INTERCONTINENTAL HOTELS GROUP PLC /NEW/
Form 20-F
March 26, 2013
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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**

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

**For the fiscal year ended December 31, 2012**

**or**

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

**or**

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

**Commission file number: 1-10409**

# InterContinental Hotels Group PLC

*(Exact name of registrant as specified in its charter)*

**England and Wales**

*(Jurisdiction of incorporation or organization)*

**Broadwater Park,**

**Denham, Buckinghamshire UB9 5HR**

*(Address of principal executive offices)*

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| American Depositary Shares | New York Stock Exchange |
| Ordinary Shares of 14 $^{194}/_{329}$ pence each | New York Stock Exchange* |

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

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

**None**

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

**None**

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

| | |
|---|---|
| **Ordinary Shares of 14 $^{194}/_{329}$ pence each** | **268,325,071** |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes þ 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 þ

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer þ | Accelerated filer ¨ | Non-accelerated filer ¨<br>(Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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

Item 17 ¨ Item 18 þ

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 þ

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

| | | |
|---|---|---|
| US GAAP ¨ | International Reporting Standards as issued by the International Standards Accounting Board þ | Other ¨ |

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## INTRODUCTION

As used in this document, except as the context otherwise requires, the terms:

ADR refers to an American Depositary Receipt, being a receipt evidencing title to an ADS;

ADS refers to an American Depositary Share, being a registered negotiable security, listed on the New York Stock Exchange, representing one InterContinental Hotels Group PLC ordinary share of 14 $^{194}/_{329}$ pence each;

AMEA refers to Asia, the Middle East and Africa;

Board refers to the Board of directors of InterContinental Hotels Group PLC or, where appropriate, the Boards of directors of InterContinental Hotels Limited or Six Continents Limited;

Britvic refers to Britannia Soft Drinks Limited for the period up to November 18, 2005, and thereafter, Britannia SD Holdings Limited (renamed Britvic plc on November 21, 2005) which became the holding company of the Britvic Group on November 18, 2005;

Britvic Group refers to Britvic and its subsidiaries;

Company refers to InterContinental Hotels Group PLC, InterContinental Hotels Limited or Six Continents Limited or their respective Board of directors as the context requires;

Group or IHG refers to InterContinental Hotels Group PLC and its subsidiaries or, where appropriate, InterContinental Hotels Limited or Six Continents Limited and their subsidiaries as the context requires;

Hotels refers to the hotels business of the Group;

ordinary share or share refers, from June 4, 2007 until October 8, 2012 to the ordinary shares of 13 $^{29}/_{47}$ pence each in the Company; and following October 9, 2012 to the ordinary shares of 14 $^{194}/_{329}$ pence each in the Company;

Six Continents refers to Six Continents Limited; previously Six Continents PLC and re-registered as a private limited company on June 6, 2005;

Soft Drinks refers to the soft drinks business of InterContinental Hotels Group PLC, which the Company had through its controlling interest in Britvic and which the Company disposed of by way of an initial public offering effective December 14, 2005; and

VAT refers to UK value added tax levied by HM Revenue and Customs on certain goods and services.

The following are some of the service marks owned by Group companies: IHG®, INTERCONTINENTAL®, INTERCONTINENTAL ALLIANCE®, HUALUXE , CROWNE PLAZA®, HOTEL INDIGO®, EVEN , HOLIDAY INN®, HOLIDAY INN EXPRESS®, HOLIDAY INN RESORTS®, HOLIDAY INN CLUB VACATIONS®, STAYBRIDGE SUITES®, CANDLEWOOD SUITES®, PRIORITY CLUB®, HOLIDEX®, and GREEN ENGAGE®.

References in this document to the Companies Act mean the Companies Act 2006 of Great Britain; references in this document to the EU mean the European Union; references in this document to UK refer to the United Kingdom of Great Britain and Northern Ireland; references in this document to US refer to the United States of America.

The Company publishes its Consolidated Financial Statements expressed in US dollars.

In this document, references to US dollars , US$ , $ or ¢ are to United States currency, references to euro or are to the euro, the currency European Economic and Monetary Union, references to pounds sterling , sterling , £ , pence or p are to UK currency. Solely for convenience, Annual Report on Form 20-F contains translations of certain pound sterling amounts into US dollars at specified rates. These translations should not be construed as representations that the pound sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rates indicated. The noon buying rate in The City

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of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York on March 21, 2013 was £1.00 = $1.5180. For further information on exchange rates please refer to page F-23.

The Company s fiscal year ends on December 31. The December 31 fiscal year end is in line with the calendar accounting year ends of the majority of comparable US and European hotel companies. IHG will continue to report on a December 31 fiscal year-end basis, as the Group believes this facilitates more meaningful comparisons with other key participants in the industry. References in this document to a particular year are to the fiscal year unless otherwise indicated. For example, references to the year ended December 31, 2012 are shown as 2012 and references to the year ended December 31, 2011 are shown as 2011, unless otherwise specified, and references to other fiscal years are shown in a similar manner.

The Company s Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ) and in accordance with IFRS as adopted by the European Union ( EU ). IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB, however, the differences have no impact on the Group s Consolidated Financial Statements for the years presented.

As explained in Note 2 of the Notes to the Consolidated Financial Statements an internal reorganization during 2011 resulted in a change to the Group s reportable segments. Comparatives have been restated to show the segmental information on a consistent basis.

In keeping with UK practice IHG believes that the reporting of profit and earnings measures before exceptional items provides additional meaningful information on underlying returns and trends to shareholders. The Group s key performance indicators used in budgets, monthly reporting, forecasts, long-term planning and incentive plans for internal financial reporting focus primarily on profit and earnings measures before exceptional items. Throughout this document earnings per ordinary share is also calculated excluding the effect of all exceptional operating items, exceptional interest, exceptional tax and gain on disposal of assets and is referred to as adjusted earnings per ordinary share.

The Company furnishes JPMorgan Chase Bank, N.A., as Depositary, with annual reports containing Consolidated Financial Statements and an independent auditor s opinion thereon. These Consolidated Financial Statements are prepared on the basis of IFRS. The Company also furnishes to the Depositary all notices of shareholders meetings and other reports and communications that are made generally available to shareholders of the Company. The Depositary makes such notices, reports and communications available for inspection by registered holders of ADRs and mails to all registered holders of ADRs voting instruction cards with specific reference to the section of the Company s website on which such notices, reports and communications can be viewed. During 2012, the Company reported interim financial information at June 30, 2012 in accordance with the Listing Rules of the UK Listing Authority. In addition, it provided quarterly financial information at March 31, 2012 and at September 30, 2012. During fiscal 2013, the Company intends to report interim financial statements for a time period of six months. For each of the first quarter and third quarter, the Company intends to release interim management statements and publish supplementary data for rooms and revenue per available room ( RevPAR ). The Consolidated Financial Statements may be found on the Company s website at www.ihgplc.com.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 20-F contains certain forward-looking statements as defined in Section 21E of the Securities Exchange Act of 1934 with respect to the financial condition, results of operations and business of InterContinental Hotels Group and certain plans and objectives of the Board of Directors of InterContinental Hotels Group PLC with respect thereto. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate , target , expect , estimate , intend , goal , believe , or other words of similar meaning. These statements are based on assumptions and assessments made by InterContinental Hotels Group s management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

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Such statements in the Form 20-F include, but are not limited to, statements under the following headings; (i) Item 4. Information on the Company ; (ii) Item 5. Operating and financial review and prospects ; (iii) Item 8. Financial information ; and (iv) Item 11. Quantitative and qualitative disclosures about market risk . Specific risks faced by the Company are described under Item 3. Key information Risk factors commencing on page 7.

By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed in, or implied by, such forward-looking statements, including, but not limited to: the risks of political and economic developments; the risk of events that adversely impact domestic or international travel; the risks of the hotel industry supply and demand cycle; the risks of dependence on a wide range of external stakeholders and business partners; the risks related to identifying, securing and retaining franchise and management agreements; the risks in relation to changing technology and systems; the risks associated with the Group s reliance on the reputation of its brands and the protection of its intellectual property rights; the risks associated with the Group s reliance on its proprietary reservations system and the risk of failures in the system and increased competition in reservations infrastructure; the risks related to information security and data privacy; the risks associated with safety, security and crisis management; the need to find people with the right skills and capability to manage growth and change; the risks of non-compliance with existing and changing regulations across numerous countries, territories and jurisdictions; the risk of litigation; the risks related to corporate responsibility; the risks related to the Group s ability to borrow and satisfy debt covenants; the funding risks in relation to the defined benefits under its pension plans and the risks associated with difficulties the Group may face insuring its business.

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## PART I

### ITEM 1. *IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS*

Not applicable.

### ITEM 2. *OFFER STATISTICS AND EXPECTED TIMETABLE*

Not applicable.

### ITEM 3. *KEY INFORMATION*

**SELECTED CONSOLIDATED FINANCIAL INFORMATION**

**Summary**

The selected consolidated financial data set forth below for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 has been prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ) and in accordance with IFRS as adopted by the European Union ( EU ), and is derived from the Consolidated Financial Statements of the Group which have been audited by its independent registered public accounting firm, Ernst & Young LLP.

IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB. However, the differences have no impact on the Group s Consolidated Financial Statements for the years presented. The selected consolidated financial data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report.

For the years ended December 31, 2011 and 2010, the selected consolidated financial data differs from the Consolidated Financial Statements issued to UK listing authorities as explained in Note 1 of Notes to the Consolidated Financial Statements.

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**Consolidated income statement data**

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | ($ million, except earnings per ordinary share) | | | | |
| Revenue* | 1,835 | 1,768 | 1,628 | 1,538 | 1,897 |
| Total operating profit before exceptional operating items* | 614 | 559 | 444 | 363 | 549 |
| Exceptional operating items* | (4) | 57 | (7) | (373) | (132) |
| Total operating profit/(loss)* | 610 | 616 | 437 | (10) | 417 |
| Financial income | 3 | 2 | 2 | 3 | 12 |
| Financial expenses | (57) | (64) | (64) | (57) | (113) |
| Profit/(loss) before tax | 556 | 554 | 375 | (64) | 316 |
| Tax: | | | | | |
| On profit before exceptional items | (153) | (120) | (98) | (15) | (101) |
| On exceptional operating items | 1 | (4) | 1 | 112 | 17 |
| Exceptional tax credit | 141 | 43 | | 175 | 25 |
| | (11) | (81) | (97) | 272 | (59) |
| Profit after tax | 545 | 473 | 278 | 208 | 257 |
| Gain on disposal of discontinued operations, net of tax | | | 2 | 6 | 5 |
| Profit for the year | 545 | 473 | 280 | 214 | 262 |
| Attributable to: | | | | | |
| Equity holders of the parent | 544 | 473 | 280 | 213 | 262 |
| Non-controlling interest | 1 | | | 1 | |
| Profit for the year | 545 | 473 | 280 | 214 | 262 |
| Earnings per ordinary share: | | | | | |
| Continuing operations: | | | | | |
| Basic | 189.5¢ | 163.7¢ | 96.5¢ | 72.6¢ | 89.5¢ |
| Diluted | 186.3¢ | 159.8¢ | 93.9¢ | 70.2¢ | 86.8¢ |
| Total operations: | | | | | |
| Basic | 189.5¢ | 163.7¢ | 97.2¢ | 74.7¢ | 91.3¢ |
| Diluted | 186.3¢ | 159.8¢ | 94.6¢ | 72.2¢ | 88.5¢ |

* Relates to continuing operations.

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**Consolidated statement of financial position data**

| | At December 31, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | ($ million, except number of shares) | | | | |
| Goodwill and intangible assets | 447 | 400 | 358 | 356 | 445 |
| Property, plant and equipment | 1,056 | 1,362 | 1,690 | 1,836 | 1,684 |
| Investments and other financial assets | 239 | 243 | 178 | 175 | 195 |
| Retirement benefit assets | 99 | 21 | 5 | 12 | 40 |
| Non-current tax receivable | 24 | 41 | | | |
| Deferred tax assets | 204 | 106 | 88 | 95 | |
| Current assets | 660 | 578 | 466 | 419 | 544 |
| Non-current assets classified as held for sale | 534 | 217 | | | 210 |
| Total assets | 3,263 | 2,968 | 2,785 | 2,893 | 3,118 |
| Current liabilities | 780 | 860 | 943 | 1,040 | 1,141 |
| Long-term debt | 1,242 | 670 | 776 | 1,016 | 1,334 |
| Net assets | 317 | 555 | 278 | 156 | 1 |
| Equity share capital | 179 | 162 | 155 | 142 | 118 |
| IHG shareholders equity | 308 | 547 | 271 | 149 | (6) |
| Number of shares in issue at period end (millions) | 268 | 290 | 289 | 287 | 286 |

**Dividends**

InterContinental Hotels Group PLC paid an interim dividend of 21.0 cents per ADS (equivalent to 13.5 pence per share at the closing exchange rate on August 3, 2012) on September 28, 2012. A special dividend of $1.72 per ADS (equivalent to 108.4 pence per share at the closing exchange rate on September 11, 2012) was paid on October 22, 2012. The Board has proposed a final dividend of 43.0 cents per ADS (equivalent to 27.7 pence per share at the closing exchange rate on February 15, 2013), payable on May 31, 2013, if approved by shareholders at the Annual General Meeting to be held on May 24, 2013, bringing the total IHG dividend, excluding the special dividend, for the year ended December 31, 2012 to 64.0 cents per ADS (equivalent to 41.2 pence per share).

The table below sets forth the amounts of interim, final and total dividends on each ordinary share in respect of each fiscal year indicated. Below are also details of the special dividend paid in 2012. In respect of the interim and final dividends for each of 2008, 2009, 2010, 2011 and 2012 such amounts are translated from US dollars into sterling at the prevailing exchange rate immediately prior to their announcement.

***Ordinary dividend***

| | Pence per ordinary share | | | Cents per ADS | | |
|---|---|---|---|---|---|---|
| | Interim | Final | Total | Interim | Final | Total |
| **Year ended December 31,** | | | | | | |
| 2008* | 6.40 | 20.20 | 26.60 | 12.2 | 29.2 | 41.4 |
| 2009 | 7.30 | 18.70 | 26.00 | 12.2 | 29.2 | 41.4 |
| 2010 | 8.00 | 22.00 | 30.00 | 12.8 | 35.2 | 48.0 |
| 2011 | 9.80 | 24.70 | 34.50 | 16.0 | 39.0 | 55.0 |
| 2012 | 13.50 | 27.70 | 41.20 | 21.0 | 43.0 | 64.0 |

* IHG changed the reporting currency of its Group Consolidated Financial Statements from sterling to US dollars effective from the interim results as at June 30, 2008. Starting with the interim dividend for 2008, all dividends have first been determined in US dollars and converted into sterling immediately before announcement.

***Special dividend***

| | Pence per ordinary share | Cents per ADS |
|---|---|---|
| **Year ended December 31,** | | |
| 2012 | 108.40 | 172.00 |

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## RISK FACTORS

This section describes the principal 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 2 and 3.

The risks below are not the only ones that the Group faces. Some risks are not yet known to the Group and some that the Group 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 operations, cash flow, financial condition, turnover, profits, liquidity and/or capital reserves.

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

The Group is exposed to political, economic and financial market developments such as recession, inflation, availability of credit and currency fluctuations that could lower revenues and reduce income. The current outlook for 2013 may worsen due to escalating impacts of the US fiscal cliff , change in leadership in China, uncertainty in the Eurozone and ongoing unrest in the Middle East. In addition to trading conditions, the economic outlook also affects the availability of capital to current and potential owners which could impact existing operations and health of the pipeline. A recession reduces leisure and business travel to and from affected countries and adversely affects room rates and/or occupancy levels and other income-generating activities.

This may result in deterioration of results of operations and potentially reduce the value of properties in affected economies. The owners or potential owners of hotels franchised or managed by the Group face similar risks which could adversely impact the Group s ability to retain and secure franchise or management agreements. More specifically, the Group is highly exposed to the US market and, accordingly, is particularly susceptible to adverse changes in the US economy as well as the US dollar.

**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, political or civil unrest, epidemics, 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 contingency planning or recovery capability in relation to a major incident or crisis may prevent operational continuity and consequently impact the value of the brands and/or the reputation of the Group.

**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 overcapacity (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 is dependent upon a wide range of external stakeholders and business partners**

The Group is dependent upon the performance, behaviors and reputation of a wide range of business partners and external stakeholders including, but not limited to, owners, contractors, lenders, suppliers, vendors, joint venture partners, agents, third-party intermediaries and other business partners. Further, the number and complexity of interdependencies with stakeholders is evolving. Breakdown in relationships, poor vendor performance, stakeholder behaviors or adverse reputations could impact on the Group s performance and competitiveness, guest experiences or the reputation of the Group or its brands.

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

The Group s growth strategy depends on its success in identifying, securing and retaining franchise and management agreements. This is an inherent risk for the hotel industry and franchise business model. Competition with other hotel companies may generally reduce the number of suitable franchise, management and investment opportunities offered to the Group and increase the bargaining position of property owners seeking to become a franchisee or engage a manager. The terms of new franchise or management agreements may not be as favorable as current arrangements; and the Group may not be able to renew existing arrangements on similarly favorable terms, or at all.

There can also be no assurance that the Group will be able to identify, retain or add franchisees to the Group s system or to secure management contracts. For example, the availability of suitable sites, market saturation, planning and other local regulations or the availability and affordability of finance may all restrict the supply of suitable hotel development opportunities under franchise or management agreements. In connection with entering into franchise or management agreements, the Group may be required to make investments in, or guarantee the obligations of, third parties or guarantee minimum income to third parties. 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. This could result in franchisees prematurely terminating contracts which would adversely impact overall system size and the Group s financial performance.

