RISK FACTORS

This section describes some of the risks that could materially affect the Group’s businesses. The factors below should be considered in connection with any financial and forward-looking information in this Form 20-F and the cautionary 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 businesses, turnover, operating profit, earnings, net assets and liquidity and/or capital resources.

General Risks

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 fluctuation, 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 affecting 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 from selling its investments in, certain countries, or otherwise adversely affect operations. In addition, fluctuations in currency exchange rates between the UK pound 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 the last two years with the significant strengthening of the pound against the dollar.

The Group is reliant on the reputation of its brands, the steps it takes to define and enforce brand standards and the protection of its intellectual property rights

An event that was to materially damage 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 including consumer preference and perception, commoditisation (whereby the price/ quality becomes relatively more important than brand identifications), failure by the Hotels business or its franchisees to ensure compliance with the significant regulations applicable to hotel operations, or other factors affecting consumers’ willingness to purchase goods and services, including any factor which adversely affects the reputation of those brands.

In particular, the extent to which the Hotels business is able to adequately define and enforce adherence to its operating, quality and fire life safety standards, or the significant regulations applicable to hotel operations, pursuant to its management and franchise contracts, may further impact brand reputation or customer perception, and therefore the value of the hotel brands.

Given the importance of brand recognition to the Group’s businesses, the Group has invested considerable effort in protecting its intellectual property, including by registration of trademarks and domain names. If the Group is unable to protect its intellectual property, any infringement or misappropriation could materially harm its future financial results and ability to develop its businesses.

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 a 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 certain risks in relation to technology and systems

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 Information Technology systems) for the running of its business, particularly those which are highly integrated with business processes, and disruption to those technologies or systems could adversely effect 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 in order 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 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, 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.

Further details in relation to the Hotels business are set out below.

The Group may face difficulties insuring its businesses

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 businesses in which it operates. Following the effects of the September 11, 2001 terrorist attacks and subsequent events, many companies faced increased premiums for reduced cover as the insurance market hardened. A repeat of incidents of this nature may result in the Group experiencing significant increases in the cost of insuring its business at an acceptable level, or in the Group being unable to obtain cover for certain risks at a realistic price.

The Group is exposed to funding risks in relation to the defined benefits under its pension plans

The Group is required by law to maintain a minimum funding level in relation to its ongoing obligation to provide current and future pensions for the members of its pension plans who are entitled to defined benefits. In addition, if any plan of the Group is wound up, the Group could become statutorily liable to make an immediate payment to the trustees to bring the funding of these defined benefits to a level which is higher than this minimum. The contributions payable by the Group must be set with a view to making prudent provision for the benefits accruing under the plans of the Group.

Some of the issues which could adversely affect the funding of these defined benefits (and materially affect the Group’s funding obligations) include: (i) poor investment performance of pension fund investments; (ii) long life expectancy (which will make pensions payable for longer and therefore more expensive to provide); (iii) adverse annuity rates (which tend in particular to depend on prevailing interest rates and life expectancy) as these will make it more expensive to secure pensions with an insurance company; and (iv) other events occurring which make past service benefits more expensive than predicted in the actuarial assumptions by reference to which the Group’s past contributions were assessed.

The trustees of the UK defined benefit plans can demand increases to the contribution rates relating to the funding of those pension plans, which would oblige the relevant members of the Group to contribute extra amounts to such pension funds. The trustees must consult the plans’ actuary and principal employer before exercising this power. In practice, contribution rates are agreed between the Group and the trustees on actuarial advice, and are set for three year terms. The last such review was as at March 31, 2004. As at April 25, 2005 (being the latest practicable date prior to the publication of this document), the Directors are not aware of any circumstances that would cause the trustees to deem it necessary to unilaterally increase the contribution rates.

Risks relating to the Hotels business

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

The future operating results of the Hotels business could be adversely affected by industry overcapacity (by number of rooms) and weak demand or other differences between planning assumptions and actual operating conditions. Reductions in room rates and occupancy levels would adversely impact the results of operations of the Hotels business.

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

The Hotels business competes with other hotel companies for management and franchise agreements. Competition may generally reduce the number of suitable management, franchise and investment opportunities offered to the Hotels business, and increase the bargaining power of property owners seeking to engage a manager or become a franchisee. There can be no assurance that the Hotels business will be able to identify, retain or add franchisees to the Hotels business 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 Hotels business. 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 Hotels business is exposed to the risk of events that adversely impact domestic or international travel

The room rates and occupancy levels of the Hotels business 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), 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.

Terrorist incidents such as the events of September 11, 2001 and the war in Iraq in 2003 significantly affected international travel and consequently global demand for hotel rooms. Further incidents or uncertainties of this type 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 Hotels business.

The Hotels business 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 Hotels business 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 IT infrastructure for a prolonged period, or permanently, may result in significant business interruption and subsequent impact on revenues.

The Hotels business 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 Hotels business' ability to control the supply, presentation and price of its room inventory.

The Hotels business may experience a lack of selected acquisition opportunities

While the strategy of the Hotels business is to extend the hotel network through activities that do not involve significant capital, in some cases the Hotels business 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 Hotels business may be unable to make disposals of hotel assets

The Hotels business has embarked upon a strategy of asset disposals and, although it has made significant progress, there can be no assurance that the Hotels business will be able to complete any such further selected disposals on commercially reasonable terms, within optimal timescales, or at all.

The Hotels business is exposed to the risk of litigation

The Hotels business 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 may affect the reputation of the Hotels business even though the monetary consequences are not significant.

Risks relating to the Britvic business

The Britvic business is exposed to risks related to possible product contamination

The Britvic business, like all beverage producers, has been and will continue to be vulnerable to accidental or malicious contamination of its products or base raw materials. Any such contamination could result in recall of the products of the Britvic business, the Britvic business being unable to sell its products, damage to brand image and/or civil or criminal liability, which could have a material adverse effect on the operations and financial performance of the Britvic business.

The Britvic business is reliant upon certain suppliers

Britvic is reliant upon fruit juice concentrates, sugar and other fruit juice raw materials as necessary ingredients for many of its products, as well as packaging and containers such as cans and Polyethylene Terephthalate (PET) bottles. In the event that the Britvic business is unable to obtain an adequate supply of appropriate raw materials or packaging or fails to negotiate the purchase of these materials on a reasonable commercial basis, this could have a significant adverse impact on the financial operations of the Britvic business.

The Britvic business is exposed to significant competition

The Britvic business operates in a highly competitive market sector in which large competitors are active.

A change in the level of marketing undertaken by competitors or in their pricing policies, the growth or strengthening of existing retailers of beverage products, the introduction of new competing brands or products or increased purchasing power pressure from customers could have a material adverse effect on the operations and financial performance of the Britvic business. Conversely, competition law may regulate the ability of the Britvic business to participate in industry consolidation at a strategic level.