectiveness of our Principal Committees.

The feedback from Executive Directors about the Board's performance was incorporated into the assessment process.

Following the analysis of the results, it was concluded that the Board operates effectively, with high levels of engagement and participation as a Board, good interaction with all members of the Executive Committee and an open and transparent relationship with management below the Executive Committee level.

The Board concluded that the topics covered in the agenda items over the year were well balanced, giving the Board an appropriate overview of the key items facing the business, supporting regular and engaged discussion and enabling the Board to monitor the progress against delivery of the Group's strategic objectives. This is also bolstered by the

two-tiered approach to the agenda focussing on operational and strategic objectives both for the short and longer term.

Cybersecurity, talent, diversity, consumer-facing digital trends and maintaining pace with the changing competitive landscape were identified as areas for continued focus.

The Board also concluded that the Principal Committees continued to be well-led, highly engaged and effective.

### **Directors performance evaluation**

In addition to the Board evaluation process outlined above, internal performance evaluations of Directors were undertaken during 2018 in order to enhance the accountability and effectiveness of each Director. Feedback was collected for each Director's peer review by the Chair and SID through an interview format, with a mix of structured interview questions and a more open-ended discussion. Board members were asked to provide comments on their fellow Directors' preparedness, contribution, strengths and weaknesses, industry and company understanding and opportunity for development.

The summary of the feedback was reviewed by the Chair and the SID before being communicated to each Director.

The assessment of the performance of the Chair was led by the SID. The Chair's evaluation consisted of interviews with the Non-Executive Directors, discussing:

The relationship between the CEO and Chair;

Board succession;

Board culture and the Chair's ability to promote and maintain an open, transparent and constructive atmosphere, encouraging co-operation and communication;

Managing the Board in accordance with high standards of corporate governance; and

The effectiveness of the analysis and action taken from the results of last year's evaluation.

The CEO evaluation was led by the Chair in a process involving all Directors by means of a structured interview process. Key areas of focus included:

IHG's performance;

Effectiveness in developing and implementing strategy, talent and culture;

Effectiveness in shaping IHG's reputation and relationships with key stakeholders;

Value stewardship;

Leadership of the Executive Committee; and

Areas for further development.

The length of tenure of Non-Executive Directors continues to be reviewed as part of the Directors' performance evaluation process. Both Luke Mayhew and Dale Morrison have served on the Board for more than six years and, as such, were subject to particular review. It was concluded that both Luke and Dale continue to contribute effectively and to demonstrate commitment to the role including devoting the necessary time.

Directors' additional appointments and time commitments also form part of the internal performance evaluation process. Any potential additional appointments are thoroughly discussed with the Chair before being accepted, with the time commitment required for each role being carefully assessed. During 2018, particular attention was paid to Ian Dyson, Anne Busquet and Jo Harlow's commitments, as well as Paul Edgecliffe-Johnson's time commitment to his Non-Executive Director duties at Thomas Cook Group plc. Following a thorough review process, we determined that their additional appointments do not adversely impact their performance, but add value to their perspective and ability to constructively challenge management.

As a result, it was concluded that all Directors continue to perform their duties effectively, dedicating sufficient time to the Company to discharge their responsibilities effectively.

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### **Governance**

#### **Corporate Governance continued**

##### **Audit Committee Report**

The Committee continues to play a key role within IHG's corporate governance framework, supporting the Board in matters relating to internal control, risk management and financial reporting.

#### **Key duties and role of the Committee**

##### **Key objectives and summary of responsibilities**

The Audit Committee is responsible for ensuring that IHG maintains a strong control environment. It monitors the integrity of IHG's financial reporting, including significant financial reporting judgements, maintains oversight and reviews our systems of internal control and risk management, monitors and reviews the effectiveness and performance of internal and external audit functions, as well as reviewing the behaviours expected of IHG's employees through the Code of Conduct and related policies.

The Committee's role, responsibilities and authority delegated to it by the Board are set out in its Terms of Reference (ToR), which are reviewed annually and approved by the Board.

The Committee's key responsibilities and focus over the year have been:

Reviewing the approach to Risk and Assurance in light of the new organisational structure;

Regular reviews of the Group's information security controls and the information security risk landscape, including reviewing a cybersecurity risk assessment and a detailed roadmap for 2018 and beyond;

Reviewing, challenging and ensuring accurate financial and narrative reporting, including reviewing the Annual Report and Form 20-F and assessing the implementation of new accounting standards, including IFRS 15 concerning revenue recognition and IFRS 16 concerning leases;

Reviewing and assessing the robustness of the Group's internal control and risk management systems and in-depth reviews of specific principal risk areas including the approach to outsourcing and the risk and control environment in relation to the implementation of GRS and the Group's strategic initiatives;

Overseeing the relationship with and appraisal of the Group's external Auditor, including regular analysis of audit and non-audit services;

Overseeing the external audit tender process;

Monitoring and reviewing the role of Internal Audit; and

Overseeing and ensuring the effectiveness of the Group's regulatory compliance policies, procedures and controls, including assessing the Group's approach to the EU General Data Protection Regulation (GDPR).

The ToR are available at [www.ihgplc.com/investors](http://www.ihgplc.com/investors)

under Corporate governance in the Committees section.

### **Membership and attendance at meetings**

Details of the Committee's membership and attendance at meetings are set out on page 55. The CFO, Group Financial Controller, Head of Risk and Assurance and our external Auditor, Ernst & Young LLP (EY), attended all meetings in 2018. Other attendees are invited to meetings as appropriate; and the CEO and all other Directors attended Committee meetings where the principal risks and risk management systems and the approval of financial reporting were considered and discussed. The Committee continues to hold private sessions with the internal and external Auditors without the presence of management to ensure that a culture of transparency is maintained. The Committee Chair continues to have recent and relevant financial experience and all members of the Committee are Independent

Non-Executive Directors. In accordance with the Code, the Board also considers that the Committee as a whole possesses competence relevant to the Company's sector, having a range of financial and commercial experience in the hospitality industry and the broader commercial environment in which we operate. Further details of the skills and experience of the Board can be found on pages 56 and 57.

### **Reporting to the Board**

Following each Committee meeting, the Committee Chair updates the Board on key issues discussed. The papers and minutes for each meeting are circulated to all Board members, who are invited to request further information if required and to provide any challenge where necessary.

### **Effectiveness of the Committee**

The effectiveness of the Committee is monitored and assessed regularly by the Chair of the Committee and the Chair of the Board. During 2018, the Committee was also reviewed as part of the internal Board evaluation process (see page 63). The Committee undertook an assessment against its own ToR and I, as Chair, assessed the effectiveness of the Committee across a number of areas, including membership, skills and experience and the work of the Committee across its key responsibility areas. The Committee concluded that it remains effective. Minor changes were also made to the ToR to reflect the 2018 UK Corporate Governance Code, including that whistleblowing procedures and reports would now be matters reserved for the Board.