**The Group is exposed to inherent risks in relation to changing technology and systems**

The Group is reliant upon certain technologies, systems and platforms for the running of its business, particularly those which are highly integrated with business operational processes. Some of these are dependent upon the products and services of third-party technology providers. The failure of any such third-party provider to provide products and/or perform services could materially adversely impact the Group s business.

The Group may also 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 with the needs of the business or responsive to changes in business strategy. As a result, the Group could adversely affect guest experiences, lose customers, fail to attract new customers, incur substantial costs or face other losses.

**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 existing or new brands and/or fails to sustain the appeal of the Group s existing or new brands to its customers may have an adverse impact on the value of that brand and subsequent revenues from that brand or business.

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

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 commoditization (whereby price and/or quality becomes relatively more important than brand identifications due, in part, to the increased prevalence of travel comparison websites and online travel agents), consumer preference and perception, or other factors affecting consumers willingness to purchase goods and services provided by the Group.

Given the importance of brand recognition to the Group s business, the protection of its intellectual property poses a risk due to the variability and change of controls, laws and effectiveness of enforcement globally. Any widespread infringement, misappropriation or weakening of the control environment could materially harm the value of the Group s brands and its ability to develop the business.

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

The value of the Group s brands is partly derived from the ability to drive reservations through its proprietary HolidexPlus reservations system, a central repository of the Group s hotel room inventories linked electronically to multiple sales channels including the Group s own websites, call centers and hotels, third party intermediaries and travel agents.

Lack of resilience and operational availability and/or the failure of a third-party technology provider could lead to prolonged service disruption and may result in significant business interruption, impact the guest booking experience and subsequently impact on revenues. Lack of investment in these systems may also result in reduced capability, stability and ability to compete. Additionally, failure to maintain an appropriate technology strategy and select the right technology partners could erode the Group s long-term competitiveness.

**The Group is exposed to the risks related to information security and data privacy**

The Group is increasingly dependent upon the availability, integrity and confidentiality of information including but not limited to, guest and employee credit card, financial and personal data, business performance, financial reporting and commercial development. This information is sometimes held in different formats such as digital, paper, voice and video and could be stored in many places including facilities managed by third-party service providers.

The threats towards the Group s information are dynamic including cyber attacks, fraudulent use, loss or misuse by employees and breaches of the Group s vendors security arrangements amongst others. The legal and regulatory environment and requirements set out by the payment card industry surrounding information security and data privacy across the many jurisdictions in which the Group operates are constantly evolving. If the Group fails to appropriately protect information and ensure relevant controls are in place to enable the release of information through the appropriate channels in a timely and accurate manner, system performance, guest experiences and the reputation of the Group may be adversely affected. This can lead to revenue losses, fines, penalties and other additional costs, including legal fees.

**The Group is exposed to a variety of risks associated with safety, security and crisis management**

There is a constant need to protect the safety and security of our guests, employees and assets against natural and man-made threats. These include but are not limited to exceptional events such as extreme weather, civil or political unrest, violence and terrorism, serious and organized crime, fraud, employee dishonesty, cyber crime, fire and day-to-day accidents, incidents and petty crime which impact the guest or employee experience, could cause loss of life, sickness or injury and result in compensation claims, fines from regulatory bodies, litigation and impact reputation. Serious incidents or a combination of events could escalate into a crisis which if managed poorly could further expose the Group and its brands to significant adverse reputational damage.

**The Group requires the right people, skills and capability to manage growth and change**

In order to remain competitive, the Group must employ the right people. This includes hiring and retaining highly skilled employees with particular expertise or leadership capability. The implementation of the Group s strategic business plans could be undermined by failure to build resilient corporate culture, failure to recruit or retain key personnel, 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.

Some of the markets in which the Group operates are experiencing economic growth and the Group must compete against other companies inside and outside the hospitality industry for suitably qualified or experienced employees. Some emerging markets may not have the required local expertise to operate a hotel and may not be able to attract the right talent. Failure to attract and retain employees may threaten the success of the Group s operations in these markets. 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.

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**The Group is required to comply with existing and changing regulations across numerous countries, territories and jurisdictions**

Governmental regulations affect countless aspects of the Group s business ranging from corporate governance, health and safety, environmental, bribery and corruption, employment law and diversity, disability access, relationships, data privacy and information protection, financial, accounting and tax.

Regulatory changes may require significant changes in the way the business operates and may inhibit the strategy including the markets the Group operates in, brand protection, and use or transmittal of customer data. If the Group fails to comply with existing or changing regulations, the Group may be subject to fines, prosecution, loss of license to operate or reputation damage.

**The Group is exposed to the risk of litigation**

Certain companies in the Group are the subject of various claims and proceedings. The ultimate outcome of these matters is subject to many uncertainties, including future events and uncertainties inherent in litigation.

In addition, the Group could be at risk of litigation from many parties, including but not limited to, guests, customers, joint venture partners, suppliers, employees, regulatory authorities, franchisees and/or the owners of hotels it manages. Claims filed in the US may include requests for punitive damages as well as compensatory damages. Unfavorable outcomes of claims or proceedings could have a material impact on the Group s results of operations, cash flow and/or financial position. Exposure to significant litigation or fines may also affect the reputation of the Group and its brands.

**The Group is exposed to risks related to corporate responsibility**

The reputation of the Group and the value of its brands are influenced by a wide variety of factors, including the perception of stakeholder groups such as the communities in which the Group operates. The social and environmental impacts of business are under increasing scrutiny, and the Group is exposed to the risk of damage to its reputation if it fails to demonstrate sufficiently responsible practices, ethical behavior, or fails to comply with relevant regulatory requirements.

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

While the strategy of the Group is to extend the hotel network through activities that do not involve significant amounts of its own capital, the Group does require capital to fund some development opportunities and to maintain and improve owned hotels. The Group is reliant upon having financial strength and access to borrowing facilities to meet these expected capital requirements. The majority of the Group s borrowing facilities are only available if the financial covenants in the facilities are complied with. Non-compliance with covenants could result in the lenders demanding repayment of the funds advanced. If the Group s financial performance does not meet market expectations, it may not be able to refinance existing facilities on terms considered favorable.

**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 members of its UK pension plans who are entitled to defined benefits. 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.

In particular, the trustees of the Group s UK defined benefit plan may demand increases to the contribution rates relating to the funding of this plan, which would oblige relevant employers of the Group to contribute extra amounts. The trustees must consult the plan s 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 funding implications of the last actuarial review are disclosed in the Notes to the Consolidated Financial Statements on pages F-30 to F-35.

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**The Group may face difficulties insuring its business**

Historically, the Group has maintained insurance at levels determined 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 and 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. 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.

**ITEM 4.** ***INFORMATION ON THE COMPANY***
**SUMMARY**

**Group overview**

The Group is an international hotel business which owns a portfolio of established and diverse hotel brands, including InterContinental Hotels & Resorts ( InterContinental ), Crowne Plaza Hotels & Resorts ( Crowne Plaza ), Holiday Inn Hotels & Resorts (including Holiday Inn Club Vacations) ( Holiday Inn ), Holiday Inn Express, Staybridge Suites, Candlewood Suites and Hotel Indigo. At December 31, 2012, the Group had 4,602 franchised, managed, owned and leased hotels and 675,982 guest rooms in nearly 100 countries and territories around the world. The Group also manages the hotel loyalty program, Priority Club Rewards (the Group announced on March 26, 2013 that it will be enhancing and renaming the Priority Club Rewards program as IHG Rewards Club from July 2013).

In the first quarter 2012, the Group launched two new brands. EVEN Hotels ( EVEN ) is aimed at business and leisure travelers who are looking for a wellness experience in a hotel stay at a mainstream price point. HUALUXE Hotels & Resorts ( HUALUXE ) is the first international upscale hotel brand designed specifically for Chinese guests, to take advantage of both the supply and demand side opportunities the Group sees in China.

The Group s revenue and earnings are derived from hotel operations, which include franchise and other fees paid under franchise agreements, management and other fees paid under management contracts, where the Group operates third-parties hotels, and operation of the Group s owned and leased hotels.

At March 21, 2013, InterContinental Hotels Group PLC had a market capitalization of approximately £5.3 billion, and was included in the FTSE 100, a list of the 100 largest companies by market capitalization on the London Stock Exchange.

InterContinental Hotels Group PLC is the holding company for the Group. Six Continents Limited (formerly Six Continents PLC), which was formed in 1967, is the principal subsidiary company. The Company s corporate headquarters are in the United Kingdom, and the registered address is:

InterContinental Hotels Group PLC

Broadwater Park

Denham

Buckinghamshire UB9 5HR

Tel: +44 (0) 1895 512000

Internet address: www.ihgplc.com

InterContinental Hotels Group PLC was incorporated in Great Britain on May 21, 2004 and registered in, and operates under, the laws of England and Wales. Operations undertaken in countries other than England and Wales are subject to the laws of those countries in which they reside.

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**Group history and developments**

The Group, formerly known as Bass and, more recently, Six Continents, was historically a conglomerate operating as, among other things, a brewer, soft drinks manufacturer, hotelier, leisure operator, and restaurant, pub and bar owner. In the last several years, the Group has undergone a major transformation in its operations and organization, as a result of the separation (as discussed below) and a number of significant disposals during this period, which has narrowed the scope of its business.

On April 15, 2003, following shareholder and regulatory approval, Six Continents PLC (as it then was) separated into two new listed groups, InterContinental Hotels Group PLC (as it then was) comprising the Hotels and Soft Drinks businesses and Mitchells & Butlers plc comprising a retail and standard commercial property developments business.

The Group disposed of its interests in the Soft Drinks business by way of an initial public offering ( IPO ) of Britvic, a manufacturer and distributor of soft drinks in the United Kingdom, in December 2005.

Following separation, the Group has undertaken an asset disposal program realizing, by the end of 2010, proceeds of $5.6 billion from the sale of 185 hotels. Of these 185 hotels, 166 remained in the Group s system through either franchise or management agreements. The asset disposal program has significantly reduced the capital requirements of the Group whilst largely retaining the hotels in the Group s system.

A small number of hotels have been sold since the end of 2010 and at December 31, 2012, there were two hotels, the InterContinental New York Barclay and the InterContinental London Park Lane that were classified as held for sale. On February 19, 2013, the Company announced that the disposal process for InterContinental London Park Lane had commenced, and was continuing for InterContinental New York Barclay.

**Recent acquisitions and dispositions**

During 2012, the Group sold its interest in a hotel in the Europe region for a total consideration of $5 million. During 2011, the Group disposed of the Holiday Inn Burswood in Australia for $71 million, the Hotel Indigo San Diego for $55 million and two other hotels in North America for $17 million. During 2010, the Group disposed of the Holiday Inn Lexington for $5 million and the InterContinental Buckhead, Atlanta for $105 million.

The Group also divested a number of investments for total proceeds of $4 million, $15 million and $17 million in 2012, 2011 and 2010, respectively. In 2010, a loan repayment of $11 million was also received.

Capital expenditure in 2012 totaled $133 million compared with $194 million in 2011 and $95 million in 2010.

At December 31, 2012 capital committed, being contracts placed for expenditure on property, plant and equipment and intangible assets not provided for in the Consolidated Financial Statements, totaled $81 million. The Group has also committed to invest up to $60 million in two joint venture arrangements of which $37 million had been spent at December 31, 2012.

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**Return of funds**

Since March 2004, the Group has returned over £3.9 billion of funds to shareholders by way of special dividends, share repurchase programs and capital returns (see table below).

On August 7, 2012, the Company announced a $1 billion (£640 million) return of funds to shareholders, split between a $0.5 billion (£320 million) special dividend with share consolidation and a $0.5 billion (£320 million) share buyback program. The special dividend was paid on October 22, 2012 and as at March 21, 2013 £68.8 million of shares have been repurchased at an average price per share of 1,621 pence. Purchases are made under the existing authority from shareholders which will be presented for renewal at the Company s Annual General Meeting to be held in 2013. Any shares repurchased may be canceled or held as treasury shares.

Information relating to the purchases of equity securities can be found in Item 16E.

| Return of funds program | Timing | Total return | Returned to date[(i)] |
|---|---|---|---|
| £501 million special dividend | Paid in December 2004 | £ 501m | £ 501m |
| First £250 million share buyback | Completed in 2004 | £ 250m | £ 250m |
| £996 million capital return | Paid in July 2005 | £ 996m | £ 996m |
| Second £250 million share buyback | Completed in 2006 | £ 250m | £ 250m |
| £497 million special dividend | Paid in June 2006 | £ 497m | £ 497m |
| Third £250 million share buyback | Completed in 2007 | £ 250m | £ 250m |
| £709 million special dividend | Paid in June 2007 | £ 709m | £ 709m |
| £150 million share buyback | N/A[(ii)] | £ 150m | £ 120m |
| £320 million special dividend | Paid in October 2012 | £ 320m | £ 320m |
| £320 million share buyback | Ongoing | £ 320m | £ 68.8m |
| Total | | £ 4,243m | £ 3,961.8m |

(i) At March 21, 2013.

(ii) This program was superseded by the buyback program announced on August 7, 2012.

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**SEGMENTAL INFORMATION**

**Geographic segmentation**

Following an internal reorganization during 2011, there was a change in the Group s geographic segments as explained in Note 2 of the Notes to the Consolidated Financial Statements. Comparatives for 2010 were restated to show segmental information on a consistent basis.

The following table shows the Group s revenue and operating profit before exceptional operating items and the percentage by geographical area, for the years ended December 31, 2012, 2011 and 2010.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | ($ million) | |
| Revenue[1] | | | |
| Americas | 837 | 830 | 807 |
| Europe | 436 | 405 | 326 |
| AMEA | 218 | 216 | 213 |
| Greater China | 230 | 205 | 178 |
| Central[2] | 114 | 112 | 104 |
| Total | 1,835 | 1,768 | 1,628 |
| Operating profit before exceptional operating items[1][3] | | | |
| Americas | 486 | 451 | 369 |
| Europe | 115 | 104 | 78 |
| AMEA | 88 | 84 | 82 |
| Greater China | 81 | 67 | 54 |
| Central | (156) | (147) | (139) |
| Total | 614 | 559 | 444 |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (%) | |
| Revenue | | | |
| Americas | 45.6 | 47.0 | 49.6 |
| Europe | 23.8 | 22.9 | 20.0 |
| AMEA | 11.9 | 12.2 | 13.1 |
| Greater China | 12.5 | 11.6 | 10.9 |
| Central | 6.2 | 6.3 | 6.4 |
| Total | 100.0 | 100.0 | 100.0 |
| Operating profit before exceptional operating items | | | |
| Americas | 79.2 | 80.7 | 83.1 |
| Europe | 18.7 | 18.6 | 17.6 |
| AMEA | 14.3 | 15.0 | 18.5 |
| Greater China | 13.2 | 12.0 | 12.1 |
| Central | (25.4) | (26.3) | (31.3) |
| Total | 100.0 | 100.0 | 100.0 |

(1) The results of operations have been translated into US dollars at the average rates of exchange for the year. In the case of sterling, the translation rate is $1 = £0.63 (2011 $1 = £0.62, 2010 $1 = £0.65). In the case of the euro, the translation rate is $1 = 0.78 (2011 $1 = 0.72, 2010 $1 = 0.76).

(2) Central revenue primarily relates to technology fee income. Central operating profit includes central revenue less costs related to global functions.

(3) Operating profit before exceptional operating items does not include exceptional operating items for all periods presented. Exceptional operating items (charge unless otherwise noted) by region were The Americas credit of $23 million (2011 credit of $35 million, 2010 $8 million); Europe $4 million (2011 $39 million, 2010 $5 million); AMEA $5 million (2011 credit of $26 million, 2010 credit of $6 million); Greater China $nil (2011 $nil, 2010 $nil); and Central $18 million (2011 credit of $35 million, 2010 $nil).

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**BUSINESS OVERVIEW**

The Group is an international hotel business which owns a portfolio of established and diverse hotel brands, including InterContinental Hotels & Resorts, Crowne Plaza Hotels & Resorts, Holiday Inn Hotels & Resorts (including Holiday Inn Club Vacations), Holiday Inn Express, Staybridge Suites, Candlewood Suites and Hotel Indigo. At December 31, 2012, the Group had over 4,600 franchised, managed, owned and leased hotels and approximately 676,000 guest rooms in nearly 100 countries and territories around the world. The Group also manages the hotel loyalty program, Priority Club Rewards (the Group announced on March 26, 2013 that it will be enhancing and renaming the Priority Club Rewards program as IHG Rewards Club from July 2013).

In the first quarter of 2012, the Group launched two new brands. EVEN Hotels is aimed at business and leisure travelers who are looking for a wellness experience in a hotel stay at a mainstream price point. HUALUXE Hotels & Resorts is the first international upscale hotel brand designed specifically for Chinese guests, to take advantage of both the supply and demand side opportunities the Group sees in China.

**Industry overview**

The hotel industry performed well in 2012 despite challenging economic conditions. The economic outlook deteriorated over the course of 2012 with increased concerns over the Eurozone and weaker performance in the US and China. Global Domestic Product ( GDP ) increased by 2.3% in 2012, compared with 2.9% in 2011 and the year ended with a continued uncertain outlook across the globe.

However, the hotel industry demonstrated its resilience against this challenging economic background. Globally, industry revenue per available room ( RevPAR ), a key industry indicator, increased by 4.5% compared to a 5.9% increase in 2011. The Group performed well against these market conditions, with global RevPAR growth in 2012 of 5.2%.

**RevPAR growth 2011 v 2012**

| 2011 | 2012 |
|---|---|

[1] Data sourced from Smith Travel Research.

[2] Comparable hotels.

