

RISK FACTORS

This section describes some of the risks that could materially affect the Group's business. The factors below should be considered in connection with any financial and forward-looking information in this Form 20-F and the cautionary note regarding forward-looking statements contained on pages 5 and 6.

The risks below are not the only ones that the Group faces. Some risks are not yet known to IHG and some that IHG does not currently believe to be material could later turn out to be material. All of these risks could materially affect the Group's business, revenue, operating profit, earnings, net assets and liquidity and/or capital resources.

The Group is reliant on the reputation of its brands and the protection of its intellectual property rights

Any event that materially damages the reputation of one or more of the Group's brands and/or failure to sustain the appeal of the Group's brands to its customers could have an adverse impact on the value of that brand and subsequent revenues from that brand or business. In addition, the value of the Group's brands is influenced by a number of other factors, some of which may be outside the Group's control, including commoditisation (whereby price/quality becomes relatively more important than brand identifications due, in part, to the increased prevalence of third party intermediaries), consumer preference and perception, failure by the Group or its franchisees to ensure compliance with the significant regulations applicable to hotel operations (including fire and life safety requirements), or other factors affecting consumers' willingness to purchase goods and services, including any factor which adversely affects the reputation of those brands.

In particular, where the Group is unable to enforce adherence to its operating and quality standards, or the significant regulations applicable to hotel operations, pursuant to its management and franchise contracts, there may be further adverse impact upon brand reputation or customer perception and therefore the value of the hotel brands.

Given the importance of brand recognition to the Group's business, the Group has invested considerable effort in protecting its intellectual property, including registration of trademarks and domain names. However, the laws of certain foreign countries in which the Group operates do not protect the Group's proprietary rights to the same extent as the laws in the United States and the European Union. This is particularly relevant in China where, despite recent improvements in IP ownership rights, the relative lack of protection increases the risk that the Group will be unable to prevent infringements of its intellectual property in this key growth market. Any widespread infringement or misappropriation could materially harm the value of the Group's brands and its ability to develop the business.

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

The Group's growth strategy depends on its success in identifying, securing and retaining management and franchise agreements. Competition with other hotel companies may generally reduce the number of suitable management, franchise and investment opportunities offered to the Group, and increase the bargaining power of property owners seeking to engage a manager or become a franchisee. The terms of new management or franchise agreements may not be as favourable as current arrangements and the Group may not be able to renew existing arrangements on the same terms.

There can also be no assurance that the Group will be able to identify, retain or add franchisees to the Group system or to secure management contracts. For example, the availability of suitable sites, planning and other local regulations or the availability of finance may all restrict the supply of suitable hotel development opportunities under franchise or management agreements. There are also risks that significant franchisees or groups of franchisees may have interests that conflict, or are not aligned, with those of the Group including, for example, the unwillingness of franchisees to support brand improvement initiatives. In connection with entering into management or franchise agreements, the Group may be required to make investments in or guarantee the obligations of third parties or guarantee minimum income to third parties.

Changes in legislation or regulatory changes may be implemented that have the effect of favouring franchisees relative to brand owners.

The Group is exposed to the risks of political and economic developments

The Group is exposed to the risks of global and regional adverse political, economic and financial market developments, including recession, inflation and currency fluctuations that could lower revenues and reduce income. A recession would adversely affect room rates and/or occupancy levels and other income-generating activities resulting in deterioration of results of operations and potentially reducing the value of properties in affected economies.

Further political or economic factors or regulatory action could effectively prevent the Group from receiving profits from, or selling its investments in, certain countries, or otherwise adversely affect operations. For example, changes to tax rates or legislation in the jurisdictions in which the Group operates could decrease the proportion of profits the Group is entitled to retain, or the Group's interpretation of various tax laws and regulations may prove to be incorrect, resulting in higher than expected tax charges. In addition, fluctuations in currency exchange rates between sterling, the currency in which the Group reports its financial statements, and the US dollar and other currencies in which the Group's international operations or investments do business, could adversely affect the Group's reported earnings and the value of its business. Fluctuations of this type have been experienced over recent years with the significant strengthening of sterling against the US dollar. As the Group's profits have become increasingly weighted towards North America, such fluctuations may have greater impact on the Group's reported results.

The Group is dependent upon recruiting and retaining key personnel and developing their skills

In order to develop, support and market its products, the Group must hire and retain highly skilled employees with particular expertise. The implementation of the Group's strategic business plans could be undermined by failure to recruit or retain key personnel, the unexpected loss of key senior employees, failures in the Group's succession planning and incentive plans, or a failure to invest in the development of key skills. Additionally, unless skills are supported by a sufficient infrastructure to enable knowledge and skills to be passed on, the Group risks losing accumulated knowledge if key employees leave the Group.