### **Focus areas and activities**

## Financial and narrative reporting

During the year, the Committee reviewed and recommended approval of the interim and annual Financial Statements (considering the relevant accounting and reporting matters such as impairment reviews, key judgement areas, acquisition accounting, the going concern and viability statements) and the Group's quarterly trading updates. All members of the Board are asked to attend these meetings. The Committee also reviewed and recommended approval of the restatement of the prior year's accounts, prepared to reflect financial reporting changes.

The Committee recognises the importance of understanding changes in accounting policies and practice, and continues to receive an annual update from EY on key changes in this area. In 2018, the Committee continued its review of the implementation of IFRS 16 concerning leases and IFRS 15 concerning revenue recognition, particularly in relation to the System Fund revenues and the treatment of loyalty programme accounting.

The Committee continued to seek input and guidance from the external Auditor where appropriate to gain further assurance over the process of preparation of the Financial Statements. In addition, the Committee received regular reports from the Chair of the Disclosure Committee and copies of all minutes of that Committee were duly circulated.

The Committee received early drafts of the Annual Report and Form 20-F 2018 (Annual Report), and when providing comments considered: (i) the process for preparing and verifying the Annual Report, which included review by members of the Executive Committee and input from senior colleagues in Operations, Strategy, Human Resources, Finance, Risk and Assurance and Legal; (ii) a report from the Chair of the Disclosure Committee; and (iii) the checklist prepared by the Annual Report team confirming compliance with the relevant regulatory requirements.



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The Committee also considered management's analysis of how the content taken as a whole, was fair, balanced and understandable, and whether it contained the necessary information for shareholders to assess the Group's position and performance, business model and strategy. In order to reach this conclusion, a dedicated project team worked on the contents of the Annual Report and a detailed verification process to confirm the accuracy of the information contained within the Annual Report was undertaken by the Financial, Planning and Analysis

department. The Committee then considered both the structure and content of the Annual Report to ensure that the key messages were effectively and consistently communicated and that meaningful links between the business model, strategy, KPIs, principal risks and remuneration were clearly identified throughout the Annual Report.

Following a review of the contents of the Annual Report alongside the aforementioned criteria, the Committee reported its recommendation to approve the Annual Report to the Board.

**Significant matters in the 2018 Financial Statements**

The Committee discussed with management and the Auditor the key judgements applied in the Financial Statements, the exceptional items arising in the year and the impact of any accounting developments or legislative changes. The main items discussed are outlined below.

<b>Area of focus</b>	<b>Issue/Role of the Committee</b>	<b>Conclusions/Actions taken</b>
Accounting for the System Fund	Given significant changes to the way IHG accounts for the System Fund due to the adoption of IFRS 15 in 2018, the Committee reviewed the controls, judgements and decisions related to System Fund accounting.	In forming a conclusion on the appropriateness of the System Fund accounting the Committee met with senior finance management to review and evaluate the judgements made in determining that revenue and expenses of the System Fund should be accounted for in the income statement, and derecognising the historic balance sheet surplus, as determined by management's interpretation of IFRS 15. The Committee concluded this change was appropriate and their decision was supported by the conclusions reached by the AICPA Hospitality Entities Revenue Recognition Task Force (the Task Force) focused on IFRS 15, where management participated alongside other hotel companies and audit firms.

At each Committee meeting the Committee reviewed the status and results of System Fund testing for controls required by the Sarbanes-Oxley Act. The Committee also considered EY's procedures and conclusions in this area, and concluded that the controls were appropriate and effective.

Accounting for IHG Rewards Club	<p>With the adoption of IFRS 15 the accounting for the IHG Rewards Club programme changed significantly in 2018. Accounting for the programme still requires significant judgement and represents a material deferred revenue balance. Accordingly, the Committee reviewed the controls, judgements and decisions related to accounting for the IHG Rewards Club programme.</p>	<p>In forming a conclusion on the appropriateness of the accounting for the IHG Rewards Club programme, the Committee met with senior finance management to review and evaluate the judgements made to change the accounting for the IHG Rewards Club Points from a liability based on the future cost of redemptions to a deferred revenue balance. The Committee determined the treatment was appropriate and their decision was supported by conclusions reached by the Task Force.</p> <p>The Committee further reviewed the deferred revenue balance and questioned the valuation approach, the results of the external actuarial review and judgement exercised on the breakage of outstanding IHG Reward Club Points. The Committee also considered EY's procedures and conclusions in this area, and concluded that the deferred revenue balance is appropriately stated.</p>
Impairment testing	<p>Impairment reviews require significant judgement and the Committee therefore scrutinises the methodologies applied and the inherent sensitivities in determining any potential asset impairment.</p>	<p>The Committee reviewed a management report outlining the approach taken on impairment testing and key assumptions and sensitivities supporting the conclusion on the various asset categories. The Committee examined the assumptions related to non-current assets, assets previously impaired and the assets acquired as part of the Kimpton acquisition. The Committee also considered EY's procedures and conclusions in this area, and concluded that it agreed with the determinations reached on impairment.</p>
Litigation	<p>From time to time, the Group is subject to legal proceedings with the ultimate outcome of each being subject to many uncertainties. The Committee reviews and evaluates the need for any provisioning on a case by case basis.</p>	<p>At each meeting during the year, the Committee considered a report detailing all material litigation matters. The Committee discussed and agreed any provisioning requirements for these matters.</p>

Exceptional items	<p>The Group exercises judgement in presenting exceptional items. The Committee reviews and challenges the classification of items as exceptional based on their materiality or nature.</p>	<p>The Committee considered the consistency of the treatment and nature of items classified as exceptional over the last five years and discussed the items disclosed as exceptional. The Committee reviewed and challenged the significance, timing and nature of the exceptional items disclosed in note 6, comprising reorganisation costs, acquisition and integration costs, US pension settlement and litigation. The Committee also considered EY's procedures and conclusions in this area, and concluded that the disclosures and the treatment of the items shown as exceptional were appropriate.</p>
Acquisitions of Regent and UK portfolio	<p>Acquisition accounting involves judgement in establishing the fair values of the assets and liabilities acquired. The Committee reviews the accounting and challenges the appropriateness of the inputs and judgements to these valuations.</p>	<p>The Committee considered the work done to establish the fair value of the assets acquired and future consideration payable. The Committee questioned the assumptions underlying the valuations and considered reports provided by third-party valuation experts. The Committee also considered EY's procedures and conclusions in this area, and concluded that the fair values recognised were appropriate.</p>

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### **Governance**

#### **Corporate Governance continued**

Audit Committee Report continued

### **Internal control and risk management**

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and ensuring that sound risk management and internal control systems are maintained, with an appropriate culture embedded throughout the organisation. The Committee supports the Board by reviewing the effectiveness of the Group's internal control and risk management systems, the wider risk environment, and overseeing the risk and control activities in operation.

In order to effectively review the internal control and risk management systems, the Committee:

Receives regular reports from management, Risk and Assurance and the external Auditor on the effectiveness of the systems for risk management and internal control, including financial, operational and compliance controls.