The global hotel market is estimated to include 21.5 million rooms. Smith Travel Research calculates that there are 7.3 million branded hotel rooms, with the remainder a combination of independent hotels, guesthouses and other types of lodging. The Group believes that it holds the largest share of branded rooms, currently approximately 9% of branded supply, distributed across nearly 100 countries and territories around the world. In 2012 the Group opened 33,922 new rooms worldwide (226 new hotels), resulting in an increase in the number of open Group hotel rooms to 675,982 (4,602 hotels) at December 31, 2012, up 2.7% from 2011, taking into account the removal of hotels which left the Group s system.

The benefits of a brand, such as the greater security and performance of a global reservation system, loyalty programs and international networks, are clear to many owners and the Group is well-positioned to win the business of owners seeking to grow with a hotel brand. Additionally, the Group and other large hotel companies have the competitive advantage of a global portfolio of brands that suit the different real estate or market opportunities an owner may have.

To ensure the Group s strategy continues to be sustainable in the changing business environment and suitable for the Group s capabilities, the Group closely monitors markets across the globe and follows key industry and business metrics such as RevPAR, average daily rate, demand, GDP and guest satisfaction.

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**The Group s strategy**

With a portfolio of preferred Brands in the most attractive markets, the Group s talented People are focused on delivering Great Hotels Guests Love and executing a clear set of priorities to achieve its Vision of becoming one of the great companies in the world.

**Delivering the elements of the Group s strategy**

**Where we compete**

***Competing in relevant consumer segments***

The hotel industry is usually segmented according to price point and IHG is focused on the three segments that generate over 90% of branded hotels revenue, namely midscale (broadly three star), upscale (mostly four star) and luxury (five star). However, to build preferred Brands, the Group believes it needs to advance its understanding of its guests and their needs to ensure its brands remain contemporary and relevant.

The Group has therefore completed a fundamental occasion-based needs segmentation analysis to understand why guests book hotels looking at who they are, the occasion they are traveling for and their needs when traveling. Many guests no longer have a single purpose for their hotel stay for example, business trips turn into family holidays, and the Group needs to meet these demands, focusing more on the needs of its guests, to deliver loyalty and brand preference. The Group used this analysis to develop the brand proposition for its two new brands, HUALUXE Hotels & Resorts and EVEN Hotels, and it continues to work on this needs-based segmentation to help inform its view of the hotel market and its brand strategies going forward.

***Competing in the most attractive markets***

The Group s strategy is to build preferred Brands with scale positions in the most attractive markets globally. Concentrating growth in the largest markets means the Group and owners can operate more efficiently and benefit from enhanced revenues and reduced costs. The Group s key markets include large developed markets such as the US, UK and Germany, as well as emerging markets like China and India.

The US is the largest market for branded hotels, with 3.38 million rooms, accounting for 69% of all US rooms available. The segment in the US with the greatest share is midscale, with 1.38 million branded hotel rooms, and the Group s Holiday Inn brand family, comprising Holiday Inn, Holiday Inn Express, Holiday Inn Club Vacations and Holiday Inn Resort, is the largest brand in this segment.

In China, the Group sees the greatest opportunity for growth of any single country and its strategy has been to enter the market early, to develop its relationships with key local third-party owners and grow its presence rapidly. In a country with 659,000 branded hotel rooms, the Group is the largest international hotel company with over 61,000 rooms across its brands and more than 50,000 in the planning phase or under construction. This rapid pace of openings for the Group has been in anticipation of increasing demand for hotels, driven by a large, emerging middle class and growing domestic and international travel.

The Group is also focused on developing in other high priority markets. It seeks to develop its portfolio of brands in those markets which will be sources of strong hotel demand in the future. The Group has continued to build its position in these markets in the last year. For example, the Group increased the distribution of its core brands in India, building on its leadership position of Holiday Inn. In Russia and the Commonwealth of Independent States ( CIS ), there are opportunities for new construction and conversions as well as strong demand for branded hotels. The Group continues to adapt its business model by market, choosing partnerships and joint ventures where appropriate.

Outside the largest markets, the Group focuses on building presence in key gateway cities where its brands can generate revenue premiums from high business and leisure demand.

During 2012, the Group opened 33,922 rooms in 26 countries and territories, and signed a further 53,812 rooms into its development pipeline (hotels in planning and under construction but not yet opened) across 33 countries and territories. As part of its ongoing commitment to maintaining the quality of its brands, the Group removed 16,288 rooms during the year. As at December 31, 2012, the Group had the second largest pipeline in the industry, with 169,030 rooms in 1,053 hotels across 60 countries and territories. This represents a market share of 12% of all hotels under development, including those that are independent or unaffiliated with a brand.

***Competing with an appropriate business model***

As can be seen in the diagrams above and below, the Group s business model is focused on franchising and managing hotels, rather than owning them, enabling it to grow at an accelerated pace with limited capital investment. This allows the Group to focus on building strong, preferred Brands based on relevant consumer needs, leaving asset management and real estate to its local third-party owners with the necessary expertise. With this asset-light approach, the Group also benefits from the reduced volatility of fee-based income streams, as compared with the ownership of assets. It allows the Group to focus on building strong delivery systems such as its branded hotel websites and call centers, creating greater returns for owners.

A key characteristic of the franchised and managed business model is that it is highly cash generative, with a high return on capital employed. This business model enables the Group to focus on growing its fee revenues (Group revenue excluding owned and leased hotels, managed leases (being properties structured for legal reasons

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as operating leases but with the same characteristics as management contracts) and significant liquidated damages) and fee-based margins (operating profit as a percentage of revenue, excluding revenue and operating profit from owned and leased hotels, managed leases and significant liquidated damages).

As at December 31, 2012, 86% of the Group s operating profit (before regional and central overheads and exceptional items) was derived from franchised and managed operations. In some situations, the Group supports its brands by using its capital to build or support the funding of flagship assets in high-demand locations in order to drive growth. The Group plans to recycle capital by selling these assets when the time is right and to reinvest elsewhere in the business and across its portfolio.

On November 6, 2012, the Group announced that the InterContinental London Park Lane would be the next hotel considered for sale and that discussions regarding the disposal of the InterContinental New York Barclay were progressing and would be opened to a wider group of prospective buyers. On February 19, 2013, the Company announced that the disposal process for InterContinental London Park Lane had commenced, and was continuing for InterContinental New York Barclay.

The Group continues to invest for growth, strengthening both its existing brands and launching new ones.

**How we win**

***Winning with a portfolio of preferred Brands***

The Group aims to build a portfolio of brands that are bigger, better, and stronger:

- Bigger means the Group has prioritized its growth strategy to build brand scale and leverage this scale through greater operational efficiency.

- Better means a focus on continuous improvement in how the Group develops and delivers its brands to ensure guest needs are met with a consistent, high-quality experience.

- Stronger means a focus on driving brand preference among guests, owners, investors and employees.

As part of the Group s commitment to deliver against its brand strategy, in 2012, the Group launched two unique new brands to the market, which complement its overall portfolio of brands.

Further information on the Group s portfolio can be found on page 27.

***Winning with talented People***

The Group believes that its preferred Brands are brought to life by its talented and passionate People. Therefore to deliver on its brand promise, the Group must attract, retain and develop the very best talent in the industry to service its guests and bring its Brands to life.

The Group directly employed an average of 7,981 people worldwide in the year ended December 31, 2012, whose costs were borne by the Group. When the whole of the Group s estate is taken into account (including staff working in the franchised and managed hotels) over 350,000 people worked globally across all the Group s brands as at December 31, 2012.

The four pillars of the Group s People strategy are:

Developing a BrandHearted culture: The Group s brands are brought to life by its talented and passionate People and it has focused on developing and improving its tools, to make it easy for its People to deliver the brand promise. In 2012, the Group launched a new brand framework focused on transforming its brand standards and looked at how it manages projects - all part of developing a BrandHearted culture.

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Making IHG a great place to work: The Group believes in treating people as individuals and celebrating achievements. The Group calls this Room to be yourself and this commitment is brought to life by four key promises. The Group continues to be recognized around the globe as an employer of choice.

Delivering world-class People Tools to our owners: By partnering with the hotel human resources community, the Group has developed a set of award-winning People Tools that not only help increase employee retention and guest satisfaction but also drive efficiencies and increase revenue for the Group s owners.

Building a strong leadership team: To grow its business sustainably and responsibly, the Group needs a strong BrandHearted leadership team. Therefore, it has created a Leadership Framework , which clearly defines what great leadership looks like to help develop the Group s leaders of tomorrow.

Being the hotel company for the London 2012 Olympic and Paralympic Villages was a groundbreaking opportunity for the Group, giving its People in London 2012 the opportunity to benefit from new skills and experiences.

***Winning with best-in-class Delivery***

During 2012, the Group remained focused on attracting guests (room nights) to its hotels and its portfolio of brands. The Group leverages its size and scale to drive demand to its hotels, executing a multi-channel strategy that enables guests to search and book in the most appropriate mode for them, either over the phone, by computer or via an application on a mobile device. The Group maximizes the demand it delivers through these channels through advanced techniques that manage revenue per booking, drive customer loyalty and maximize owner returns. The Group s channels and loyalty program, Priority Club Rewards, are the engine of the Group s business.

*The Group s channels*

As part of its multi-channel strategy, the Group aims to increase revenue and bookings using its direct channels. During 2012, revenue generated through the Group s websites increased to $3.4 billion whilst its global call centers answered more than 23 million inbound contacts and drove more than $1.9 billion in revenue for its hotels.

Mobile communications are also having profound effects on the hotel industry and the Group has been quick to adapt to these new channels with significant growth in revenue generated thorough its branded mobile applications, across all major platforms, rising from $2.4 million in 2009 to more than $330 million in 2012.

The Group is also a founding member of roomkey.com, which was launched in 2012 as the first industry-owned hotel search engine, providing another innovative channel to increase guest nights to its brands.

Social media has also changed the way in which the Group communicates with guests and with its stakeholders in general. The Group s new Guest Ratings and Review tool, which launched on its websites in 2012 enables guests to share their thoughts about their hotel experiences so that future guests can take this into account during the booking process.

*Priority Club Rewards*

Priority Club Rewards was the hotel industry s first loyalty program and is the largest of its kind in the world with 71.4 million members at the end of 2012, an increase of 13% during the year. In 2012, it won Premier Traveler magazine s inaugural award for Best Hotel Loyalty Program and Global Traveler magazine s award for Best Hotel Rewards Program for the eighth consecutive year.

The Group also leverages sales and marketing expertise in order to support its multi-channel strategy. The System Fund (the Fund ) is a $1.2 billion fund of cash assessments and contributions, collected by the Group from hotels within the Group s system, and proceeds from the sale of Priority Club Rewards points. The System Fund is managed by the Group for the benefit of hotels in the Group s system with the objective of driving revenues for the hotels. It is therefore used to pay for marketing, the Priority Club Rewards loyalty program and the global reservation system.

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As a result of the power of its revenue delivery systems the Group has built strong relationships with its owners. These relationships are founded on the ability to deliver high returns to owners using premium revenue generating products. The Group meets with the IHG Owners Association (the organization that represents owners of hotels operating under the Group s brands across the world) on a regular basis to facilitate the continued development of the Group s brands and systems.

***Winning with Responsible Business practices***

With over 4,600 hotels in nearly 100 countries and territories around the world, the Group s commitment to being a Responsible Business is central to its Vision of being one of the great companies of the world. The Group understands how important it is to champion and protect the trusted reputation of the Group and its brands and this is embedded in its culture. The Group believes that being a responsible business is necessary to enable it to stay ahead of the competition and grow, creating value for all of its shareholders and stakeholders in the long term. Amongst other things, it offers the Group a huge opportunity to innovate, create employment, empower people to perform at their best and feel good about what they do, and drive value for the business. That s why Responsible Business underpins each of the Group s three strategic corporate priorities of preferred Brands, talented People and best-in-class Delivery, which work together to determine How We Win to create Great Hotels Guests Love.

*Governance and leadership*

The Group s Chairman, the Board and its committees (Audit Committee, Corporate Responsibility Committee, Nomination Committee and Remuneration Committee) provide strong leadership and promote a responsible business culture by maintaining high standards in corporate governance, corporate responsibility and internal control and risk management.

*Brands*

Trusted brands deliver a superior and consistent brand experience and to achieve this, the Group requires a clear brand framework. Brand standards are the foundations of a clear brand framework for all the Group s hotels and its compliance teams ensure that its hotels deliver in accordance with these. The Group s brand safety standards assist hotels in providing a safe and secure environment for its guests and employees. The Group s corporate responsibility programs have also been designed so that they can be implemented throughout the Group s hotel brands and corporate offices in any region.

*People*

At the core of being a Responsible Business is ensuring that the actions of all of the Group s employees working at its corporate offices and hotels maintain the Group s trusted reputation. Operating an ethical business is vital to maintaining and protecting this trusted reputation and therefore the Group continually keeps under review its internal policies and training to promote understanding, awareness, accountability and transparency.

*Delivery*

Having in place an effective system of internal controls and risk management is essential to being a Responsible Business. The Group s tools, processes and procedures ensure a business based on a solid foundation with a commitment to doing the right thing for the benefit of all its stakeholders.

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**Measuring our success**

The Group has a holistic set of carefully selected key performance indicators ( KPIs ) to monitor its success in achieving its strategy. These are organized around the elements of the Group s strategy:

Where we compete , focusing on relevant consumer segments, the most attractive markets and the appropriate business model; and

How we win , focusing on corporate priorities of preferred Brands, talented People, best-in-class Delivery and Responsible Business.
In particular, the Group uses the following measures to monitor performance:

fee revenues and fee-based margins;

global RevPAR;

system contribution the proportion of business delivered to Group hotels by its dedicated IHG booking channels;

employee engagement; and

Responsible Business practices.
These KPIs are used to measure the progress of the Group to deliver Great Hotels Guests Love and achieve its Vision of becoming one of the great companies of the world.

The Group s performance against these KPIs over the 2010-2012 period is summarized below:

***Where we compete***

| Strategic priorities | KPIs | Current status and 2012 development | 2013 priorities |
|---|---|---|---|
| **Most attractive markets and appropriate business model**<br><br>To accelerate profitable growth of its core business in its most attractive markets where presence and scale really count using the right business model to drive its fee revenue and income streams. | **Net rooms supply**<br><br>**Growth in fee revenue[1]**<br><br>**Fee-based margins** | System size grown to 675,982 rooms;<br><br>4,602 hotels opened globally;<br><br>built scale of Hotel Indigo brand to 50 hotels globally; and<br><br>fee-based margins of 42.6%, up two percentage points on 2011, a particularly strong result. | Accelerate growth strategies in quality locations in agreed scale markets; and<br><br>continue to leverage scale. |

[1] At constant currency.

[2] One percentage point growth on an underlying basis.

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***How we win    Delivering Great Hotels Guests Love***

| Strategic priorities | KPIs | Current status and 2012 development | 2013 priorities |
|---|---|---|---|
| **Preferred Brands**<br><br>Operate a portfolio of preferred, locally-relevant brands attractive to both owners and guests that have clear market positions and differentiation in the eyes of the guest. | **Global RevPAR growth/(decline)**<br><br>Comparable hotels, constant $ | Clarified the brand propositions for Holiday Inn and Holiday Inn Express and celebrated the Holiday Inn 60th anniversary;<br><br>continued the repositioning of Crowne Plaza;<br><br>achieved two new brand launches in two geographies; and<br><br>achieved strong brand successes in Greater China, particularly through the growth of HUALUXE Hotels & Resorts with 15 signings for the brand and improved the strength of Crowne Plaza through brand preference and awareness. | Invest to build long-term brand preference for the Holiday Inn brand family;<br><br>continue the repositioning of the Crowne Plaza brand;<br><br>support growth of its new brands: EVEN Hotels in the US and HUALUXE Hotels & Resorts in Greater China; and<br><br>continue to deliver a consistent brand experience and increased guest satisfaction through its needs-based segmentation analysis. |
| **Talented People**<br><br>Create hotels that are well run, with brands brought to life by people who are proud of the work they do. | **Employee engagement scores**<br><br>Average of two Employee Engagement surveys per year | New brand management training launched for General Managers;<br><br>all of its corporate offices and more than 4,000 Group hotels participated in Celebrate Service week, its global employee recognition event;<br><br>created a new Mandarin recruitment site and launched career pages on social networking platforms in China to continue its aim to be employer of choice; and<br><br>industry-leading suite of People Tools now embedded in its franchised and managed hotel estate. | Empower its frontline teams with the tools and training to consistently deliver great guest experiences that build brand preference, advocacy and repeat business;<br><br>continue to strengthen its talent pipeline and succession planning to meet its growth ambitions;<br><br>instill a winning culture through strong leadership and performance management; and<br><br>build on its strong employer brand to make the Group a magnet for talent. |

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| Strategic priorities | KPIs | Current status and 2012 development | 2013 priorities |
|---|---|---|---|
| **Best-in-class Delivery**<br><br>Generate higher returns for owners and the Group through increased revenue share, improved operating efficiency and growing margins. | **Total gross revenue**<br><br>Actual $billion | Launched strategic industry partnership in roomkey.com;<br><br>71.4 million Priority Club Rewards members 8.4 million new members enrolled in 2012, up 13% on 2011; and<br><br>global Group sales force with 17,600 sales professionals. | Continue to strengthen the Group s system of delivering profitable demand to hotels;<br><br>put in place the required technology infrastructure to enable growth; and<br><br>continue to increase business from its loyalty program, Priority Club Rewards. |
| **Responsible Business**<br><br>Take a proactive stance and seek creative solutions on environmental sustainability and sustainable communities in a way that drives shared value for the Group, owners, guests and the communities in which IHG operates. | **Hotels signed-up to Green Engage**<br><br>Hotels, cumulative<br><br>**Participants benefiting from the IHG Academy** | 2,219 of the Group s hotels enrolled in Green Engage by end of 2012;<br><br>11.7% energy savings in the Group s owned and managed estate by end of 2012 (on a per available room night basis);<br><br>industry standard for measuring carbon was launched in 2012 and included in Green Engage via the Group s new carbon calculator;<br><br>over 150 IHG Academy programs by the end of 2012; and<br><br>fan base of the IHG Planet CR Facebook page expanded to over 20,000 by the end of 2012. | Work to ensure all Group hotels that are enrolled in Green Engage effectively use the tool for the greatest impact;<br><br>continue to drive awareness and engagement around the IHG Shelter in a Storm Programme;<br><br>continue to expand the IHG Academy program throughout the world; and<br><br>focus on driving awareness of the Group s approach to corporate responsibility across internal and external stakeholder groups using a variety of channels, to maximize employee pride, and reinforce the Group s reputation as a Responsible Business. |