The Group is exposed to the risk of events that adversely impact domestic or international travel

The room rates and occupancy levels of the Group could be adversely impacted by events that reduce domestic or international travel, such as actual or threatened acts of terrorism or war, epidemics (such as SARS and avian flu), travel-related accidents, travel-related industrial action, increased transportation and fuel costs and natural disasters resulting in reduced worldwide travel or other local factors impacting individual hotels. A decrease in the demand for hotel rooms as a result of such events may have an adverse impact on the Group's operations and financial results. In addition, inadequate preparedness, contingency planning or recovery capability in relation to a major incident or crisis may prevent operational continuity and consequently impact the value of the brand or the reputation of the Group.

The Group is reliant upon its proprietary reservation system and is exposed to the risk of failures in the system and increased competition in reservation infrastructure

The value of the brands of the Group is partly derived from the ability to drive reservations through its proprietary HolidexPlus reservation system, an electronic booking and delivery channel directly linked to travel agents, hotels and internet networks. Inadequate disaster recovery arrangements, or inadequate continued investment in this technology, leading to loss of key communications linkages, particularly in relation to HolidexPlus, internet reservation channels and other key parts of the Information Technology ("IT") infrastructure for a prolonged period, or permanently, may result in significant business interruption and subsequent impact on revenues.

The Group is also exposed to the risk of competition from third party intermediaries who provide reservation infrastructure. In particular, any significant increase in the use of these reservation channels in

preference to proprietary channels may impact the Group's ability to control the supply, presentation and price of its room inventory.

The Group is exposed to certain risks in relation to technology and systems

To varying degrees, the Group is reliant upon certain technologies and systems (including IT systems) for the running of its business, particularly those which are highly integrated with business processes. Disruption to those technologies or systems could adversely affect the efficiency of the business, notwithstanding business continuity or disaster recovery processes. The Group may have to make substantial additional investments in new technologies or systems to remain competitive. Failing to keep pace with developments in technologies or systems may put the Group at a competitive disadvantage. The technologies or systems that the Group chooses may not be commercially successful or the technology or system strategy employed may not be sufficiently aligned to the needs of the business or responsive to changes in business strategy. As a result, the Group could lose customers, fail to attract new customers or incur substantial costs or face other losses. Additionally, failure to develop an appropriate e-commerce strategy and select the right partners could erode the Group's market share.

The Group is exposed to the risks of the hotel industry supply and demand cycle

The future operating results of the Group could be adversely affected by industry over-capacity (by number of rooms) and weak demand due, in part, to the cyclical nature of the hotel industry, or other differences between planning assumptions and actual operating conditions. Reductions in room rates and occupancy levels would adversely impact the results of Group operations.

The Group may experience a lack of selected development opportunities

While the strategy of the Group is to extend the hotel network through activities that do not involve significant capital, in some cases the Group may consider it appropriate to acquire new land or locations for the development of new hotels. If the availability of suitable sites becomes limited, this could adversely affect its results of operations.

The Group is exposed to the risk of litigation

The Group could be at risk of litigation from its guests, customers, joint venture partners, suppliers, employees, regulatory authorities, franchisees and/or the owners of hotels managed by it for breach of its contractual or other duties. Claims filed in the United States may include requests for punitive damages as well as compensatory damages. Exposure to litigation or fines imposed by regulatory authorities may affect the reputation of the Group even though the monetary consequences are not significant.

The Group may face difficulties insuring its business

Historically, the Group has maintained insurance at levels determined by it to be appropriate in light of the cost of cover and the risk profiles of the business in which it operates. However, forces beyond the Group's control including market forces, may limit the scope of coverage the Group can obtain as well as the Group's ability to obtain coverage at reasonable rates. Other forces beyond the Group's control, such as terrorist attacks or natural disasters may be uninsurable or simply too expensive to insure against. Inadequate or insufficient insurance could expose the Group to large claims or could result in the loss of capital invested in properties as well as the anticipated future revenue from properties, and could leave the Group responsible for guarantees, debt or other financial obligations related to such properties.

The Group is exposed to a variety of risks associated with its ability to borrow and satisfy debt covenants

The Group is reliant on having access to borrowing facilities to meet its expected capital requirements and to maintain an efficient balance sheet. The majority of the Group's borrowing facilities are only available if the financial covenants in the facilities are complied with. If the Group is not in compliance with the covenants, the lenders may demand the repayment of the funds advanced. If the Group's financial