Reviews the process by which risks are identified and assessed and the timeliness and effectiveness of corrective action taken by management, including regular reports and presentations on the Company's overall risk management system and principal risks, mitigating actions and internal controls.

Receives additional reports throughout the year relevant to internal control and risk management, both financial and non-financial, to ensure that current and emerging risks are identified, assessed and appropriately managed (see pages 26 to 30 for further detail on our principal risks and risk management).

As part of the Committee's review of the internal control and risk management systems, key financial, operational and compliance controls across the business continue to be monitored and tested throughout the year. The Committee assesses the approach to Sarbanes-Oxley Act 2002 (SOX) compliance in accordance with our US obligations and reviews reports on the progress of the SOX programme at each meeting. The Committee considers the Group's treasury and tax strategy policies annually and, during 2018 approved changes to the Group Treasury Policy and the Group's published Approach to Tax.

Our Approach to Tax document is available at

[www.ihgplc.com/responsible-business](http://www.ihgplc.com/responsible-business)

Having reviewed the internal control and risk management systems throughout the year, the Committee concluded that the Group has an effective system of risk management and internal controls, and that there are no material

weaknesses in the control environment and no significant failings or weaknesses.

### **Principal risk areas**

The Committee has a schedule for in-depth reviews into specific principal risk areas over the year, in addition to the regular risk management review. During 2018, the Committee considered in particular:

The Group's approach to risk and assurance, in the context of the a dynamic risk environment.

Information security, cybersecurity and privacy. A key focus for the Committee during the year was information security and, in particular, cybersecurity. A cybersecurity risk assessment was undertaken, highlighting the specific risks facing the hospitality industry and an assessment of the Group's current cybersecurity capability. The Committee discussed the findings and recommendations with the Chief Information Security Officer, and agreed metrics to measure progress. The Committee also reviewed and assessed the Group's approach to privacy regulations, in particular GDPR and China Cybersecurity Laws and recently received a report on the Group's privacy programme from the Group's Data Protection Officer.

Financial Management and Controls, including fraud risk awareness, and the Group's approach to tax and treasury management.

Risk management and assurance measures, including the governance and control framework in the new organisational structure and across key strategic initiatives, focusing in particular on risks in relation to outsourcing and the implementation of IHG's Guest Reservation System.

Safety and security in hotels including review of significant incidents reported and the Group's process and approach for managing allegations relating to ethical issues.

Further details of our principal risks, uncertainties and review process can be found on pages 26 to 30.

### **Relationship with external auditor**

A detailed audit plan was received from EY at the beginning of the audit cycle for the 2018 financial year, which gave an overview of their approach to the audit, outlining the significant risk areas and in particular the approach to materiality and scoping of the audit.

The Committee regularly reviewed the significant audit risks and assessed the progress of the audit throughout the year.

### **Non-audit services**

The independence and objectivity of the non-audit services provided by EY to the Group are safeguarded by IHG's Audit and Non-Audit Services Pre-Approval Policy. The policy is reviewed by the Audit Committee annually, and minor changes were approved in 2018.

The policy requires that pre-approval is obtained from the Audit Committee for all services provided by the external Auditor before any work can commence, in line with US SEC requirements without any de minimis. The Committee reviewed the audit and non-audit fees incurred with EY on a quarterly basis during 2018, noting that there had been no prohibited services (as defined by the Sarbanes-Oxley Act of 2002) provided to the Group in each period. The

Committee is prohibited from delegating non-audit services approval to management and compliance with the policy is actively managed.

IHG is committed to maintaining non-audit fees at a low level and the Committee is sensitive to investor advisory bodies' guidelines on non-audit fees. During 2018, 21% of services provided to the Group were non-audit services (2017: 23%), primarily related to SOC1 reports and agreed upon procedures. Details of the fees paid to EY for non-audit work during 2018, and for statutory audit work during 2018 can be found on page 123. The Committee is satisfied that the Company was compliant during the year with the FRC's Ethical and Auditing Standards in respect of the scope and maximum permitted level of fees incurred for non-audit services provided by EY. Where non-audit work is performed by EY, both the Company and EY ensure adherence to robust processes to prevent the objectivity and independence of the external auditor being compromised.

### **Audit Quality Review**

During 2018, an Audit Quality Review Team from the FRC undertook an inspection of EY's audit of the Group's 2017 Financial Statements. As part of that process, the Committee Chair shared his and the Board's view of the quality of the EY audit. The Committee considered the final inspection report, which did not raise any significant findings, and discussed the results and agreed actions with the lead audit partner. The Committee agreed with the overall assessment which was consistent with its own view of the quality and effectiveness of the external audit.

### **Risk and Assurance Internal Audit**

The Committee discusses the Internal Audit annual plan in December each year, which aims to provide objective and insightful assurance over the control environment. The 2019 plan presented to the Committee included the Group's principal risks and key controls and included reviews over the following areas: (i) risks relating to the Group's strategic initiatives, culture, processes and controls; (ii) assurance reviews and assessments of risk areas, including information security; and (iii) ongoing assurance across areas

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such as the hotel control environment and approach to regulatory compliance. Following consideration, the Committee confirmed its agreement to the 2019 Internal Audit plan, including the key control themes identified. Progress against the Internal Audit plan is reported to the Committee on a quarterly basis and is actively monitored by the Committee. This includes reviewing the results of completed audits and the findings raised through these audits, as well as management action plans to address any issues raised.

A functional effectiveness review of Internal Audit is undertaken each year and reported to the Committee. Internal Audit has again undertaken an internal assessment, noting that the actions raised by the external review two years ago were mostly implemented. Senior stakeholder feedback was gathered and the functional activities of Internal Audit were reviewed according to five categories: Purpose and Remit; Position and Organisation; Process and Technology; People and Knowledge; and Performance and Communication. As a result of the internal review, it was concluded that Internal Audit continues to be effective in providing independent assurance activities.

### **Governance and compliance**

The Committee is responsible for reviewing the Group's Code of Conduct (which is reviewed and approved annually) and related policies. In 2018, the Group's policies and processes in relation to gifts and entertainment and handling data were reviewed and the Committee approved revised policies.

### **Whistleblowing**

The Committee regularly reviewed the Group's whistleblowing arrangements and its reporting and investigation process to ensure that arrangements were in place for proportionate and independent investigation of such matters. The Committee also reviewed the number and potential impact of both substantiated and unsubstantiated cases and ensured that appropriate follow-up action was taken. Any significant claims would be brought to the immediate attention of the Committee and in 2018 no such claims were raised.

In preparation for the Company becoming subject to the 2018 UK Corporate Governance Code next year, the review of the whistleblowing arrangements has been removed from the Audit Committee Terms of Reference and has become a matter reserved for the Board. The Board will routinely review the means for the workforce to raise concerns in confidence and the reports arising from its operation. It will also ensure that arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action.

### **Looking forward**

During 2019, the Committee will focus on information security controls, including cybersecurity, the audit tender process and IHG's control and risk management systems.