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**Segmental results by activity**

The following table shows the Group s continuing revenue and operating profit before exceptional operating items by activity and the percentage contribution of each activity, for the years ended December 31, 2012, 2011 and 2010.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | ($ million) | | |
| Revenue[1] | | | |
| Americas | | | |
| Franchised | 541 | 502 | 465 |
| Managed | 97 | 124 | 119 |
| Owned and leased | 199 | 204 | 223 |
| | 837 | 830 | 807 |
| Europe | | | |
| Franchised | 91 | 86 | 76 |
| Managed | 147 | 118 | 70 |
| Owned and leased | 198 | 201 | 180 |
| | 436 | 405 | 326 |
| AMEA | | | |
| Franchised | 18 | 19 | 15 |
| Managed | 152 | 151 | 155 |
| Owned and leased | 48 | 46 | 43 |
| | 218 | 216 | 213 |
| Greater China | | | |
| Franchised | 3 | 2 | 2 |
| Managed | 89 | 77 | 60 |
| Owned and leased | 138 | 126 | 116 |
| | 230 | 205 | 178 |
| Central[2] | 114 | 112 | 104 |
| Total | 1,835 | 1,768 | 1,628 |
| Operating profit before exceptional operating items[1][3] | | | |
| Americas | | | |
| Franchised | 466 | 431 | 392 |
| Managed | 48 | 52 | 21 |
| Owned and leased | 24 | 17 | 13 |
| Regional overheads | (52) | (49) | (57) |
| | 486 | 451 | 369 |
| Europe | | | |
| Franchised | 65 | 65 | 55 |
| Managed | 32 | 26 | 17 |

| | | | |
|---|---|---|---|
| Owned and leased | 50 | 49 | 38 |
| Regional overheads | (32) | (36) | (32) |
| | 115 | 104 | 78 |
| AMEA | | | |
| Franchised | 12 | 12 | 8 |
| Managed | 90 | 87 | 88 |
| Owned and leased | 6 | 5 | 4 |
| Regional overheads | (20) | (20) | (18) |
| | 88 | 84 | 82 |

*Footnotes on page 26.*

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| | Year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 ($ million) | 2010 |
| Greater China | | | |
| Franchised | 4 | 3 | 3 |
| Managed | 51 | 43 | 30 |
| Owned and leased | 45 | 37 | 33 |
| Regional overheads | (19) | (16) | (12) |
| | 81 | 67 | 54 |
| Central[(2)] | (156) | (147) | (139) |
| Total | 614 | 559 | 444 |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 (%) | 2010 |
| Revenue | | | |
| Americas | | | |
| Franchised | 29.5 | 28.4 | 28.6 |
| Managed | 5.3 | 7.0 | 7.3 |
| Owned and leased | 10.8 | 11.6 | 13.7 |
| | 45.6 | 47.0 | 49.6 |
| Europe | | | |
| Franchised | 5.0 | 4.9 | 4.7 |
| Managed | 8.0 | 6.7 | 4.3 |
| Owned and leased | 10.8 | 11.3 | 11.0 |
| | 23.8 | 22.9 | 20.0 |
| AMEA | | | |
| Franchised | 1.0 | 1.1 | 0.9 |
| Managed | 8.3 | 8.5 | 9.5 |
| Owned and leased | 2.6 | 2.6 | 2.7 |
| | 11.9 | 12.2 | 13.1 |
| Greater China | | | |
| Franchised | 0.2 | 0.1 | 0.1 |
| Managed | 4.8 | 4.4 | 3.7 |
| Owned and leased | 7.5 | 7.1 | 7.1 |
| | 12.5 | 11.6 | 10.9 |
| Central | 6.2 | 6.3 | 6.4 |
| Total | 100.0 | 100.0 | 100.0 |

*Footnotes on page 26.*

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| | Year ended December 31, 2012 | 2011 (%) | 2010 |
|---|---|---|---|
| Operating profit before exceptional operating items | | | |
| Americas | | | |
| Franchised | 75.9 | 77.1 | 88.3 |
| Managed | 7.8 | 9.3 | 4.7 |
| Owned and leased | 3.9 | 3.0 | 2.9 |
| Regional overheads | (8.4) | (8.7) | (12.8) |
| | 79.2 | 80.7 | 83.1 |
| Europe | | | |
| Franchised | 10.6 | 11.6 | 12.4 |
| Managed | 5.2 | 4.6 | 3.8 |
| Owned and leased | 8.1 | 8.8 | 8.6 |
| Regional overheads | (5.2) | (6.4) | (7.2) |
| | 18.7 | 18.6 | 17.6 |
| AMEA | | | |
| Franchised | 2.0 | 2.1 | 1.8 |
| Managed | 14.6 | 15.6 | 19.8 |
| Owned and leased | 1.0 | 0.9 | 0.9 |
| Regional overheads | (3.3) | (3.6) | (4.0) |
| | 14.3 | 15.0 | 18.5 |
| Greater China | | | |
| Franchised | 0.7 | 0.5 | 0.7 |
| Managed | 8.3 | 7.7 | 6.7 |
| Owned and leased | 7.3 | 6.6 | 7.4 |
| Regional overheads | (3.1) | (2.8) | (2.7) |
| | 13.2 | 12.0 | 12.1 |
| Central | (25.4) | (26.3) | (31.3) |
| Total | 100.0 | 100.0 | 100.0 |

(1) The results of operations have been translated into US dollars at the average rates of exchange for the year. In the case of sterling, the translation rate $1 = £0.63 (2011 $1 = £0.62, 2010 $1 = £0.65). In the case of the euro, the translation rate is $1 = 0.78 (2011 $1 = 0.72, 2010 $1 = 0.76).

(2) Central revenue primarily relates to technology fee income. Central operating profit includes central revenue less costs related to global functions.

(3) Operating profit before exceptional operating items does not include exceptional operating items for all periods presented. Exceptional operating items (charge unless otherwise noted) by region were The Americas credit of $23 million (2011 credit of $35 million, 2010 $8 million); Europe $4 million (2011 $39 million, 2010 $5 million); AMEA $5 million (2011 credit of $26 million, 2010 credit of $6 million); Greater China $nil (2011 $nil, 2010 $nil); and Central $18 million (2011 credit of $35 million, 2010 $nil).

***Global system***

In addition to management or franchise fees, hotels within the Group s system pay cash assessments and contributions which are collected by the Group for specific use within the Fund. The Fund also receives proceeds from the sale of Priority Club Rewards points. The Fund is managed for the benefit of hotels in the system with the objective of driving revenues for the hotels. The Fund is used to pay for marketing, the Priority Club Rewards loyalty program and the global reservations system.

*Priority Club Rewards:* The Group s worldwide loyalty scheme, Priority Club Rewards, is the largest of its kind in the hotel industry. Members enjoy a variety of privileges and rewards as they stay at the Group s hotels around the world. The global system room revenue generated from Priority Club Rewards members during 2012 was $7.2 billion. Priority Club Rewards membership reached 71 million customers as at December 31, 2012, compared to 63 million as at December 31, 2011.

*Central Reservations System Technology:* The Group owns the HolidexPlus reservations system. The HolidexPlus system receives reservations requests entered on terminals located at most of the Group s reservations centers, as well as from global distribution systems operated by a number of major corporations and travel agents. Where local hotel systems allow, the HolidexPlus system immediately confirms reservations or indicates alternative accommodation available within the Group s network. Confirmations are transmitted electronically to the hotel for which the reservation is made. During 2012, the Group entered into a five-year technology outsourcing agreement with International Business Machines Corporation ( IBM ), pursuant to which IBM operates and maintains the infrastructure of the HolidexPlus system.

*Reservations Call Centers:* The Group operates 10 reservations call centers around the world which enable it to sell in local languages in many countries and offer a high-quality service to customers.

*Internet:* The Group introduced electronic hotel reservations in 1995. The internet is an important communications, branding and distribution channel for hotel sales. The Group is a founding member of roomkey.com, which was launched in 2012 as the first industry-owned online hotel search engine.

During 2012 the Group s leading mobile booking platforms realized $330 million in revenues, up from $2.4 million in 2009.

The Group has established standards for working with third-party intermediaries online travel distributors who sell or re-sell the Group s branded hotel rooms via their internet sites. Under the standards, certified distributors are required to respect the Group s trademarks, ensure reservations are guaranteed through an automated and common confirmation process, and clearly present fees to customers.

***Sales and marketing***

The Group targets its sales and marketing expenditure in each region on driving revenue and brand awareness or, in the case of sales investments, targeting segments such as corporate accounts, travel agencies and meeting organizers. The majority of the Group s sales and marketing expenditure is funded by contractual fees paid by most hotels in the system.

***Global Brands***

*Brands overview*

The Group offers hotel brands that appeal to guests with different needs and tastes. This requires a portfolio of large global brands, growing alongside innovative new brands to meet the unique experiences guests desire.

The hotel industry is usually split into segments based upon price point and consumer expectations. The Group is focused on the three segments that together generate over 90% of branded hotel revenues: midscale (broadly 3 star hotels), upscale (mostly 4 star), and luxury (5 star).

The Group operates the following brands:

| | At December 31, 2012 | |
|---|---|---|
| | **Room numbers** | **Hotels** |
| InterContinental Hotels & Resorts | 57,314 | 170 |
| Crowne Plaza Hotels & Resorts | 108,307 | 392 |
| Holiday Inn Hotels & Resorts[1] | 231,488 | 1,247 |
| Holiday Inn Express | 205,631 | 2,192 |
| Staybridge Suites | 20,696 | 189 |
| Candlewood Suites | 28,675 | 299 |
| Hotel Indigo | 5,661 | 50 |
| Other | 18,210 | 63 |
| Total | 675,982 | 4,602 |

(1) Included Holiday Inn Club Vacations (3,701 rooms, 10 hotels) and Holiday Inn Resort properties (8,806 rooms, 37 hotels).

*InterContinental Hotels & Resorts*

| | Americas | Europe | AMEA | Greater China |
|---|---|---|---|---|
| Average room rate $(1) | 181.58 | 251.80 | 214.01 | 171.37 |
| Room numbers(2) | 17,756 | 9,394 | 20,791 | 9,373 |

(1) For the year ended December 31, 2012; quoted at constant US dollar exchange rate. Average room rate is for comparable InterContinental hotels.

(2) At December 31, 2012.

InterContinental Hotels & Resorts ( InterContinental ) is the Group s luxury brand located in key cities and resort destinations across more than 60 countries worldwide. With over 60 years of experience, talented people supported by outstanding facilities help the Group to differentiate in a competitive segment by understanding that well-traveled and affluent people want to be connected to what is special about a hotel and its destination. The brand s ethos is to empower guests to share their knowledge to enjoy great experiences that enrich their lives.

InterContinental hotels are principally managed by the Group. At December 31, 2012, there were 170 InterContinental hotels which represented 8% of the Group s total hotel rooms. During 2012, six InterContinental hotels were added to the portfolio, while five hotels were removed.

*Crowne Plaza Hotels & Resorts*

| | Americas | Europe | AMEA | Greater China |
|---|---|---|---|---|
| Average room rate $(1) | 110.3 | 134.26 | 142.22 | 100.55 |
| Room numbers(2) | 48,730 | 19,566 | 18,559 | 21,452 |

(1) For the year ended December 31, 2012; quoted at constant US dollar exchange rate. Average room rate is for comparable Crowne Plaza hotels.

(2) At December 31, 2012.

Crowne Plaza Hotels & Resorts ( Crowne Plaza ) is the Group s upscale brand and is currently the world s fourth largest full-service hotel brand in the upper segments. The brand continues to appeal to business travelers, providing facilities and services that cater to these types of travelers. The Group continues to progress the multi-year Crowne Plaza repositioning program. As part of the Group s commitment to strengthen the brand, quality audits have been carried out at almost all Crowne Plaza hotels in The Americas and Europe and the Group has been actively managing the estate in order to drive brand consistency.

The majority of Crowne Plaza hotels are operated under franchise agreements in the US and Europe, and managed in other markets by the Group. In China, Crowne Plaza is the largest international upscale brand. At December 31, 2012, there were 392 Crowne Plaza hotels which represented 16% of the Group s total hotel rooms. During 2012, 21 Crowne Plaza hotels were added to the portfolio, while 16 hotels were removed.

*The Holiday Inn Family of Brands*

The Holiday Inn brand family, which comprises Holiday Inn, Holiday Inn Club Vacations, Holiday Inn Resort and Holiday Inn Express, is the world s largest midscale hotel brand by number of rooms at December 31, 2012. It is the largest brand in the Group s portfolio predominantly operating under franchise agreements in The Americas and Europe and management agreements elsewhere.

Holiday Inn is for the contemporary traveler looking for innovative comfort in a relaxing hotel environment. Holiday Inn aims to provide guests familiarity, convenience and reliability while supporting and meeting all guest needs. As official hotel provider to the London 2012 Olympic and Paralympic Games, the Group opened the Holiday Inn London, Stratford City. In 2012, the brand celebrated its 60th birthday and opened the largest Holiday Inn to date   the stunning Holiday Inn Macao Cotai Central, China with 1,224 rooms.

Holiday Inn Club Vacations, the Group s timeshare business in North America, provides guests with all the benefits of a vacation home with none of the hassle.

Holiday Inn Resort is our Holiday Inn brand family s resort proposition, with 37 properties currently in the portfolio, for guests who work hard but also want to lead a balanced life.

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Holiday Inn Express is a brand for the traveler looking for efficiency. The brand offers a straightforward, uncomplicated guest experience providing the things a guest needs, and is delivered in a way that is stimulating and engaging. One of the world s fastest growing hotel brands, it is geared to the smart business or private traveler who appreciates value without compromising on comfort and style.

*Holiday Inn Hotels & Resorts*

| | Americas | Europe | AMEA | Greater China |
|---|---|---|---|---|
| Average room rate $[1] | 102.02 | 112.36 | 121.68 | 82.21 |
| Room numbers[2][4] | 146,661[3] | 46,610 | 17,440 | 20,777 |

(1) For the year ended December 31, 2012; quoted at constant US dollar exchange rate. Average room rate is for comparable Holiday Inn hotels.

(2) At December 31, 2012.

(3) The Americas total includes Holiday Inn Club Vacations (3,701 rooms).

(4) Includes Holiday Inn Resorts properties Americas 4,240 rooms, Europe 362 rooms, AMEA 3,311 rooms and Greater China 893 rooms.

Holiday Inn Hotels & Resorts (including Holiday Inn Club Vacations and Holiday Inn Resort) ( Holiday Inn ) are predominantly operated under franchise agreements. At December 31, 2012, there were 1,247 Holiday Inn hotels which represented 34% of the Group s total hotel rooms, of which 63% were located in The Americas. During 2012, 48 Holiday Inn hotels were added to the portfolio, while 41 hotels were removed.

*Holiday Inn Express*

| | Americas | Europe | AMEA | Greater China |
|---|---|---|---|---|
| Average room rate $[1] | 102.12 | 93.04 | 76.15 | 49.88 |
| Room numbers[2] | 168,398 | 24,903 | 2,877 | 9,453 |

(1) For the year ended December 31, 2012; quoted at constant US dollar exchange rate. Average room rate is for comparable Holiday Inn Express hotels.

(2) At December 31, 2012.

Holiday Inn Express hotels are almost entirely operated under franchise agreements. At December 31, 2012, there were 2,192 Holiday Inn Express hotels worldwide which represented 30% of the Group s total hotel rooms, of which 82% were located in The Americas. During 2012, 114 new Holiday Inn Express hotels were added to the portfolio, while 36 hotels were removed.

*Staybridge Suites*

| | Americas | Europe | AMEA |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Average room rate $(1) | 104.11 | 110.30 | 140.02 |
| Room numbers(2) | 19,787 | 605 | 304 |

(1) For the year ended December 31, 2012; quoted at constant US dollar exchange rate. Average room rate is for comparable Staybridge Suites hotels.

(2) At December 31, 2012.

Staybridge Suites is the Group s upscale extended stay brand for guests on longer trips, offering studios and suites complete with full kitchens and separate sleeping and work areas in a sociable, family-like atmosphere. Staybridge Suites played a significant role in IHG s partnership with the London 2012 Olympic and Paralympic Games by opening the Staybridge Suites London-Stratford City property.

The Staybridge Suites brand is principally operated under management contracts and franchise agreements. At December 31, 2012 there were 189 Staybridge Suites hotels, which represented 3% of the Group s total hotel rooms, of which 96% (183 hotels) were located in The Americas. During 2012, 11 hotels were added to the portfolio, one hotel was removed and 17 Staybridge Suites hotels under the Group s management were renovated as part of a renovation program by the owner, Hospitality Properties Trust.