**Ian Dyson**

Chair of the Audit Committee

18 February 2019

**External auditor Appointment of Ernst & Young LLP (EY) and audit tender**

The Committee assessed EY's performance during the year, including its independence, effectiveness and objectivity, and considered the appointment of its external Auditor, including the requirements for putting the audit out to tender as set out in EU and Competition and Markets Authority legislation. After due consideration, the Committee recommended the re-appointment of EY as the Auditor of the Group. EY has been our Auditor since IHG's listing in April 2003 and of the Group's predecessor businesses dating back to 1988.

As part of its annual review, the Committee determines the independence of the external auditor, considering, among other things, its challenge to management and level of professional scepticism, the amount of time passed since a rotation of audit partner and the level of non-audit work that it undertakes, details of which can be found on page 66.

To ensure the external Auditor's independence is safeguarded, lead audit partners are required to rotate every five years. Sarah Kokot, who was appointed lead audit partner in 2016, has continued her role during 2018. There was a new UK audit manager during the year.

Another part of the Committee's annual review, completed by the Committee, is to consider the effectiveness of the relationship between EY and management. This included the completion of feedback questionnaires by the Committee members and 54 senior IHG employees. Feedback was requested on a number of topics including independence, assignment management and communication. The Committee also received reports from EY on its independence.

No significant issues were raised in the annual review of the auditor performance and effectiveness and, as a result, the Committee concluded that EY continues to provide an effective audit and maintain independence and objectivity. The Committee is satisfied with the external audit process as a whole and therefore recommended the reappointment of EY to the Board.

Pursuant to regulations mandating a tender for the 2021 financial year, the Group plans to run the audit contract tender in 2019. A sub-committee has been established to manage and govern the audit tender process and is accountable to the Audit Committee, who will maintain overall ownership of the tender process and ensure that it is run in a fair and balanced manner. The sub-committee is supported by a project team, led by the Group Financial Controller.

During 2018, tender participants have been selected, and the design of the selection criteria has been established. In addition, a pre-approval process for non-audit services provided by the participant firms has been agreed and the identification process of current non-audit services has been completed.

Lead partners from the participating firms have been selected and the publicly available audit quality inspection reports, in both the UK and the US, have been reviewed and the implications for the audit tender considered. The Statutory audit services market study, published by the Competition & Markets Authority, and the report issued by Sir John Kingman, have both been reviewed with adjustments made to the tender plan where appropriate.

The audit tender will launch in the second quarter of 2019. To ensure each firm has the right level of information, a data room will be established and work is already underway to determine which items are being included in the data



room. Each firm will participate in a series of management meetings, with the objective that they will build their best proposition.

The tender process for strictly prohibited services will be run after the external audit tender, to allow sufficient time to select new providers and transition services to another firm. The sub-committee will oversee the plan to manage the transition of these services.

The Group confirms that it has complied with the requirements of The Competition and Markets Authority Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, which relates to the frequency and governance of tenders for the appointment of the external auditor and the setting of a policy on the provision of non-audit services.

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### **Governance**

#### **Corporate Governance continued**

#### Corporate Responsibility Committee Report

We understand how vital corporate responsibility is in delivering our purpose of providing True Hospitality for everyone and supporting our shared commitment to long-term value creation.

### **Key duties and role of the Committee**

#### **Key objectives and summary of responsibilities**

The Committee reviews and advises the Board on the Group's corporate responsibility objectives and strategy, including its impact on the environment, social, community and human rights issues, its approach to sustainable development, and stakeholder engagement in relation to the Group's approach to responsible business.

The Committee's role, responsibilities and authority delegated to it by the Board are set out in its Terms of Reference (ToR), which are reviewed annually and approved by the Board.

The ToR are available at [www.ihgplc.com/investors](http://www.ihgplc.com/investors)

under Corporate governance in the Committees section.

The Committee's key responsibilities and focus areas over the year have been:

Reviewing the Group's approach to corporate responsibility, given changes in organisational structure;

Monitoring the delivery of the new Responsible Business targets for 2018-2020, with a focus on the Group's environmental, community and diversity targets;

Reviewing the Group's approach to responsible procurement targets and responsible business in the supply chain;

Reviewing the approach to human rights issues, including the Group's Modern Slavery Statement; and

Overseeing responsible business stakeholder engagement.

### **Membership and attendance at meetings**

The Committee's membership and attendance at meetings are set out on page 55. The Head of Corporate Responsibility attended all meetings and the Chair of the Board also attended two out of the three meetings held during the year.

### **Reporting to the Board**

The Committee Chair updates the Board on all key issues raised at Committee meetings. Papers and minutes for each meeting are also circulated to all Board members, who are invited to request further information where necessary.

### **Effectiveness of the Committee**

The effectiveness of the Committee is monitored and assessed regularly by the Chair of the Committee and the Chair of the Board. During 2018, the Committee was also reviewed as part of the internal Board evaluation process. Further details can be found on page 63. The Committee also undertook an assessment against its own ToR and across a number of areas, including the skills and experience of the Committee and the work of the Committee across its key responsibilities, highlighting additional agenda items and focus areas for 2019. The Committee concluded that it remains effective.

### **Focus areas and activities**

#### **Approach to corporate responsibility**

The Committee discussed the Group's approach to corporate responsibility, given organisational changes and the Group's strategic initiatives, endorsing the internal engagement plans and approach to accountability for delivery of the key targets across the Executive Committee. The Committee also supported the initiation of a broader strategic review, the results of which would be considered in 2019.

#### **Responsible Business targets for 2018-2020**

During 2018 the Committee reviewed and discussed the learnings from the last five years' activities and the approach to delivering the environmental targets, in particular. The Responsible Business targets for 2018-2020 were reviewed and the Committee received regular progress updates across the focus areas: environmental sustainability, community impact, our people, and responsible procurement. The Committee discussed the Group's diversity and inclusion initiatives with the Chief Human Resources Officer, and the Chief Procurement Officer provided insight into the Group's approach to responsible procurement and the longer-term supply chain strategy.

#### **Community and human rights issues**

The Committee reviewed the Group's approach to community giving and endorsed the True Hospitality for Good programme which seeks to deliver True Hospitality to local communities around IHG's hotels and corporate offices, by supporting colleague fundraising and helping lives for the better through building skills and education in hospitality. The Group continues to support communities when disasters strike and in 2018 provided support to communities and colleagues impacted by natural disasters in six countries. The Board (along with 80,000 colleagues) participated in Giving for Good month by packing care kits for victims of human trafficking in the Atlanta area. The Committee also supported the Group's human rights impact assessment, the results of which will be reviewed in 2019, and endorsed

the commitment to the ITP Forced Labour Principles. The Group's Modern Slavery Statement was reviewed and recommended for approval to the Board.

Further information on our responsible business programmes and our approach to human rights can be found on pages 22 to 25.

### **Stakeholder engagement**

The Committee assessed the Group's stakeholder engagement activity, focusing this year on the approach to charity partnerships and engagement with local community organisations, and also supported the recommendation to transition the on-going support of the IHG Foundation (see page 24), in favour of the True Hospitality for Good programme.

Information on our responsible business commitments can be found at [www.ihgplc.com/responsible-business](http://www.ihgplc.com/responsible-business)

Recognising the importance of corporate responsibility, we were pleased to be listed again on the S&P Dow Jones Sustainability Indices, having been listed as the industry leader in RobecoSAM's Hotels, Resorts & Cruise Lines industry group for the second year in a row.

### **Looking forward**

We continue to recognise the importance of environmental, social and governance considerations to all our stakeholders and we are committed to delivering against our Responsible Business targets through our programmes and initiatives.

### **Jill McDonald**

Chair of the Corporate Responsibility Committee

18 February 2019

## **Table of Contents**

Nomination Committee Report

We focus on the Board's structure, size and composition; overseeing appointments and ensuring diversity of experience, knowledge and background in our Board and senior management.

### **Key duties and role of the Committee**

#### **Key objectives and summary of responsibilities**

The Committee reviews the composition of the Board and its Principal Committees, evaluating the balance of skills, experience, independence, knowledge and diversity requirements before making appropriate recommendations to the Board as to any changes. It also ensures plans are in place for orderly succession for both Directors and other Senior Executives and is responsible for reviewing the Group's senior leadership needs.

The Committee's role, responsibilities and authority delegated to it by the Board are set out in its Terms of Reference (ToR), which are reviewed annually and approved by the Board.

The ToR are available at [www.ihgplc.com/investors](http://www.ihgplc.com/investors)

under Corporate governance in the Committees section.

The Committee's key responsibilities and focus areas during the year have been:

Board and Committee composition;

Leadership development and succession planning including evaluating gender balance; and

Changes to the UK Corporate Governance Code.

#### **Membership and attendance at meetings**

The Committee's membership and attendance at meetings are available on page 55. All members of the Committee are Non-Executive Directors. When the Committee considers matters relating to my position, Dale Morrison, the Senior

Independent Non-Executive Director, acts as Committee Chair.

### **Reporting to the Board**

The Committee makes recommendations to the Board for all Board appointments. Minutes are circulated to Board members and I report back to the Board on the activities of the Committee following each meeting.

### **Effectiveness of the Committee**

The effectiveness of the Committee is monitored and assessed regularly by myself, as Chair of the Committee and the Board. During 2018, the Committee was also reviewed as part of the internal Board evaluation process and as Chair, together with the Company Secretary, I undertook an assessment of the work of the Committee. The Committee continues to conclude it remains effective (further details of this process can be found on page 63).

### **Focus areas and activities**

#### **Board and Committee composition**

The Committee continued to review the current and future composition of the Board and Committees, particularly in light of the Group's focus on accelerated growth. Having reviewed the skills, experience and knowledge currently on the Board, considering progressive refreshing of the Board, the Committee was satisfied that an appropriate balance is maintained and therefore no new Director appointments were recommended to the Board during the year.

Elie Maalouf was appointed to the Board on 1 January 2018 and details of his induction process can be found on page 62.

#### **Leadership development and executive succession planning**

During the year, the Committee continued to review the development plans for the Executive Committee and senior management positions in order to ensure the development of a diverse pipeline for succession.

An assessment of our senior leaders was completed in 2018 and presented to the Committee for discussion and consideration as part of a regular review of succession planning.

#### **UK Corporate Governance Code changes and workforce engagement**

The Committee reviewed the 2018 UK Corporate Governance Code (the 2018 Code), considering the implications of changes introduced. The Committee discussed proposals for workforce engagement and concluded that a Non-Executive Director, with support from the Company Secretary and the Chief Human Resources Officer, should assess the most appropriate long-term approach for Board engagement, for consideration by the Committee and the Board in 2019. This would include attending relevant employee meetings in the UK and the US, reviewing engagement surveys and other appropriate workforce related reports and considering existing methods of employee engagement channels.

#### **Diversity**

With a presence in more than 100 countries globally, we recognise that diversity and inclusion is essential, from the Board and throughout all levels of our business. All appointments are based on merit, experience and performance and the Board actively seeks diversity of skills, gender, social and ethnic backgrounds, cognitive and personal strengths. We regularly review how we look at diversity to ensure we represent the communities in which we operate and the guests who stay in our hotels.

Our Global Diversity and Inclusion Policy (D&I Policy) applies to all people employed by IHG and we encourage our franchised operations and those managed hotels where we do not directly employ people to follow the same principles. The objective of our D&I Policy is to celebrate difference, recognising that this underpins external, as well as internal, relationships.

Following the establishment of the Diversity and Inclusion Board (D&I Board) last year, we continue to implement our D&I framework through the D&I Board and locally driven initiatives. The Committee reviewed and discussed our commitments, the progress made and the work of the D&I Board.

We continue to deliver against our D&I Policy and are committed to our 2018-2020 Responsible Business Diversity target, as noted on page 23. As of 31 December 2018, 36% of the Board were female and two of our Principal Committees are chaired by women. In addition, 41% of senior operational leaders are now women, indicating our continued commitment to diversity at all levels of our business.

### **Looking forward**

The Committee remains satisfied that we have appropriate plans in place for orderly succession of appointments to the Board and to senior management, so that an appropriate balance of skills, experience, knowledge and diversity is maintained and that we are making progress against our D&I commitments.

### **Patrick Cescau**

Chair of the Nomination Committee

18 February 2019

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### **Governance**

#### **Corporate Governance continued**

##### Statement of compliance with the UK Corporate Governance Code

Our statement of compliance summarises how the Group has implemented the principles and provisions of the 2016 UK Corporate Governance Code (available at [www.frc.org.uk/directors](http://www.frc.org.uk/directors) under UK Corporate Governance Code) as published in April 2016 (the Code). As discussed on page 54, work is underway to ensure compliance with the 2018 UK Corporate Governance Code (the 2018 Code) and we will include our statement of compliance against the 2018 Code in our 2019 Annual Report and Form 20-F.

This should be read in conjunction with the Corporate Governance statement on pages 55 to 69 and the Directors Remuneration Report, on pages 72 to 85, as a whole.

The Board considers that the Group has complied in all material respects with the Code for the year ended 31 December 2018.

#### **A. Leadership**

##### **A.1 The role of the Board**

The Board continues to lead IHG's strategic direction, long-term objectives and success of the Group. Further responsibilities of the Board are set out on page 55.

The Board met eight times this year and all Directors continue to act in what they consider to be in the best interests of the Company, consistent with their statutory duties. Further details of 2018 Board meetings are set out on pages 60 and 61, attendance information on page 55, skills and experience and biographical information on pages 56 and 57.

All Directors are covered by the Group's directors' and officers' liability insurance policy (see page 178).



## **A.2 Divisions of responsibility**

The separate roles of the Chair and Chief Executive Officer are clearly established, set out in writing and are agreed by the Board.