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*Candlewood Suites*

| | Americas |
|---|---|
| Average room rate $[(1)] | 72.68 |
| Room numbers[(2)] | 28,675 |

(1) For the year ended December 31, 2012; quoted at constant US dollar exchange rate. Average room rate is for comparable Candlewood Suites hotels.

(2) At December 31, 2012.

Candlewood Suites is the Group s North American-focused midscale extended stay brand that provides guests with a home-like stay at great value. A trust system has always prevailed for this brand the Candlewood Cupboard which is a convenient place for the Group s guests to stock up on essentials and treats on an honor system and the newly launched Lending Locker enables guests to borrow kitchen apparatus, such as coffee grinders.

The Candlewood Suites brand is operated under management contracts and franchise agreements. At December 31, 2012, there were 299 Candlewood Suites hotels, which represented 4% of the Group s total rooms, all of which were located in The Americas. During 2012, a net 14 hotels were added to the portfolio and 59 Candlewood Suites hotels under management by the Group were renovated by the owner, Hospitality Properties Trust, as part of the Group s commitment to deliver a great brand for guests.

*Hotel Indigo*

| | Americas | Europe | Greater China |
|---|---|---|---|
| Average room rate $[(1)] | 125.74 | 224.60 | 183.13 |
| Room numbers[(2)] | 4,307 | 949 | 405 |

(1) For the year ended December 31, 2012; quoted at constant US dollar exchange rate. Average room rate is for comparable Hotel Indigo hotels.

(2) At December 31, 2012.

Hotel Indigo is the Group s boutique brand, and the world s first global boutique hotel brand focused on guests who appreciate art and design and who want to experience something different. Hotel Indigo provides guests with the refreshing design and service experience synonymous with a boutique hotel, aligned with the local neighbourhood story.

The Hotel Indigo brand is principally operated under franchise agreements. At December 31, 2012, there were 50 Hotel Indigo hotels, 37 located in The Americas. During 2012, 13 hotels were added to the portfolio, and two hotels were removed.

*EVEN Hotels*

EVEN Hotels was launched in February 2012, following extensive customer research, in order to create a brand that meets a traveler s holistic wellness needs. EVEN is aimed at business and leisure travelers who are looking for a wellness experience in a hotel stay at a mainstream price point. The Group is investing up to $150 million in establishing the brand, owning and managing the first hotels to ensure the brand achieves its potential and market share growth in the US. During 2012, the Group signed the first EVEN hotel, in the heart of midtown Manhattan, New York.

*HUALUXE Hotels & Resorts*

HUALUXE was officially launched in March 2012 and is the first international upscale hotel brand designed specifically for Chinese guests, to take advantage of both the supply and demand side opportunities the Group sees in China. The brand is tailored to address the specific needs of domestic Chinese guests focusing on the unique aspects of Chinese etiquette, the importance of rejuvenation, status recognition and local customs and heritage. It will enable the Group to expand in China s key gateway cities but will also drive growth in its secondary cities where a specifically Chinese offer is appealing. The brand could open in key global gateway cities in the future as outbound travelers from China are forecasted to reach 100 million in the next 10-15 years. During 2012, the Group signed 15 hotels for the brand.

***Geographical Analysis***

Although it has worldwide hotel operations, the Group is most dependent on The Americas for operating profit, reflecting the structure of the branded global hotel market. The Americas region generated 63% of the Group s operating profit before central overheads and exceptional operating items during 2012.

The geographical analysis, split by number of rooms and operating profit, is set out in the table below.

| | Americas | Europe | AMEA | Greater China |
|---|---|---|---|---|
| | | (% of total) | | |
| Room numbers[1] | 67 | 15 | 9 | 9 |
| Regional operating profit (before central overheads and exceptional operating items)[2] | 63 | 15 | 11 | 11 |

(1) At December 31, 2012.

(2) For the year ended December 31, 2012.

*Americas*

In The Americas, the largest proportion of rooms is operated under the franchise business model (91% of rooms in the Americas operate under this model) primarily in the midscale segment (Holiday Inn and Holiday Inn Express). Similarly, in the upscale segment, Crowne Plaza is predominantly franchised, whereas the majority of the InterContinental branded hotels are operated under franchise and management agreements. With 3,555 hotels (449,617 rooms), The Americas represented 67% of the Group s room count and 63% of the Group s operating profit before central overheads and exceptional operating items during the year ended December 31, 2012. The key profit producing region is the United States, although the Group is also represented in each of Latin America, Canada, Mexico and the Caribbean.

*Europe*

In Europe, the largest proportion of rooms is operated under the franchise business model primarily in the midscale segment (Holiday Inn and Holiday Inn Express). Similarly, in the upscale segment, Crowne Plaza is predominantly franchised whereas the majority of the InterContinental branded hotels are operated under management agreements. Comprising 628 hotels (102,027 rooms) at the end of 2012, Europe represented 15% of the Group s room count and 15% of the Group s operating profit before central overheads and exceptional operating items during the year ended December 31, 2012. Profits are primarily generated from hotels in the United Kingdom and Continental European gateway cities.

*AMEA*

In AMEA, almost 82% of rooms are operated under the managed business model. The majority of hotels are in the midscale and upscale segments. Comprising 232 hotels (62,737 rooms) at December 31, 2012, AMEA represented 9% of the Group s room count and 11% of the Group s operating profit before central overheads and exceptional operating items during the year ended December 31, 2012.

*Greater China*

In Greater China, almost 96% of rooms are operated under the managed business model. The majority of hotels are in the midscale and upscale segments. Comprising 187 hotels (61,601 rooms) at December 31, 2012, Greater China represented 9% of the Group s room count and 11% of the Group s operating profit before central overheads and exceptional operating items during the year ended December 31, 2012. At December 31, 2012 there were 160 hotels (50,916 rooms) in the pipeline.

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The following table shows information concerning the geographical locations and ownership of the Group s hotels as at December 31, 2012.

| | Franchised | | Managed | | Owned and leased | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Hotels | Rooms | Hotels | Rooms | Hotels | Rooms | Hotels | Rooms |
| **Americas** | | | | | | | | |
| InterContinental | 28 | 7,737 | 22 | 8,529 | 3 | 1,490 | 53 | 17,756 |
| Crowne Plaza | 172 | 45,243 | 11 | 3,487 | | | 183 | 48,730 |
| Holiday Inn(1)(2) | 792 | 137,956 | 26 | 8,010 | 2 | 695 | 820 | 146,661 |
| Holiday Inn Express | 1,930 | 168,146 | 1 | 252 | | | 1,931 | 168,398 |
| Staybridge Suites | 157 | 16,572 | 26 | 3,215 | | | 183 | 19,787 |
| Candlewood Suites | 238 | 21,124 | 61 | 7,551 | | | 299 | 28,675 |
| Hotel Indigo | 34 | 3,792 | 3 | 515 | | | 37 | 4,307 |
| Other | 3 | 7,279 | 46 | 8,024 | | | 49 | 15,303 |
| Total | 3,354 | 407,849 | 196 | 39,583 | 5 | 2,185 | 3,555 | 449,617 |
| **Europe** | | | | | | | | |
| InterContinental | 8 | 1,912 | 20 | 6,565 | 2 | 917 | 30 | 9,394 |
| Crowne Plaza | 72 | 16,640 | 12 | 2,926 | | | 84 | 19,566 |
| Holiday Inn(2) | 224 | 35,136 | 64 | 11,474 | | | 288 | 46,610 |
| Holiday Inn Express | 210 | 24,657 | 2 | 246 | | | 212 | 24,903 |
| Staybridge Suites | 4 | 605 | | | | | 4 | 605 |
| Hotel Indigo | 10 | 949 | | | | | 10 | 949 |
| Total | 528 | 79,899 | 98 | 21,211 | 2 | 917 | 628 | 102,027 |
| **AMEA** | | | | | | | | |
| InterContinental | 6 | 1,956 | 58 | 18,455 | 1 | 380 | 65 | 20,791 |
| Crowne Plaza | 7 | 1,399 | 58 | 17,160 | | | 65 | 18,559 |
| Holiday Inn(2) | 20 | 3,950 | 54 | 13,283 | 1 | 207 | 75 | 17,440 |
| Holiday Inn Express | 9 | 2,127 | 3 | 750 | | | 12 | 2,877 |
| Staybridge Suites | | | 2 | 304 | | | 2 | 304 |
| Other | 6 | 1,428 | 7 | 1,338 | | | 13 | 2,766 |
| Total | 48 | 10,860 | 182 | 51,290 | 2 | 587 | 232 | 62,737 |
| **Greater China** | | | | | | | | |
| InterContinental | 1 | 570 | 20 | 8,300 | 1 | 503 | 22 | 9,373 |
| Crowne Plaza | | | 60 | 21,452 | | | 60 | 21,452 |
| Holiday Inn(2) | 2 | 1,476 | 62 | 19,301 | | | 64 | 20,777 |
| Holiday Inn Express | 1 | 138 | 36 | 9,315 | | | 37 | 9,453 |
| Hotel Indigo | | | 3 | 405 | | | 3 | 405 |
| Other | | | 1 | 141 | | | 1 | 141 |
| Total | 4 | 2,184 | 182 | 58,914 | 1 | 503 | 187 | 61,601 |
| **Total** | | | | | | | | |
| InterContinental | 43 | 12,175 | 120 | 41,849 | 7 | 3,290 | 170 | 57,314 |
| Crowne Plaza | 251 | 63,282 | 141 | 45,025 | | | 392 | 108,307 |
| Holiday Inn(1)(2) | 1,038 | 178,518 | 206 | 52,068 | 3 | 902 | 1,247 | 231,488 |
| Holiday Inn Express | 2,150 | 195,068 | 42 | 10,563 | | | 2,192 | 205,631 |
| Staybridge Suites | 161 | 17,177 | 28 | 3,519 | | | 189 | 20,696 |
| Candlewood Suites | 238 | 21,124 | 61 | 7,551 | | | 299 | 28,675 |
| Hotel Indigo | 44 | 4,741 | 6 | 920 | | | 50 | 5,661 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Other | 9 | 8,707 | 54 | 9,503 | | | 63 | 18,210 |
| Total | 3,934 | 500,792 | 658 | 170,998 | 10 | 4,192 | 4,602 | 675,982 |

(1) Included Holiday Inn Club Vacations (10 hotels, 3,701 rooms).

(2) Included Holiday Inn Resort properties (Americas 17 hotels, 4,240 rooms; Europe 3 hotels, 362 rooms; AMEA 14 hotels, 3,311 rooms and Greater China 3 hotels, 893 rooms).

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***Room Count and Pipeline***

During 2012, the number of hotels and rooms which are franchised, managed, owned or leased by the Group increased by 122 hotels (17,634 rooms).

Openings of 226 hotels (33,922 rooms) were driven by continued expansion in the US, particularly within the Holiday Inn brand family which opened more than 11,000 rooms over 2012, and Greater China. The level of removals fell from 198 hotels (33,078 rooms) in 2011 to 104 hotels (16,288 rooms) in 2012, as anticipated following the completion of the Holiday Inn relaunch.

At the end of 2012, the pipeline totaled 1,053 hotels (169,030 rooms). The Group s pipeline represents hotels and rooms where a contract has been signed and the appropriate fees paid. The continued global demand for Group s brands is demonstrated by over 50% of pipeline rooms being outside of The Americas region, including 30% in Greater China.

Excluding 25 hotels (4,796 rooms) signed as part of the US government s Privatization of Army Lodgings initiative in 2011, signings increased from 331 hotels (50,628 rooms) to 356 hotels (53,812 rooms). Signings during 2012 included 15 hotels for the HUALUXE brand, as well as the first signing for the EVEN brand.

During 2012, the opening of 33,922 rooms contributed to a net pipeline decline of 11,454 rooms. Active management out of the pipeline of deals that have become dormant or no longer viable contributed to a reduction of 31,344 rooms, representing a decrease of 11.8% over 2011.

There are no assurances that all of the hotels in the pipeline will open. The construction, conversion and development of hotels is dependent upon a number of factors, including meeting brand standards, obtaining the necessary permits relating to construction and operation, the cost of constructing, converting and equipping such hotels and the ability to obtain suitable financing at acceptable interest rates. The supply of capital for hotel development in the United States and major economies may not continue at previous levels and consequently the pipeline could decrease.

*Americas*

The Americas hotel and room count in the year increased by 82 hotels (7,419 rooms) to 3,555 hotels (449,617 rooms). Openings of 148 hotels (16,618 rooms) included 113 Holiday Inn brand family hotels (12,566 rooms), representing more than 70% of openings for the region. Six Hotel Indigo openings (639 rooms) helped the brand reach the 50 property milestone globally by the end of 2012. 22 hotels (1,927 rooms) opened as Staybridge Suites hotels and Candlewood Suites hotels, the Group s extended stay brands. 66 hotels (9,199 rooms) were removed from the system in 2012, compared to 153 hotels (24,284 rooms) in 2011.

The Americas pipeline totaled 670 hotels (72,573 rooms) as at December 31, 2012. Signings of 226 hotels (25,536 rooms) included 173 hotels (18,866 rooms) in the Holiday Inn brand family, as well as the first signing for the EVEN brand, a flagship property in the heart of midtown Manhattan, New York. The pipeline decreased by 105 hotels (11,877 rooms) compared to 2011.

*Europe*

During 2012, Europe hotel and room count increased by 16 hotels (2,142 rooms) to 628 hotels (102,027 rooms). Openings of 39 hotels (5,477 rooms) included 31 hotels in the Holiday Inn brand family (4,233 rooms). Hotel Indigo continued to build momentum in the region, with five hotel openings, doubling the system size in Europe for the brand. 23 hotels (3,335 rooms) were removed from the system in 2012.

The Europe pipeline totaled 91 hotels (15,184 rooms) as at December 31, 2012. Signings of 48 hotels (7,023 rooms) increased from 2011 levels and included 35 hotels (5,489 rooms) in the Holiday Inn brand family, including the first two Holiday Inn Express hotels in Russia. Seven Hotel Indigo hotels (572 rooms) were signed, including three more hotels in the UK and firsts for the brand in France, Spain and Israel. 16 hotels (3,044 rooms) were removed from the pipeline in 2012. The pipeline decreased by seven hotels (1,498 rooms) compared to 2011.

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*AMEA*

The AMEA hotel and room count in the year increased by four hotels (1,654 rooms) to 232 hotels (62,737 rooms). The level of openings increased from 10 hotels (2,907 rooms) in 2011 to 16 hotels (4,243 rooms) in 2012. These included four hotels for the InterContinental brand, including the 197-room InterContinental Danang Sun Peninsula Resort in Vietnam, as well as the first Holiday Inn Express hotels in Bahrain, India and Thailand. Six Crowne Plaza hotels (1,777 rooms) were opened in 2012, including resort locations in Thailand and Jordan. 12 hotels (2,589 rooms) were removed from the system in 2012.

The AMEA pipeline totaled 132 hotels (30,357 rooms) as at December 31, 2012. Signings of 36 hotels (7,866 rooms) included 24 hotels (4,657 rooms) in the Holiday Inn brand family. In addition, six InterContinental hotels (1,728 rooms) were signed, including resort locations in Thailand and Australia. 10 hotels (2,850 rooms) were removed from the pipeline in 2012, compared to 32 hotels (8,243 rooms) in 2011. The pipeline increased by 10 hotels (773 rooms) compared to 2011.

*Greater China*

The Greater China hotel and room count in the year increased by 20 hotels (6,419 rooms) to 187 hotels (61,601 rooms). Openings of 23 hotels (7,584 rooms) included the Holiday Inn Macao Cotai Central (1,224 rooms), the largest Holiday Inn in the world. Eight Crowne Plaza hotels (2,996 rooms) and two Hotel Indigo hotels (224 rooms) were opened in 2012.

The Greater China pipeline totaled 160 hotels (50,916 rooms) as at December 31, 2012. Signings of 46 hotels (13,387 rooms) increased from 38 hotels (12,112 rooms) in 2011 and included 15 hotels for the newly launched HUALUXE brand, together with 12 Crowne Plaza hotels (4,527 rooms). 12 hotels (4,655 rooms) were removed from the pipeline in 2012. The pipeline increased by 11 hotels (1,148 rooms) compared to 2011.

| | **Hotels** | | | **Rooms** | | |
|---|---|---|---|---|---|---|
| **Global hotel and room count at December 31,** | **2012** | **2011** | **Change over 2011** | **2012** | **2011** | **Change over 2011** |
| Analyzed by brand: | | | | | | |
| InterContinental | 170 | 169 | 1 | 57,314 | 57,598 | (284) |
| Crowne Plaza | 392 | 387 | 5 | 108,307 | 105,104 | 3,203 |
| Holiday Inn(1) | 1,247 | 1,240 | 7 | 231,488 | 228,256 | 3,232 |
| Holiday Inn Express | 2,192 | 2,114 | 78 | 205,631 | 196,666 | 8,965 |
| Staybridge Suites | 189 | 179 | 10 | 20,696 | 19,567 | 1,129 |
| Candlewood Suites | 299 | 285 | 14 | 28,675 | 27,500 | 1,175 |
| Hotel Indigo | 50 | 39 | 11 | 5,661 | 4,564 | 1,097 |
| Other | 63 | 67 | (4) | 18,210 | 19,093 | (883) |
| Total | 4,602 | 4,480 | 122 | 675,982 | 658,348 | 17,634 |
| Analyzed by ownership type: | | | | | | |
| Franchised | 3,934 | 3,832 | 102 | 500,792 | 489,071 | 11,721 |
| Managed | 658 | 637 | 21 | 170,998 | 164,993 | 6,005 |
| Owned and leased | 10 | 11 | (1) | 4,192 | 4,284 | (92) |
| Total | 4,602 | 4,480 | 122 | 675,982 | 658,348 | 17,634 |

(1) Included Holiday Inn Club Vacations (2012: 10 hotels, 3,701 rooms; 2011: 7 hotels, 2,928 rooms) and Holiday Inn Resort properties (2012: 37 hotels, 8,806 rooms; 2011: 32 hotels, 7,809 rooms).