### **Chief Executive Officer**

Keith Barr leads the development of the Group's strategic direction and implementation of the agreed strategy. As well as building and leading an effective Executive Committee, he oversees IHG's business operations and manages its risks. See page 56 for more details.

## **A.3 The Chair**

As well as building and maintaining an effective Board, Patrick Cescau leads the operation and governance of the Board and its Committees. The Chair has been in post for six years and was independent on appointment. See page 56 for more details.

## **A.4 Non-Executive Directors**

### **Senior Independent Non-Executive Director**

Dale Morrison was appointed as Senior Independent Non-Executive Director on 31 May 2014. He is available to liaise with shareholders who have concerns that they feel have not been addressed through the normal channels of the Chair, Chief Executive Officer and other Executive Directors. He also leads the annual performance review of the Chair with the other Non-Executive Directors (see page 63), and as necessary, provides advice and judgement to the Chair, and serves as an intermediary for other Directors when necessary.

After each Board meeting, Non-Executive Directors and the Chair meet without Executive Directors being present (see page 60). During the year, if any Director has unresolved concerns about the running of IHG or a proposed action, these would be recorded in the minutes of the meeting.

Further information on each of these roles can be found on our website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under Corporate governance.

## **B. Effectiveness**

### **B.1 The composition of the Board**

The size and composition of the Board and its Committees is kept under review by the Nomination Committee to ensure the appropriate balance of skills, experience, independence and knowledge. Details of the skills and experience on the Board can be found on page 56 and 57.

Potential conflicts of interest are reviewed annually and powers of authorisation are exercised in accordance with the 2006 Act and the Company's Articles of Association. At least half of the Board, excluding the Chair, are Independent Non-Executive Directors (see page 55). Further details of the composition of the Board and Committees are available on pages 55 to 57.

### **B.2 Appointments**

The Nomination Committee leads the appointment of new Directors to the Board and senior executives in accordance with its Terms of Reference (available on our website at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under Corporate governance in the Committees section or from the Company Secretary's office on request) and supports the Board in succession planning. Further details of the role of the Nomination Committee and what it did in 2018 are in the Nomination Committee Report on page 69. The overall process of appointment and removal of Directors is overseen by the Board as a whole. Two Non-Executive Directors have served for seven years and were subject to a rigorous review during the year. All other Non-Executive Directors have served for less than six years – see pages 56 and 57.

### **B.3 Commitment**

Non-Executive Director terms of appointment outline IHG's time commitment expectations required to fulfil their role. Executive Directors are not permitted to take on more than one external non-executive directorship or chair position in addition to their role. The commitments of each Director are included in the Directors' biographical details on pages 56 and 57. Details of Directors' service contracts and appointment terms are set out on pages 81, 84 and 187.

The Chair annually reviews the time each Non-Executive Director dedicates to IHG as part of the internal performance evaluation of each Director (see page 63) and is satisfied that their other duties and time commitments do not conflict with those as Directors.

#### **B.4 Development**

The Chair and Company Secretary ensure that new Directors are fully inducted and that all Directors continually update their skills and have the requisite knowledge and familiarity with the Group to fulfil their role (see page 62).

#### **B.5 Information and support**

The Chair and Company Secretary ensure that the Board and its Committees receive timely and appropriate information, and a flow of information between the Executive Committee and Non-Executive Directors. The Board and Committees also have access to the Company Secretary, independent advice and necessary resources, at the Company's expense. They receive administrative and logistical support of a full-time executive assistant. See page 60 for more details.

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### **B.6 Evaluation**

The Board undertakes either an internal or external annual Board effectiveness evaluation. In 2016-17 this was carried out externally and in 2018, it was carried out internally. More information on the evaluation is on page 63.

### **B.7 Re-election**

All of the Directors retire and seek election or re-election at each AGM. Performance evaluations of all Directors, including the Chair, are carried out on an annual basis. Directors' biographies are set out on pages 56 and 57 and details of their performance evaluations are on page 63.

## **C. Accountability**

### **C.1 Financial and business reporting**

The Statement of Directors' Responsibilities (including the Board's statement confirming that it considers that the Annual Report and Form 20-F, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy) is set out on page 88.

The status of IHG as a going concern is set out in the Directors' Report on page 181. An explanation of the Group's performance, business model, strategy and the risks and uncertainties relating to IHG's prospects, including the viability of the Group, is set out in the Strategic Report on pages 2 to 51.

The statement from our Auditor, Ernst & Young LLP, about its reporting responsibilities is set out on pages 89 to 94.

### **C.2 Risk management and internal control**

The Board determines the nature and extent of the risk the organisation is willing to take in achieving its strategic objectives. A robust assessment of the principal risks facing the Group was carried out, including those risks that would threaten the Group's business model, financial performance, solvency or liquidity (see pages 26 to 30 for further details of the principal risks). The Board and Audit Committee monitor the Group's risk management and internal controls systems and conduct an annual review of their effectiveness. Throughout the year, the Board has directly, and through delegated authority to the Executive Committee and the Audit Committee, overseen and reviewed all material controls, including financial, operational and compliance controls. See pages 55, 60, and 64 to 67.

The Board confirms that, in respect of the Group's risk management and internal control systems: (i) there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group; (ii) the systems have been in place for 2018 and up to 18 February 2019; (iii) they are regularly reviewed by the Board and Audit Committee; and (iv) the systems accord with FRC guidance on risk management, internal control and related financial and business reporting. Further details are set out in the Strategic Report on pages 2 to 51 and also in the Audit Committee Report on pages 64 to 67.

Details of the Directors' assessment of the prospects of the Group are set out on page 30.

### **C.3 Audit Committee and Auditor**

The Audit Committee is comprised entirely of Independent Non-Executive Directors (see page 55 for membership details). Ian Dyson, the Chair of the Committee has recent and relevant financial experience and the Committee as a whole has competence relevant to the sector in which we operate. Details of the Committee's role, responsibilities and activities are set out on pages 64 to 67.

The Committee reviewed the effectiveness and independence of Ernst & Young LLP during 2018 and reconfirmed that it would complete the audit contract tender and transition any strictly prohibited services by 2020. A sub-committee of the Audit Committee to oversee the audit tender process has been established and further details on the progress made can be found on page 67.

## **D. Remuneration**

### **D.1 The level and components of remuneration**

The Remuneration Committee's activities during 2018 are set out on page 72 and its membership details are on page 55.

The Directors' Remuneration Report is set out on pages 72 to 85. The Annual Report on remuneration for 2018 (pages 78 to 85) is subject to the annual advisory vote at the AGM in 2019.

Information on Paul Edgecliffe-Johnson's appointment as a Non-Executive Director of Thomas Cook Group plc is set out on page 81.

### **D.2 Procedure**

The Remuneration Committee is responsible for developing policy on executive remuneration and fixing remuneration packages of Directors. Further details are set out on pages 72 to 85.

During 2018, no individual Director was present when his or her own remuneration was discussed.

## **E. Relations with shareholders**

### **E.1 Dialogue with shareholders**

The Board engage actively with both institutional and retail shareholders to promote mutual understanding of objectives and ensure that their views are communicated to the Board as a whole. The Board also strives to understand the views of other key stakeholders and these are considered in board discussions and decision-making. See pages 61 and 62 for details of meetings with major institutional investors and other key stakeholders.

### **E.2 Constructive use of the AGM**

The AGM is a key opportunity for the Board to engage with Shareholders. The Notice of Meeting will be sent to shareholders and will be available at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under Shareholder centre in the AGMs and meetings section. The Board will be available to answer questions during the AGM and after the formal business has concluded. See page 62 for more details.



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**Governance**

**Directors Remuneration Report**

Remuneration Committee Chair's statement

We will review our Directors Remuneration Policy in 2019 in light of our renewed focus and the increased pace with which we are executing our strategy to deliver high-quality, sustainable growth and superior returns for shareholders.

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72	<b><u>Remuneration Committee Chair's statement</u></b>	78	<b><u>Annual Report on Directors Remuneration</u></b> (subject to an advisory vote at the 2019 AGM)
73	<b><u>At a glance</u></b>		

**2018 results**

2018 saw a year of positive performance for IHG, in which our new regional operating structure was embedded and our programme of savings and reinvestment began to deliver results. Above target performance was delivered in respect of EBIT and net system size growth and excellent progress was made on our strategic objective to deliver annual cost savings of \$125m by 2020. As a result, awards for the Executive Directors under the 2018 Annual Performance Plan (APP) were 84.1% of their respective maximum potential payouts.

The 2016/18 Long Term Incentive Plan (LTIP), granted in 2016, vested at a level of 45.4% of the maximum potential award as a result of achievements in relative Total Shareholder Return and rooms growth. However, the three-year RevPAR performance fell short of threshold. As noted in last year's report, the 2018/20 LTIP cash flow target is disclosed in this report on page 83.

**Changes to the Board and Executive Director responsibilities**

Elie Maalouf was appointed to the Board on 1 January 2018. The remuneration arrangements for Elie were determined in accordance with our approved Directors Remuneration Policy (DR Policy).

Looking forward, as we continue to embed structural changes in the business, the roles of two of our Executive Directors are being expanded to generate greater impact. In addition to his duties as Chief Financial Officer, Paul Edgecliffe-Johnson will take ownership of Strategy, including our ongoing programme of savings and reinvestment. Elie Maalouf will take accountability for Global Customer Development, providing oversight of the Global Sales organisation, as well as our owner management and services strategy, in addition to his position in our largest region as Chief Executive Officer, Americas. The additional compensation for these expanded roles is explained on page 83.



## Other areas of focus for the Remuneration Committee

Matters discussed by the Remuneration Committee in 2018 included ongoing reviews of existing incentive schemes and measures; an overview of the Company's international mobility policy; and the introduction of an employee share plan, which will extend the alignment of employee and shareholder experience throughout IHG's corporate employee population.

Given the continued importance of growth and the reinvestment of achieved savings targets, the strategic measures which make up 30% of the short-term growth incentive plan target for Executive Directors will remain as in 2018. The annual System size growth measure in the APP focuses on key short-term growth targets and supplements the longer-term aims encompassed in the separate rooms growth target under the LTIP. LTIP measures and weightings for the 2019/21 cycle remain as per the 2018/20 cycle and details, including the prospective disclosure of the cash flow target for the 2019/21 cycle, are shown on page 83.

The Committee also commenced a detailed review of the DR Policy during 2018 in light of our renewed focus and the increased pace with which we are executing our strategy to deliver high-quality, sustainable growth and superior returns for shareholders. We must ensure that remuneration drives the right behaviours and actions; is structured to sufficiently reward the achievement of our most important and stretching strategic goals; and incentivises senior executives to stay with IHG and successfully drive our growth ambition. As a UK listed company, we must also consider Government and stakeholder engagement and a newly revised Corporate Governance Code (the new Code). As guidance and practice continue to evolve in this area, we will take all factors together as we continue our review into 2019 and put our DR Policy to shareholders in 2020.

In terms of the remuneration aspects of the 2018 Code, we explain on pages 74 to 77 how some of the new responsibilities have already been undertaken by the Committee as part of our existing approach to remuneration governance and good practice; and how we will extend our remit to embrace other important areas of change, such as the review of wider workforce remuneration policies and practices, and take these into account in setting executive remuneration.

In respect of compliance with specific provisions of the 2018 Code, we have not historically included a mandatory holding period following the three-year performance period and vesting of LTIP shares. This is in line with the practice of our main competitors in the US, where both performance and longer-term vesting conditions are also less common. However, we note that the new Code and related guidance from UK stakeholders set out an expectation of a five-year period between the grant and release of LTIP shares. As such, under the terms of the existing DR Policy, the Committee has determined that a two-year post-vest holding period will apply for Executive Directors in respect of the 2019/21 LTIP cycle. Future policy in this area will be addressed as part of our 2019 review.

Further details of our current position in relation to key aspects of the 2018 Code, including shareholding guidelines and requirements during and after employment and IHG's UK pension benefit structure, are shown in the Wider context section on pages 74 to 77. As mentioned last year, now that the statutory calculation is known, this section also includes the CEO Pay Ratio data for IHG in the United Kingdom.

## About this report

We strive to make this report as easy to read as possible, given regulation. This year, we have again included a summary of performance and remuneration outcomes in the At a glance section on page 73 and an updated Wider context section on pages 74 to 77 to give further insight on aspects of wider remuneration policy and practice at IHG in light of recent guidance.

The full DR Policy is available at [www.ihgplc.com/investors](http://www.ihgplc.com/investors) under Corporate governance and was approved at the Annual General Meeting (AGM) on 5 May 2017. The section of this report which is subject to a formal advisory

shareholder vote at the May 2019 AGM is the Annual Report on Directors Remuneration starting on page 78.

**Jo Harlow**

Chair of the Remuneration Committee

18 February 2019

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At a glance

### **How to use this report**

Within the Directors Remuneration Report we have used colour coding to denote different elements of remuneration. The colours used and the corresponding remuneration elements are:

Salary

Benefits

Pension benefit

Annual Performance Plan (APP)

50% cash and 50% deferred shares

Long Term Incentive Plan (LTIP)

Shareholding

AUDITED

### **Audited information**

Content contained within a tinted panel highlighted with an Audited tab indicates that all the information within the panel is audited.

### **How we performed in 2018**

The 2018 outcomes reflect the progress made as a result of our focus on high-quality growth and superior value-creation through our brands, our people and our systems. We achieved our target for EBIT, delivered strong net system size growth and exceeded our maximum target for savings to reinvest in the business for future growth. In respect of our long-term goals for 2016-18, we again delivered great shareholder returns and met our three-year

threshold target for rooms but fell short of our three-year threshold target RevPAR growth.