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| | Hotels | | | Rooms | | |
|---|---|---|---|---|---|---|
| **Global pipeline at December 31,** | **2012** | **2011** | **Change over 2011** | **2012** | **2011** | **Change over 2011** |
| Analyzed by brand: | | | | | | |
| InterContinental | 48 | 51 | (3) | 15,713 | 17,623 | (1,910) |
| Crowne Plaza | 98 | 108 | (10) | 31,183 | 34,643 | (3,460) |
| Holiday Inn[1] | 243 | 267 | (24) | 44,988 | 50,750 | (5,762) |
| Holiday Inn Express | 452 | 470 | (18) | 51,760 | 52,201 | (441) |
| Staybridge Suites | 71 | 95 | (24) | 7,544 | 10,026 | (2,482) |
| Candlewood Suites | 78 | 94 | (16) | 6,742 | 8,062 | (1,320) |
| Hotel Indigo | 47 | 59 | (12) | 5,869 | 7,179 | (1,310) |
| HUALUXE | 15 | | 15 | 4,904 | | 4,904 |
| EVEN | 1 | | 1 | 230 | | 230 |
| Other | | | | 97 | | 97 |
| Total | 1,053 | 1,144 | (91) | 169,030 | 180,484 | (11,454) |
| Analyzed by ownership type: | | | | | | |
| Franchised | 744 | 853 | (109) | 82,901 | 96,513 | (13,612) |
| Managed | 309 | 291 | 18 | 86,129 | 83,971 | 2,158 |
| Total | 1,053 | 1,144 | (91) | 169,030 | 180,484 | (11,454) |

(1) Included Holiday Inn Club Vacations (nil in 2012; 2011 1 hotel, 658 rooms) and Holiday Inn Resort properties (12 hotels, 2,390 rooms in 2012; 2011 15 hotels, 3,037 rooms).

***Seasonality***

Although the performance of individual hotels and geographic markets might be highly seasonal due to a variety of factors such as the tourist trade and local economic conditions, the geographical spread of the Group s hotels in nearly 100 countries and territories and the relative stability of the income stream from franchising and management activities, diminishes, to some extent, the effect of seasonality on the results of the Group.

***Competition***

The Group s hotels compete with a wide range of facilities offering various types of lodging options and related services to the public. The competition includes several large and moderate sized hotel chains offering upper, mid and lower priced accommodation and also includes independent hotels in each of these market segments, particularly outside of North America where the lodging industry is much more fragmented. Major hotel chains which compete with the Group include Marriott International, Inc., Starwood Hotels & Resorts Worldwide, Inc., Choice Hotels International, Inc., Best Western International, Inc., Hilton Hotels Corporation, Wyndham Worldwide Corporation, Four Seasons Hotels Inc. and Accor S.A. The Group also competes with non-hotel options, such as timeshare offerings and cruises.

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***RevPAR***

The following tables present RevPAR statistics for the year ended December 31, 2012 and a comparison to 2011. RevPAR is a meaningful indicator of performance because it measures period-over-period change in rooms revenue for comparable hotels. RevPAR is calculated by dividing rooms revenue for comparable hotels by room nights available to guests for the period.

Franchised, managed, owned and leased statistics are for comparable hotels, and include only those hotels in the Group s system between January 1, 2011 and December 31, 2012, therefore excluding new hotels, hotels closed for major refurbishment and hotels sold during that period.

The comparison with 2011 is at constant US dollar exchange rates.

| | Franchised | | Managed | | Owned and leased | |
|---|---|---|---|---|---|---|
| | 2012 | Change vs 2011 | 2012 | Change vs 2011 | 2012 | Change vs 2011 |
| **Americas** | | | | | | |
| InterContinental | | | | | | |
| Occupancy | 63.5% | 2.6%pts | 75.1% | 3.2%pts | 81.4% | 0.1%pts |
| Average daily rate | 127.55 | 2.9% | 205.58 | 5.7% | 261.26 | 7.3% |
| RevPAR | 81.00 | 7.4% | 154.32 | 10.5% | 212.68 | 7.4% |
| Crowne Plaza | | | | | | |
| Occupancy | 61.9% | 0.9%pts | 71.6% | (3.6)%pts | | |
| Average daily rate | 109.57 | 3.9% | 117.95 | 9.1% | | |
| RevPAR | 67.88 | 5.4% | 84.40 | 3.8% | | |
| Holiday Inn | | | | | | |
| Occupancy | 62.4% | 1.6%pts | 72.4% | 0.3%pts | 69.4% | (5.1)%pts |
| Average daily rate | 100.30 | 3.2% | 125.03 | 9.2% | 107.76 | 0.2% |
| RevPAR | 62.56 | 5.9% | 90.57 | 9.6% | 74.78 | (6.7)% |
| Holiday Inn Express | | | | | | |
| Occupancy | 65.6% | 1.5%pts | 84.7% | 2.7%pts | | |
| Average daily rate | 101.97 | 3.6% | 172.29 | 12.0% | | |
| RevPAR | 66.92 | 6.1% | 145.95 | 15.8% | | |
| Staybridge Suites | | | | | | |
| Occupancy | 74.6% | 1.5%pts | 71.7% | (6.1)%pts | | |
| Average daily rate | 101.60 | 3.9% | 116.41 | 6.7% | | |
| RevPAR | 75.81 | 6.0% | 83.49 | (1.7)% | | |
| Candlewood Suites | | | | | | |
| Occupancy | 70.5% | 1.3%pts | 66.7% | (8.1)%pts | | |
| Average daily rate | 74.26 | 4.0% | 68.53 | 11.3% | | |
| RevPAR | 52.33 | 6.0% | 45.68 | (0.8)% | | |
| Hotel Indigo | | | | | | |
| Occupancy | 68.7% | 3.7%pts | 72.8% | 6.9%pts | | |
| Average daily rate | 123.03 | 3.0% | 140.33 | 7.5% | | |
| RevPAR | 84.51 | 8.8% | 102.22 | 18.6% | | |
| Other | | | | | | |
| Occupancy | | | 89.2% | 8.4%pts | | |
| Average daily rate | | | 97.61 | (0.9)% | | |
| RevPAR | | | 87.03 | 9.5% | | |

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| | Franchised | | Managed | | Owned and leased | |
|---|---|---|---|---|---|---|
| | 2012 | Change vs 2011 | 2012 | Change vs 2011 | 2012 | Change vs 2011 |
| **Europe** | | | | | | |
| InterContinental | | | | | | |
| Occupancy | 60.0% | (0.6)%pts | 65.8% | (1.5)%pts | 83.5% | 2.4%pts |
| Average daily rate | 248.42 | 0.9% | 195.75 | 0.6% | 452.50 | 2.2% |
| RevPAR | 149.08 | (0.2)% | 128.79 | (1.7)% | 377.66 | 5.2% |
| Crowne Plaza | | | | | | |
| Occupancy | 68.5% | 0.3%pts | 77.5% | 1.6%pts | | |
| Average daily rate | 131.81 | 0.9% | 147.25 | 0.4% | | |
| RevPAR | 90.24 | 1.3% | 114.04 | 2.6% | | |
| Holiday Inn | | | | | | |
| Occupancy | 65.4% | 0.0%pts | 75.8% | 1.4%pts | | |
| Average daily rate | 112.78 | 1.8% | 111.37 | 0.2% | | |
| RevPAR | 73.77 | 1.8% | 84.40 | 2.0% | | |
| Holiday Inn Express | | | | | | |
| Occupancy | 70.4% | 0.5%pts | 45.7% | 0.3%pts | | |
| Average daily rate | 93.13 | 1.8% | 68.46 | (7.2)% | | |
| RevPAR | 65.56 | 2.6% | 31.31 | (6.6)% | | |
| Staybridge Suites | | | | | | |
| Occupancy | 78.5% | 4.7%pts | | | | |
| Average daily rate | 110.30 | (3.1)% | | | | |
| RevPAR | 86.58 | 3.0% | | | | |
| Hotel Indigo | | | | | | |
| Occupancy | 92.4% | 0.2% | | | | |
| Average daily rate | 224.60 | 4.1% | | | | |
| RevPAR | 207.56 | 4.2% | | | | |

| | Franchised | | Managed | | Owned and leased | |
|---|---|---|---|---|---|---|
| | 2012 | Change vs 2011 | 2012 | Change vs 2011 | 2012 | Change vs 2011 |
| **AMEA** | | | | | | |
| InterContinental | | | | | | |
| Occupancy | 70.9% | (2.8)%pts | 66.8% | 3.0%pts | 66.2% | (5.3)%pts |
| Average daily rate | 221.50 | 8.4% | 214.87 | 1.1% | 136.82 | (2.8)% |
| RevPAR | 157.05 | 4.2% | 143.59 | 5.9% | 90.54 | (10.0)% |
| Crowne Plaza | | | | | | |
| Occupancy | 70.3% | 0.4%pts | 72.2% | 3.1%pts | | |
| Average daily rate | 131.19 | 2.3% | 143.00 | (1.1)% | | |
| RevPAR | 92.17 | 2.9% | 103.31 | 3.3% | | |
| Holiday Inn | | | | | | |
| Occupancy | 69.5% | 2.3%pts | 73.3% | 2.3%pts | 78.6% | (8.6)%pts |
| Average daily rate | 123.23 | 6.7% | 120.46 | 0.9% | 162.69 | 2.7% |
| RevPAR | 85.65 | 10.3% | 88.23 | 4.3% | 127.96 | (7.3)% |
| Holiday Inn Express | | | | | | |
| Occupancy | 61.7% | 2.8%pts | | | | |
| Average daily rate | 76.15 | 14.2% | | | | |
| RevPAR | 46.98 | 19.7% | | | | |
| Staybridge Suites | | | | | | |
| Occupancy | | | 82.2% | 2.7%pts | | |
| Average daily rate | | | 140.02 | (1.8)% | | |
| RevPAR | | | 115.04 | 1.6% | | |
| Other | | | | | | |
| Occupancy | 72.8% | 0.1%pts | 66.9% | 5.6%pts | | |
| Average daily rate | 133.59 | 1.8% | 97.84 | (2.5)% | | |
| RevPAR | 97.3 | 2.0% | 65.48 | 6.4% | | |

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| | Franchised | | Managed | | Owned and leased | |
|---|---|---|---|---|---|---|
| | 2012 | Change vs 2011 | 2012 | Change vs 2011 | 2012 | Change vs 2011 |
| **Greater China** | | | | | | |
| InterContinental | | | | | | |
| Occupancy | 82.3% | (1.1)%pts | 59.5% | 4.0%pts | 77.8% | 2.8%pts |
| Average daily rate | 239.27 | 4.8% | 144.18 | 2.1% | 395.30 | 2.9% |
| RevPAR | 196.85 | 3.5% | 85.76 | 9.5% | 307.62 | 6.7% |
| Crowne Plaza | | | | | | |
| Occupancy | | | 57.3% | (0.8)%pts | | |
| Average daily rate | | | 100.55 | 3.3% | | |
| RevPAR | | | 57.58 | 1.9% | | |
| Holiday Inn | | | | | | |
| Occupancy | 81.0% | 3.3%pts | 63.0% | 0.2%pts | | |
| Average daily rate | 47.93 | (7.2)% | 82.95 | 3.7% | | |
| RevPAR | 38.84 | (3.2)% | 52.29 | 4.1% | | |
| Holiday Inn Express | | | | | | |
| Occupancy | 79.1% | 3.1%pts | 71.7% | 5.2%pts | | |
| Average daily rate | 33.86 | (5.4)% | 50.22 | 4.8% | | |
| RevPAR | 26.79 | (1.5)% | 36.01 | 13.1% | | |
| Hotel Indigo | | | | | | |
| Occupancy | | | 54.7% | 16.4%pts | | |
| Average daily rate | | | 183.13 | 2.3% | | |
| RevPAR | | | 100.08 | 46.0% | | |

***Regulation***

Both in the United Kingdom and internationally, the Group s hotel operations are subject to regulation, including health and safety, zoning and similar land use laws as well as regulations that influence or determine wages, prices, interest rates, construction procedures and costs.

**TRADEMARKS**

Group companies own a substantial number of service brands upon which it is dependent and the Group believes that its significant trademarks are protected in all material respects in the markets in which its brands currently operate.

**ORGANIZATIONAL STRUCTURE**

**Principal operating subsidiary undertakings**

InterContinental Hotels Group PLC was the beneficial owner of all of the equity share capital, either itself or through subsidiary undertakings, of the following companies during the year. The companies listed below include those which principally affect the amount of profit and assets of the Group.

Six Continents Limited[a]

Hotel Inter-Continental London Limited[a]

IHG Hotels Limited[a]

Six Continents Hotels, Inc.[b]

Inter-Continental Hotels Corporation[b]

111 East 48$^{th}$ Street Holdings, LLC[b]

InterContinental Hotels Group Resources, Inc.[b]

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InterContinental Hong Kong Limited[(c)]

Société Nouvelle du Grand Hotel SA[(d)]

(a) Incorporated in Great Britain and registered in England and Wales.

(b) Incorporated in the United States.

(c) Incorporated in Hong Kong.

(d) Incorporated in France.

**PROPERTY, PLANT AND EQUIPMENT**

Group companies own and lease properties throughout the world, principally hotels but also offices. The table below analyzes the net book value of the Group s property, plant and equipment at December 31, 2012.

| Net book value at December 31, 2012 | Americas | Europe | AMEA ($ million) | Greater China | Total |
|---|---|---|---|---|---|
| Land and buildings. | 300 | 274 | 11 | 264 | 849 |
| Fixtures, fittings and equipment | 50 | 77 | 25 | 55 | 207 |
| | 350 | 351 | 36 | 319 | 1,056 |

In addition, there were two hotels, the InterContinental New York Barclay and the InterContinental London Park Lane, with a total net book value of $524 million that were classified as held for sale at December 31, 2012.

Including assets classified as held for sale, approximately 40% of hotel properties by value were directly owned, with 55% held under leases having a term of 50 years or longer.

Including assets classified as held for sale, approximately 90% of the net book value relates to the top five owned and leased hotels (in terms of value) of a total of 10 hotels, including $187 million relating to assets held under finance leases.

Contracts placed for expenditure on property, plant and equipment not included in the Consolidated Financial Statements at December 31, 2012 amounted to $66 million.

Charges over one hotel totaling $89 million exist as security provided to the Group s pension plans.

**ENVIRONMENT**

As a leading hotel company, the Group is in a particularly strong position to help make tourism increasingly responsible. That is why for the Group, Responsible Business underpins all of the Group s strategic priorities. The Group aims to harness the role hotels play in society in order to create shared value for its business, its guests, the environment and the communities where it operates, whether that is conserving and protecting resources, helping local people build skills and improve their employability or providing refuge when disaster strikes. Corporate responsibility is an essential element of doing business responsibly.

The Group s corporate responsibility ambition is to transform hospitality for more sustainable communities and better lives. It works to find innovative ways to build and run hotels that can fulfill the Group s brand promises, tackle the environmental and social challenges it faces and create shared value for the Group and its stakeholders.

The Group focuses its corporate responsibility activities in two areas that make sense to its business and where it believes it can make the most difference the environment and the local community.

Environmental sustainability the Group drives environmental sustainability through its online environmental management platform Green Engage; and

Sustainable communities the Group creates local economic opportunity, particularly through the IHG Academy, and it provides shelter when disaster strikes through the IHG Shelter in a Storm Programme.

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**Environmental sustainability**

The Group is committed to designing, building and operating more environmentally sustainable hotels, something it believes is essential to being a Responsible Business and delivering Great Hotels Guests Love. Through Green Engage, the Group s online environmental management platform, it provides its hotel owners with a roadmap to develop and operate more sustainable hotels.

***Green Engage***

The environmental impact of the Group s hotels is managed through every stage of the hotel lifecycle by Green Engage. Green Engage tracks the use of energy, carbon and the management of waste in the Group s properties along with the associated costs. An important feature in Green Engage is Green Solutions over 200 actions a property can implement to reduce its environmental impact. Green Engage can help hotels become up to 25% more energy efficient, so it makes both environmental and financial sense.

In 2012, the Group continued to invest in Green Engage, adding new features such as the carbon calculator, energy and water benchmarks and multi-unit reporting. As at December 31, 2012, 2,219 of the Group s hotels were enrolled in Green Engage and its user base has since grown to over 2,260 hotels. The Group s aim is to have its entire estate tracking, managing and reporting its environmental impact over time.

**Sustainable communities**

The Group s scale gives it a real opportunity to improve and transform the lives of local people in the communities where the Group operates. Its community strategy, which sets out how it can seek to create local economic opportunity, is critical to achieving economic success and delivering Great Hotels Guests Love. In 2012 the Group continued to increase the focus on the community, successfully expanding both the IHG Academy program and the IHG Shelter in a Storm Programme.

***IHG Academy***

The IHG Academy is a collaboration between individual Group hotels or corporate offices and local education providers and/or community organizations providing local people with the opportunity to develop skills and improve their employment prospects in one of the world s largest hotel companies.

Within a consistent framework, each IHG Academy is tailored to meet the needs of local communities as well as hotels around the world.

Currently the Group has over 150 IHG Academy programs in 37 countries around the world and its vision is to have as many Group hotels as possible participating in an IHG Academy. The Group s ability to build skills and raise aspirations across hundreds of communities continues to show the Group s commitment to this program.

***IHG Shelter in a Storm Programme***

Through the IHG Shelter in a Storm Programme, the Group s hotels receive guidance on when and how best to respond when natural or man-made disasters occur. The Group s global partnership with CARE allows it to draw on expertise in humanitarian assistance and helps it find appropriate partners in the area when disaster strikes, directing help to where it is needed.

The IHG Shelter Fund, a pool of funds from the fundraising efforts of the Group s hotels and corporate offices, is a key element of the IHG Shelter in a Storm Programme, enabling the Group to respond quickly when disaster strikes, instead of waiting to raise funds after the event.

In 2012, $545,000 was raised for the IHG Shelter in a Storm Programme and the fund was put into action to support 10 disasters in six countries, including responding to severe flooding and a cyclone in Fiji, Superstorm Sandy on the US East Coast, flooding in Manila and the UK, wildfires in Colorado and Hurricane Isaac on the US Gulf Coast.

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In 2013, the Group will continue to enhance environmental sustainability, create local economic opportunity and to engage stakeholders to champion the corporate responsibility agenda and protect the Group s trusted reputation.

**ITEM 4A.** ***UNRESOLVED STAFF COMMENTS***

None.

**ITEM 5.** ***OPERATING AND FINANCIAL REVIEW AND PROSPECTS***

**INTRODUCTION**

**Business and overview**

The Group is an international hotel business which owns a portfolio of established and diverse hotel brands, including InterContinental Hotels & Resorts, Crowne Plaza Hotels & Resorts, Holiday Inn Hotels & Resorts (including Holiday Inn Club Vacations), Holiday Inn Express, Staybridge Suites, Candlewood Suites and Hotel Indigo. At December 31, 2012, the Group had 4,602 franchised, managed, owned and leased hotels and 675,982 guest rooms in nearly 100 countries and territories around the world. The Group also manages the hotel loyalty program, Priority Club Rewards (the Group announced on March 26, 2013 that it will be enhancing and renaming the Priority Club Rewards program as IHG Rewards Club from July 2013).

In the first quarter 2012, the Group launched two new brands. EVEN Hotels is aimed at business and leisure travelers who are looking for a wellness experience in a hotel stay at a mainstream price point. HUALUXE Hotels & Resorts is the first international upscale hotel brand designed specifically for Chinese guests, to take advantage of both the supply and demand side opportunities the Group sees in China.

The Group s revenue and earnings are derived from hotel operations, which include franchise and other fees paid under franchise agreements, management and other fees paid under management contracts, where the Group operates third-parties hotels, and operation of the Group s owned hotels.

**Operational performance**

Revenue increased by 3.8% to $1,835 million and operating profit before exceptional items increased by 9.8% to $614 million during the 12 months ended December 31, 2012.

Fee revenue, which is Group revenue excluding revenue from owned and leased hotels, significant liquidated damages received in 2012 and 2011 and properties that are structured for legal reasons as operating leases, but with the same characteristics as management contracts, increased by 6.8% when translated at constant currency (applying 2011 exchange rates).

The 2012 results reflect continued RevPAR growth in each of the regions, with an overall RevPAR increase of 5.2%, including a 3.2% increase in average daily rate. The results also benefited from overall system size growth of 2.7% year-on-year to 675,982 rooms. Group RevPAR growth remained robust for the year, reflecting favorable supply and demand dynamics in the US over 2012, although trading was also adversely affected by the impact of Eurozone uncertainty as well as industry-wide challenges in Greater China in the latter part of the year related to the political leadership change.

Operating profit improved in each of the regions. RevPAR growth of 6.1% in The Americas helped drive an operating profit increase of $42 million (9.5%), after excluding the benefit of a $3 million liquidated damages receipt in 2012 and a $10 million liquidated damages receipt in 2011. Operating profit in Europe increased by $11 million (10.6%), with RevPAR growth of 1.7%. Operating profit in AMEA increased by $13 million (17.3%), after adjusting for a $6 million liquidated damages receipt in 2011 and the disposal of a hotel asset and partnership interest that contributed $3 million in profits in 2011, reflecting RevPAR growth of 4.9%. Strong operating profit growth of $14 million in Greater China reflected an 11.6% increase in system size as well as 5.4% RevPAR growth.

Operating profit margin was 42.6%, up 2.0 percentage points on 2011 (a particularly strong result which the Group anticipates will revert back to move normal levels of growth in 2013), after adjusting for owned and leased hotels, The Americas and Europe managed leases and significant liquidated damages received in 2012 and 2011.

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The performance of the Group is evaluated primarily on a regional basis. The regional operations are split by business model: franchise agreement, management contract, and owned and leased operations. All three income types are affected by occupancy and room rates achieved by hotels, the ability to manage costs and the change in the number of available rooms through acquisition, development and disposition. Results are also impacted by economic conditions and capacity. The Group s segmental results are shown before exceptional operating items, interest expense, interest income and income taxes.

## CRITICAL ACCOUNTING POLICIES

The preparation of the Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and costs and expense during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those relating to revenue recognition, bad debts, investments, property, plant and equipment, goodwill and intangible assets, income taxes, guest program liability, self insurance claims payable, restructuring costs, retirement benefits and contingencies and litigation.

Management bases its estimates and judgments on historical experience and on other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions and conditions.

The Group s critical accounting policies are set out below.

### Revenue recognition

Revenue is the gross inflow of economic benefits received and receivable by the Group on its own account where those inflows result in increases in equity.

Revenue is derived from the following sources: franchise fees; management fees; owned and leased properties and other revenues which are ancillary to the Group s operations, including technology fee income.

Generally, revenue represents sales (excluding VAT and similar taxes) of goods and services, net of discounts, provided in the normal course of business and recognized when services have been rendered. The following is a description of the composition of revenues of the Group.

Franchise fees received in connection with the license of the Group s brand names, usually under long-term contracts with the hotel owner. The Group charges franchise royalty fees as a percentage of room revenue. Revenue is recognized when earned and realized or realizable under the terms of the contract.

Management fees earned from hotels managed by the Group, usually under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and an incentive fee, which is generally based on the hotel s profitability or cash flows. Revenue is recognized when earned and realized or realizable under the terms of the contract.

Owned and leased primarily derived from hotel operations, including the rental of rooms and food and beverage sales from owned and leased hotels operated under the Group s brand names. Revenue is recognized when rooms are occupied and food and beverages are sold.

In addition to management or franchise fees, hotels within the Group s system pay cash assessments and contributions which are collected for specific use within the System Fund. The Fund also receives proceeds from the sale of Priority Club Rewards points. The Group exerts significant influence over the operation of the Fund, however, the Fund is managed for the benefit of hotels in the system with the objective of driving revenues for the hotels. The Fund is used to pay for marketing, the Priority Club Rewards loyalty program and the global reservations system. The Fund is planned to operate at breakeven with any short-term timing surplus or deficit carried in the Consolidated statement of financial position within working capital. As all Fund income is designated for specific purposes and does not result in a profit or loss for the Group, the revenue recognition criteria as outlined in the accounting policy above are not met and therefore the income and expenses of the Fund are not included in the Consolidated income statement. Financial information relating to the Fund is included in Note 31 of Notes to the Consolidated Financial Statements.

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**Goodwill, intangible assets, and property, plant and equipment**

Capitalized goodwill is not amortized but is subject to an impairment review on an annual basis or more frequently if there are indicators of impairment. The annual review is performed in the fourth quarter. Goodwill is allocated to cash-generating units for impairment testing purposes.

Intangible assets and property, plant and equipment are capitalized and amortized over their expected useful lives, and reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable. Assets that do not generate independent cash flows are combined into cash-generating units.

The impairment testing of individual assets or cash-generating units requires an assessment of the recoverable amount of the asset or cash-generating unit. If the carrying value of the asset or cash-generating unit exceeds its estimated recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. Recoverable amount is the greater of fair value less cost to sell and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that is based on the Group s weighted average cost of capital adjusted to reflect the risks specific to the business model and territory of the cash-generating unit or asset being tested. The outcome of such an assessment is subjective, and the result sensitive to the assumed future cashflows to be generated by the cash-generating units or assets and discount rates applied in calculating the value in use. Any impairment arising is charged to the income statement. With the exception of goodwill, impairment charges are reversed when there is a subsequent recovery in the recoverable amount of the asset arising from an increase in its service potential, either from use or from sale.

Following the full impairment of Americas managed goodwill in 2009, the remaining balance of goodwill of $93 million at December 31, 2012, relates to Asia Australasia franchised and managed operations. Given the substantial valuation headroom relating to this goodwill, management believe that the carrying value of the cash-generating unit would only exceed its recoverable amount in the event of highly unlikely changes in the key assumptions.

During 2012, a previously recorded impairment charge relating to a North American hotel was reversed in full following a re-assessment of its recoverable amount, based on the market value of the hotel as determined by an independent professional property valuer. There were no impairment charges in 2012.

**Income taxes**

The Group provides for deferred tax in accordance with IAS 12 Income Taxes in respect of temporary differences between the tax base and carrying value of assets and liabilities including accelerated capital allowances, unrelieved tax losses, unremitted profits from overseas where the Group does not control remittance, gains rolled over into replacement assets, gains on previously revalued properties and other short-term temporary differences. Deferred tax assets are recognized to the extent that it is regarded as probable that the deductible temporary differences can be realized. The Group estimates deferred tax assets and liabilities based on current tax laws and rates, and in certain cases, business plans, including management s expectations regarding the manner and timing of recovery of the related assets. Changes in these estimates may affect the amount of deferred tax liabilities or the valuation of deferred tax assets.

Provisions for tax contingencies require judgments on the expected outcome of tax exposures and ongoing tax audit discussions which may be subject to significant uncertainty, and therefore the actual results may vary from expectations resulting in adjustments to contingencies, the valuation of deferred tax assets and cash tax settlements.

During 2012, an exceptional credit of $141 million arose, representing the recognition of $104 million of deferred tax assets, principally relating to pre-existing overseas tax losses, whose value has become more certain as a result of a change of law and the resolution of prior period tax matters, together with the associated release of $37 million of tax contingencies.

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**Loyalty program**

The hotel loyalty program, Priority Club Rewards enables members to earn points, funded through hotel assessments, during each qualifying stay and redeem the points at a later date for free accommodation or other benefits. The future redemption liability is included in trade and other payables and is estimated using eventual redemption rates determined by actuarial methods and points values. Actuarial gains and losses on the future redemption liability are borne by the System Fund and any resulting changes in the liability would correspondingly adjust the amount of short-term timing differences held in the Group statement of financial position. The future redemption liability amounted to $623 million at December 31, 2012.

**Pensions and other post-employment benefit plans**

Accounting for pensions and other post-employment benefit plans requires the Group to make assumptions including, but not limited to, future asset returns, discount rates, rates of inflation, life expectancies and health care costs. The use of different assumptions could have a material effect on the accounting values of the relevant assets and liabilities which could result in a material change to the cost of such liabilities as recognized in the income statement over time. These assumptions are subject to periodic review. A sensitivity analysis to changes in various assumptions is included in Note 3 of Notes to the Consolidated Financial Statements.

**OPERATING RESULTS**

**Accounting principles**

The following discussion and analysis is based on the Consolidated Financial Statements of the Group, which are prepared in accordance with IFRS.

For the year ended December 31, 2012 the results include exceptional items totaling a net credit of $138 million (2011 $96 million credit, 2010 $4 million charge). For comparability of the periods presented, some performance indicators in this Operating and financial review and prospects discussion have been calculated after eliminating these exceptional items. Such indicators are prefixed with adjusted . An analysis of exceptional items is included in Note 5 of Notes to the Consolidated Financial Statements.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | ($ million) | |
| Total revenue | 1,835 | 1,768 | 1,628 |
| Operating profit before exceptional operating items | 614 | 559 | 444 |
| Exceptional operating items | (4) | 57 | (7) |
| Operating profit | 610 | 616 | 437 |
| Net financial expenses | (54) | (62) | (62) |
| Profit before tax | 556 | 554 | 375 |
| Tax. | (11) | (81) | (97) |
| Profit after tax | 545 | 473 | 278 |
| Gain on disposal of assets, net of tax | | | 2 |
| Profit for the year | 545 | 473 | 280 |
| Earnings per ordinary share: | | | |
| Basic | 189.5¢ | 163.7¢ | 97.2¢ |
| Adjusted | 141.5¢ | 130.4¢ | 98.6¢ |
| Average US dollar to sterling exchange rate | $ 1:£0.63 | $ 1:£0.62 | $ 1:£0.65 |

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**Year ended December 2012 compared with year ended December 2011**

Revenue increased by 3.8% to $1,835 million and operating profit before exceptional items increased by 9.8% to $614 million during the 12 months ended December 31, 2012.

***Exceptional operating items***

Exceptional operating items totaled a net loss of $4 million. Exceptional gains included a $23 million impairment reversal and the release of a $9 million liability no longer required relating to the 2003 demerger of the Group from Six Continents PLC. Exceptional charges included $16 million from the reorganization of the Group s support functions together with a restructuring in the AMEA region, $2 million loss on disposal of an interest in a hotel and $18 million write-off of software.

Exceptional operating items are treated as exceptional by reason of their size or nature and are excluded from the calculation of adjusted earnings per ordinary share in order to provide a more meaningful comparison of performance.

***Net financial expenses***

Net financial expenses decreased by $8 million to $54 million primarily due to lower average debt levels.

Financing costs included $2 million (2011 $1 million) of interest costs associated with Priority Club Rewards where interest is charged on the accumulated balance of cash received in advance of the redemption points awarded. Financing costs in 2012 also included $19 million (2011 $18 million) in respect of the InterContinental Boston finance lease.

***Taxation***

The effective rate of tax on operating profit, excluding the impact of exceptional items, was 27% (2011 24%). Excluding the impact of prior year items the equivalent tax rate would be 30% (2011 36%). This rate is higher than the average UK statutory rate of 24.5% due mainly to certain overseas profits (particularly in the US) being subject to statutory rates higher than the UK statutory rate, unrelieved foreign taxes and disallowable expenses.

Taxation within exceptional items totaled a credit of $142 million (2011 $39 million). This represented, primarily, the recognition of $104 million of deferred tax assets whose value has become more certain as a result of a change in law and the resolution of prior period tax matters, together with the associated release of $37 million of provisions. In 2011 this related to a revision of the estimated tax impacts of an internal reorganization completed in 2010.

Net tax paid in 2012 totaled $122 million (2011 $90 million) including $3 million paid (2011 $1 million) in respect of disposals. Tax paid represents an effective rate of 22% (2011 16%) on total profits and is lower than the effective income statement tax rate of 27% primarily due to the impact of deferred taxes (including the realization of assets such as tax losses), the receipt of refunds in respect of prior years and provisions for tax for which no payment of tax has currently been made.

Detailed information concerning the Group s tax position can be found in Notes 7 and 25 of Notes to the Consolidated Financial Statements.

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

Tax liabilities or refunds may differ from those anticipated, in particular as a result of changes in tax law, changes in the interpretation of tax law, or clarification of uncertainties in the application of tax law. Procedures to minimize risk include the preparation of thorough tax risk assessments for all transactions carrying tax risk and, where appropriate, material tax uncertainties are discussed and resolved with tax authorities in advance.

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The Group 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.

The Group earns approximately 60% of its revenues in the form of franchise, management or similar fees, with almost 90% of the Group s branded hotels being franchised. In jurisdictions in which the Group does franchise business, the prevailing tax law will generally provide for the Group 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.

***Earnings per ordinary share***

Basic earnings per ordinary share in 2012 was 189.5¢, compared with 163.7¢ in 2011. Adjusted earnings per ordinary share was 141.5¢, against 130.4¢ in 2011.

**Highlights for the year ended December 31, 2012**

The following is a discussion of the year ended December 31, 2012 compared with the year ended December 31, 2011.

***Group results***

| | Year ended December 31, 2012 | Year ended December 31, 2011 | Change |
|---|---|---|---|
| | ($ million) | | % |
| Revenue | | | |
| Americas | 837 | 830 | 0.8 |
| Europe | 436 | 405 | 7.7 |
| AMEA. | 218 | 216 | 0.9 |
| Greater China | 230 | 205 | 12.2 |
| Central | 114 | 112 | 1.8 |
| Total | 1,835 | 1,768 | 3.8 |
| Operating profit before exceptional operating items(1) | | | |
| Americas | 486 | 451 | 7.8 |
| Europe | 115 | 104 | 10.6 |
| AMEA. | 88 | 84 | 4.8 |
| Greater China | 81 | 67 | 20.9 |
| Central | (156) | (147) | (6.1) |
| Total | 614 | 559 | 9.8 |

(1) Operating profit before exceptional operating items does not include exceptional operating items for all periods presented. Exceptional operating items (charge unless otherwise noted) by region were Americas credit of $23 million (2011 credit of $35 million); Europe $4 million (2011 $39 million); AMEA $5 million (2011 credit of $26 million); Greater China $nil (2011 $nil); and Central credit of $18 million (2011 credit of $35 million).

Revenue increased by 3.8% to $1,835 million and operating profit before exceptional items increased by 9.8% to $614 million during the 12 months ended December 31, 2012.

Fee revenue, which is Group revenue excluding revenue from owned and leased hotels, significant liquidated damages received in 2012 and 2011 and properties that are structured for legal reasons as operating leases, but with the same characteristics as management contracts, increased by 6.8% when translated at constant currency (applying 2011 exchange rates).

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The 2012 results reflect continued RevPAR growth in each of the regions, with an overall RevPAR increase of 5.2%, including a 3.2% increase in average daily rate. The results also benefited from system size growth of 2.7% year-on-year to 675,982 rooms. Group RevPAR growth remained robust for the year, reflecting favorable supply and demand dynamics in the US over 2012, although trading was also affected by the impact of Eurozone uncertainty as well as industry-wide challenges in Greater China in the latter part of the year related to the political leadership change.