Executive Director remuneration

**2018 remuneration**

The table below shows the 2018 potential remuneration opportunity and actual achievement compared to 2017 actual achievement. For Keith Barr, the 2017 actual achievement relates to the period 1 July to 31 December 2017 and no comparative data is shown for Elie Maalouf as this was prior to his appointment to the Board. The relevant figures for each of the elements that make up the single total figure of remuneration, as shown below for the Executive Directors, can be found in the table on page 78.

**Keith Barr<sup>a</sup>,**

**Chief Executive Officer**

Value (£000)

**Paul Edgecliffe-Johnson,**

**Chief Financial Officer**

Value (£000)

**Elie Maalouf,**

**Chief Executive Officer, Americas**

Value (£000)

**Key for potential**

Maximum = Fixed pay and maximum award under APP and LTIP

Target = Fixed pay and on-target award for APP (115%) and 50% of maximum LTIP vesting

Minimum = Fixed pay

<sup>a</sup> The 2018 and 2017 amounts for Keith Barr exclude the localisation payments detailed on page 78

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### **Governance**

#### **Directors Remuneration Report**

Remuneration at IHG – the wider context

#### **Remuneration Committee remit**

The Committee has reviewed wider workforce remuneration and related policies on an ad-hoc basis. For example, given our global scale and growth agenda, the Committee reviewed IHG’s updated International Mobility policy during 2018. This is an important aspect of remuneration for our globally mobile population as we develop the skills and experience of our employees working in specialist functions around the world. During 2019, the Committee will commence a formal rolling programme of reviewing all aspects of remuneration and related policies for the wider workforce in terms of alignment with executive remuneration and IHG’s culture, values and strategy.

#### **Remuneration Committee**

The Committee has historically taken a wider view of the remuneration matters that it considers necessary to carry out its role in relation to executive pay than has been required under the 2018 Corporate Governance Code (the new Code). The new Code, issued in the summer of 2018, puts more formal obligations on the Board and its Committees in respect of remuneration and wider employee relations and employment practices. The accountability for some of these responsibilities, such as the review of workforce remuneration and related policies and the setting of remuneration for the Executive Committee, will be with the Remuneration Committee. Indeed, the Committee already has the latter responsibility at IHG. We show in this section some of the relevant remuneration governance topics already addressed by the Committee, as well as selected topics that will be addressed as we review the DR Policy this year.

#### **Compliance with Corporate Governance Code**

The existing approved DR Policy is already in line with a great majority of the new Code in relation to remuneration. Our policy on long-term incentives does not currently impose a compulsory holding period for shares which vest after the three-year performance period. As explained on page 75, the Committee has determined that a two-year holding period will apply for Executive Directors in respect of the 2019/21 plan cycle.

On pensions, our current Directors Remuneration Policy, supported by shareholders in 2017, provides for Executive Director pension contributions of up to 30%. The current CEO has received a company pension contribution of 25% since appointment in 2017. The CFO has volunteered to receive a pension contribution reduced from 30% to 25% of salary, effective April 2019. Following the recent guidance given in the new Code and subsequent input from other

external stakeholders, the Committee will review Executive Director pension provision as part of the wider review of the Directors Remuneration Policy taking place in 2019.

### Pension Provision

Our global retirement benefit policy is to provide access to an appropriate defined contribution retirement savings plan where such a vehicle is typically offered, and with benefit levels in line with the local market.

The UK pension plan applies for UK-based Executive Directors and the current contribution rates for new employees are shown opposite. Where employees would otherwise exceed relevant tax limits on pension contribution or accrual, a cash equivalent may be offered in lieu of pension at an equivalent value to the maximum Company matching contribution.

We operate a tiered pension contribution structure and maximum contributions increase with employee grade, consistent with market practice and reflecting the structure under the previous defined benefit pension. In addition, a tiered contribution structure balances the income replacement ratio for all levels of employee, taking into account State pension provision (see example illustration opposite) and the increased levels of non-pensionable variable pay for more senior employees. For example, the pension benefit for Keith Barr in 2018 represented 6.4% of his overall earnings for the year.

Further to recent guidance in relation to the new Code and subsequent input from other external stakeholders including institutional investors, the Committee will review pension provisions for Executive Directors as part of the wider review of the Directors Remuneration Policy taking place in 2019.

Employee grade	Employee contribution (%)	Matching contribution multiple	Maximum matching contribution (up to %)
Corporate band 1			30 (25 for new CEO and 25 for CFO from April 2019)
Corporate bands 2 and 3	3 7.5 3 5	4 4	20
Corporate band 4	3 5	2.5	12.5
Corporate band 5	3 5	2	10

Corporate bands 6 8

and hotel employees

3 5

1.5

7.5

Figures based on a Pensions Commission study carried out in 2014. This shows that, although the recommended salary replacement ratio in retirement is lower for high earners (50% of pre-retirement salary vs 80% in the example), the relative percentage of retirement income which is required from a Company pension is significantly higher.

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### **Long term incentives vesting and holding period**

The new Code includes a provision that shares earned under long term incentive plans, such as our LTIP, should be subject to a total vesting and holding period of five years or more. Under our existing DR Policy, LTIP shares are granted subject to performance conditions measured over a period of at least three years, and the Committee has the ability to impose a further holding period in respect of those shares. The Committee has determined that, following the three-year performance period for the 2019/21 LTIP, Executive Directors will be subject to a further two-year holding period in respect of all vested shares from that cycle. This is in addition to a number of other existing aspects of our DR Policy which match or exceed the expectations under the new Code and related guidance in respect of shareholdings and incentive arrangements:

### **Shareholding requirements**

Executive Directors are expected to hold all shares earned, net of any sales required to meet personal tax liabilities, until the guideline shareholding of 300% of salary for the CEO and 200% of salary for other Executive Directors is met. This shareholding can include unvested shares that are not subject to any further performance conditions;

### **Discretion**

The Committee has the discretion under both the short and long-term incentive arrangements to override formulaic outcomes. The use of discretion enables the Committee to ensure that outcomes are consistent with business performance and the interests of shareholders. It also enables the Committee to treat Executive Directors who leave IHG in a fair and equitable manner. It was not considered necessary for the Committee to apply discretion in respect of remuneration outcomes in 2018;

### **Malus and clawback**

Provisions are in place to withhold or recover sums or share awards under specific circumstances in which it would be appropriate to do so, including misconduct likely to result in significant reputational damage to the Company, a material adverse effect on the Company's financial position or the business opportunities and prospects, or a material misstatement or restatement in the accounts; and

### **Shareholding post-cessation of employment**

Prior to the introduction of post-employment shareholding requirements under the new Code, we introduced a condition under our DR Policy for the full guideline minimum shareholding requirement to continue for six months

after cessation of employment and 50% of the requirement to continue for an additional six months.

We will further consider our Executive Director shareholding requirements in light of the new Code and developing practice and guidelines as part of the review of our DR Policy in 2019.

### Wider workforce remuneration and policies

#### **Remuneration for all employees**

The quantum and composition of remuneration and annual incentives differs between employees throughout the Group in a number of ways, most n