Operating profit improved in each of the regions. RevPAR growth of 6.1% in The Americas helped drive an operating profit increase of $42 million (9.5%), after excluding the benefit of a $3 million liquidated damages receipt in 2012 and a $10 million liquidated damages receipt in 2011. Operating profit in Europe increased by $11 million (10.6%), with RevPAR growth of 1.7%. Operating profit in AMEA increased by $13 million (17.3%), after adjusting for a $6 million liquidated damages receipt in 2011 and the disposal of a hotel asset and partnership interest that contributed $3 million in profits in 2011, reflecting RevPAR growth of 4.9%. Strong operating profit growth of $14 million in Greater China reflected an 11.6% increase in system size as well as 5.4% RevPAR growth.

At constant currency, central overheads increased from $147 million in 2011 to $158 million in 2012 ($156 million at actual currency), reflecting investment in infrastructure and capabilities to support the growth of the business.

***Americas***

| | Year ended December 31, 2012 | Year ended December 31, 2011 | Change |
|---|---|---|---|
| | ($ million) | | % |
| Revenue | | | |
| Franchised | 541 | 502 | 7.8 |
| Managed | 97 | 124 | (21.8) |
| Owned and leased | 199 | 204 | (2.5) |
| Total | 837 | 830 | 0.8 |
| Operating profit before exceptional operating items | | | |
| Franchised | 466 | 431 | 8.1 |
| Managed | 48 | 52 | (7.7) |
| Owned and leased | 24 | 17 | 41.2 |
| | 538 | 500 | 7.6 |
| Regional overheads | (52) | (49) | (6.1) |
| Total | 486 | 451 | 7.8 |

Revenue and operating profit before exceptional items increased by $7 million (0.8%) to $837 million and by $35 million (7.8%) to $486 million respectively. RevPAR increased 6.1%, with 4.1% growth in average daily rate. US RevPAR was up 6.3% in 2012 despite uncertainty regarding the presidential election and the fiscal cliff in the latter part of the year.

Franchised revenue increased by $39 million (7.8%) to $541 million. Royalties growth of 8.7% was driven by RevPAR growth of 6.0%, including 6.1% for Holiday Inn Express, together with system size growth of 2.3%. Operating profit increased by $35 million (8.1%) to $466 million.

Managed revenue decreased by $27 million (21.8%) to $97 million and operating profit decreased by $4 million (7.7%) to $48 million. Revenue and operating profit included $34 million (2011 $59 million) and $nil (2011 $1 million) respectively from managed leases. Excluding properties operated under this arrangement, as well as the benefit of a $3 million liquidated damages receipt in 2012 and a $10 million liquidated damages receipt in 2011, revenue and operating profit grew by $5m (9.1%) and $4 million (9.8%) respectively. Growth was driven by a RevPAR increase of 7.3%, including 9.6% for Holiday Inn.

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Owned and leased revenue declined by $5 million (2.5%) to $199 million and operating profit grew by $7 million (41.2%) to $24 million. Excluding the impact of disposals, revenue increased by $4 million (2.1%) and operating profit increased by $8 million (50.0%). The increase in revenue was driven by RevPAR growth of 6.3%, offset by the impact of the partial closure of an owned hotel in the Caribbean. The operating profit increase of $7 million included a $1 million year-on-year benefit from lower depreciation recorded for the InterContinental New York Barclay since the hotel was categorized as held for sale in the first quarter of 2011, after which no depreciation was charged, and a $3 million year-on-year benefit relating to one off reorganization costs at one hotel in 2011.

***Europe***

| | Year ended December 31, 2012 | Year ended December 31, 2011 | Change |
|---|---|---|---|
| | ($ million) | | % |
| Revenue | | | |
| Franchised | 91 | 86 | 5.8 |
| Managed | 147 | 118 | 24.6 |
| Owned and leased | 198 | 201 | (1.5) |
| Total | 436 | 405 | 7.7 |
| Operating profit before exceptional operating items | | | |
| Franchised | 65 | 65 | |
| Managed | 32 | 26 | 23.1 |
| Owned and leased | 50 | 49 | 2.0 |
| | 147 | 140 | 5.0 |
| Regional overheads | (32) | (36) | 11.1 |
| Total | 115 | 104 | 10.6 |

Revenue and operating profit before exceptional items increased by $31 million (7.7%) to $436 million and by $11 million (10.6%) to $115 million respectively. RevPAR increased by 1.7%, with 1.2% growth in average daily rate despite challenging economic conditions across Europe.

Franchised revenue increased by $5 million (5.8%) to $91 million, whilst operating profit was flat at $65 million. At constant currency, revenue increased by $8 million (9.3%) and operating profit increased by $3 million (4.6%). Growth was mainly driven by an increase in royalties of 2.7% (7.5% at constant currency) reflecting RevPAR growth of 1.8%, together with system size growth of 4.0%.

Managed revenue increased by $29 million to $147 million (24.6%) and operating profit increased by $6 million (23.1%) to $32 million. Revenue and operating profit included $80 million (2011 $46 million) and $2 million (2011 $nil) respectively from managed leases. Excluding properties operated under this arrangement and on a constant currency basis, revenue decreased by $1 million (1.4%) reflecting a 4.3% decrease in system size partially offset by RevPAR growth of 1.0%. On the same basis, operating profit grew by $5 million (19.2%).

In the owned and leased estate, revenue decreased by $3 million (1.5%) to $198 million and operating profit increased by $1 million (2.0%) to $50 million. At constant currency and excluding the impact of disposals, revenue increased by $10 million (5.1%) and operating profit increased by $4 million (8.3%). The InterContinental London Park Lane and the InterContinental Paris Le Grand delivered year-on-year RevPAR growth of 8.0% and 2.5% respectively.

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***AMEA***

| | Year ended December 31, 2012 | Year ended December 31, 2011 | Change % |
|---|---|---|---|
| | ($ million) | | |
| Revenue | | | |
| Franchised | 18 | 19 | (5.3) |
| Managed | 152 | 151 | 0.7 |
| Owned and leased | 48 | 46 | 4.3 |
| Total | 218 | 216 | 0.9 |
| Operating profit before exceptional operating items | | | |
| Franchised | 12 | 12 | |
| Managed | 90 | 87 | 3.4 |
| Owned and leased | 6 | 5 | 20.0 |
| | 108 | 104 | 3.8 |
| Regional overheads | (20) | (20) | |
| Total | 88 | 84 | 4.8 |

Revenue and operating profit before exceptional items increased by $2 million (0.9%) to $218 million and by $4 million (4.8%) to $88 million respectively. RevPAR increased 4.9%, with 1.2% growth in average daily rate, with robust trading in Southeast Asia and Japan, partly offset by continuing uncertainty impacting some markets in the Middle East.

On both a constant and actual currency basis, franchised revenue decreased by $1 million (5.3%) to $18 million and operating profit was flat at $12 million.

Managed revenue and operating profit increased by $1 million (0.7%) to $152 million and by $3 million (3.4%) to $90 million respectively. At constant currency, excluding the benefit of a $6 million liquidated damages receipt in 2011 and after adjusting for the disposal of a hotel asset and partnership interest in Australia, which contributed $3 million to operating profit in 2011, revenue and operating profit increased by $7 million (4.8%) and $11 million (14.1%) respectively. RevPAR growth was 4.6% and although year-end system size was 7.1% higher than at the end of 2011, due to the phasing of openings towards the end of the year, rooms available during the year grew by only 2.2%. Operating profit in 2012 benefited from a $1 million increase in profit from an associate and $2 million lower year-on-year bad debt expense.

In the owned and leased estate, revenue and operating profit increased by $2 million (4.3%) to $48 million and by $1 million (20.0%) to $6 million respectively.

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*Greater China*

| | Year ended December 31, 2012 | Year ended December 31, 2011 | Change |
|---|---|---|---|
| | ($ million) | | % |
| Revenue | | | |
| Franchised | 3 | 2 | 50.0 |
| Managed | 89 | 77 | 15.6 |
| Owned and leased | 138 | 126 | 9.5 |
| Total | 230 | 205 | 12.2 |
| Operating profit before exceptional operating items | | | |
| Franchised | 4 | 3 | 33.3 |
| Managed | 51 | 43 | 18.6 |
| Owned and leased | 45 | 37 | 21.6 |
| | 100 | 83 | 20.5 |
| Regional overheads | (19) | (16) | (18.8) |
| Total | 81 | 67 | 20.9 |

Revenue and operating profit before exceptional items increased by $25 million (12.2%) to $230 million and by $14 million (20.9%) to $81 million respectively. RevPAR increased 5.4% with 3.1% growth in average daily rate.

Franchised revenue increased by $1 million (50.0%) to $3 million and operating profit by $1 million (33.3%) to $4 million, boosted by the opening of the 1,224-room Holiday Inn Macao Cotai Central.

Managed revenue increased by $12 million (15.6%) to $89 million and operating profit increased by $8 million (18.6%) to $51 million. RevPAR growth of 5.6% reflected continued economic growth in the region, although the whole industry was affected in the latter part of the year by the 10-year political leadership change and the Diaoyu/Senkaku islands territorial dispute. There was also continued significant system size growth for the managed estate in the region (9.7% rooms growth in 2012 following 14.2% rooms growth in 2011).

Owned and leased revenue increased by $12 million (9.5%) to $138 million and operating profit increased by $8 million (21.6%) to $45m, with RevPAR growth of 6.7% at the InterContinental Hong Kong.

Regional costs increased by $3 million (18.8%) to $19 million reflecting increased investment in operations and infrastructure in the region.

*Central*

| | Year ended December 31, 2012 | Year ended December 31, 2011 | Change |
|---|---|---|---|
| | ($ million) | | % |
| Revenue | 114 | 112 | 1.8 |
| Gross central costs | (270) | (259) | (4.2) |
| Net central costs | (156) | (147) | (6.1) |

Net central costs increased by $9 million from $147 million in 2011 to $156 million (6.1%) in 2012. At constant currency, net central costs increased by $11 million (7.5%). The movement was driven by investment in infrastructure and capabilities to support the growth of the business. Central revenue mainly comprised technology fee income.

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*System Fund*

| | Year ended December 31, 2012 | Year ended December 31, 2011 | Change |
|---|---|---|---|
| | ($ million) | | % |
| Assessment fees and contributions received from hotels | 1,106 | 1,025 | 7.9 |
| Proceeds from sale of Priority Club Rewards points | 144 | 128 | 12.5 |
| | 1,250 | 1,153 | 8.4 |

In the year to December 31, 2012, Fund income increased by 8.4% to $1,250 million primarily as a result of growth in hotel room revenues. The increase in proceeds from the sale of Priority Club Rewards points mainly reflects the strong performance of co-brand credit card schemes.

In addition to management or franchise fees, hotels within the Group s system pay cash assessments and contributions which are collected by the Group for specific use within the Fund. The Fund also receives proceeds from the sale of Priority Club Rewards points. The Fund is managed for the benefit of hotels in the system with the objective of driving revenues for the hotels.

The Fund is used to pay for marketing, the Priority Club Rewards loyalty program and the global reservation system. The operation of the Fund does not result in a profit or loss for the Group and consequently the revenues and expenses of the Fund are not included in the Consolidated income statement.

**Highlights for the year ended December 31, 2011**

The following is a discussion of the year ended December 31, 2011 compared with the year ended December 31, 2010, restated where appropriate to reflect the change in the Group s geographical segments following an internal reorganization during 2011.

***Group results***

Revenue increased by 8.6% to $1,768 million and operating profit before exceptional items increased by 25.9% to $559 million during the 12 months ended December 31, 2011.

The 2011 results reflect continued RevPAR growth, with an overall RevPAR increase of 6.2%, including a 2.5% increase in average daily rate. The results also benefit from overall system size growth of 1.7% year-on-year to 658,348 rooms. RevPAR growth remained strong throughout the year across the Group although there was some deterioration in Europe in the fourth quarter reflecting macroeconomic conditions in the region.

Operating profit improved in each of the regions. RevPAR growth of 7.5% and 4.7% in The Americas and Europe respectively helped to drive operating profit increases of $82 million and $26 million in these regions. Operating profit in AMEA rose by $2 million despite an estimated adverse impact of the events of the Arab Spring and the natural disasters in Japan and New Zealand of $11 million. Continued strong economic growth in Greater China led to operating profit growth of $13 million as RevPAR grew by 10.7% and system size increased by 13.7%.

At constant currency, central overheads increased from $139 million in 2010 to $143 million in 2011 ($147 million at actual currency), driven by increased investment to support growth in the business, offsetting non-recurring bonus costs.

As a result of growth in the business, together with strong cost control, operating profit margin was 40.6%, up 4.9 percentage points on 2010, after adjusting for owned and leased hotels, The Americas and Europe managed leases and significant liquidated damages received in 2011. This growth approximates to one percentage point after adjusting for a number of one-off benefits.

***Americas***

Revenue and operating profit before exceptional items increased by $23 million (2.9%) to $830 million and by $82 million (22.2%) to $451 million respectively.

Franchised revenue increased by $37 million (8.0%) to $502 million. Royalties growth of 8.5% was driven by RevPAR gains across the estate of 7.2%, including 7.9% for Holiday Inn Express, and was further boosted by continued improvement in the royalty rate achieved. Operating profit increased by $39 million (9.9%) to $431 million also benefiting from lower bad debt experience.

Managed revenue increased by $5 million (4.2%) to $124 million and operating profit increased by $31 million (147.6%) to $52 million. Revenue and operating profit included $59 million (2010 $71 million) and $1 million (2010 $1 million) respectively from properties that are structured, for legal reasons, as operating leases but with the same characteristics as management contracts. Excluding properties operated under this arrangement, as well as the benefit of a $10 million liquidated damages receipt in 2011 and a $10 million year-on-year benefit from the conclusion of a specific guarantee negotiation relating to one hotel, revenue grew by $7 million. Growth was driven by a RevPAR increase of 8.8% across the estate. Although year-end system size was 6.0% lower than at the end of 2010, due to the phasing of removals towards the end of the year, rooms available during the year actually grew by 4.5%. Operating profit grew by $11 million on the same basis, also benefiting from increased joint venture distributions.

Owned and leased revenue declined by $19 million (8.5%) and operating profit grew by $4 million (30.8%) to $17 million. In the first half of the year, Staybridge Suites Denver Cherry Creek was sold and converted to a franchise contract, whilst Holiday Inn Atlanta Gwinnett Place and Hotel Indigo San Diego were sold and converted to management contracts. Excluding the year-on-year impact of these and prior year disposals, owned and leased revenue grew by $8 million (4.2%) and operating profit by $7 million (77.8%) reflecting RevPAR growth of 10.3%, including 11.2% at the InterContinental New York Barclay. Operating profit for 2011 includes a $4 million year-on-year benefit from lower depreciation recorded for the InterContinental New York Barclay since the hotel was categorized as held for sale in the first quarter of 2011, subsequent to which no depreciation was charged. Operating profit growth was, however, adversely impacted by $3 million of one off reorganization costs relating to one hotel in 2011.

Regional overheads decreased by $8 million (14.0%) to $49 million, mainly reflecting a year-on-year reduction of $6 million in costs for claims in a self-insured healthcare benefit plan.

***Europe***

Revenue and operating profit before exceptional items increased by $79 million (24.2%) to $405 million and by $26 million (33.3%) to $104 million respectively.

Franchised revenue increased by $10 million (13.2%) to $86 million and operating profit by $10 million (18.2%) to $65 million. At constant currency, revenue increased by 7.9% and operating profit increased by 12.7%. Growth was mainly driven by royalties growth of 11.4% (5.9% at constant currency) reflecting RevPAR growth of 4.0%, together with an increase in system size. Revenues associated with new signings, relicensing and terminations increased by $2 million.

Managed revenue increased by $48 million to $118 million (68.6%) and operating profit increased by $9 million to $26 million (52.9%). At constant currency, revenue increased by 61.4% whilst operating profit increased by 47.1%. During the year, two properties were converted from management contracts to an operating lease structure with the same characteristics as management contracts. Revenues recorded under the operating lease structure were $46 million in 2011 (2010 $nil), with operating profits of $nil (2010 $nil). Excluding the impact of properties under the operating lease structure and on a constant currency basis, operating profit increased by $8 million (47.1%) reflecting RevPAR growth of 5.5%, together with the year-on-year benefit of a $3 million charge in 2010 with regard to guarantee obligations for one hotel. On the same basis, revenue fell slightly as a result of a minor change in the allocation of income to the managed estate.

In the owned and leased estate, revenue increased by $21 million (11.7%) to $201 million and operating profit increased by $11 million (28.9%), or at a constant currency by 6.7% and 21.1% respectively. During the year, the Group exited from the lease for Holiday Inn Express Essen, with a minor impact on revenue and operating profit. RevPAR growth of 10.9% benefitted from average daily rate growth of 10.3% across the year. The InterContinental London Park Lane and the InterContinental Paris Le Grand delivered strong year-on-year RevPAR growth of 7.3% and 14.5% respectively.

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*AMEA*

Revenue and operating profit before exceptional items increased by $3 million (1.4%) to $216 million and by $2 million (2.4%) to $84 million respectively. The region s results were adversely impacted by the political instability throughout 2011 in the Middle East, together with the natural disasters in Japan and New Zealand.

Franchised revenue increased by $4 million (26.7%) to $19 million and operating profit by $4 million (50.0%) to $12 million. At constant currency, revenue increased by 20.0% and operating profit increased by 37.5%, which includes four properties which were converted from management contracts to franchise arrangements during the year. RevPAR in the franchised estate grew by 1.7%. Excluding Egypt, Bahrain and Japan, RevPAR grew by 4.4%.

Managed revenue decreased by $4 million (2.6%) to $151 million and operating profit decreased by $1 million (1.1%) to $87 million. At constant currency, revenue decreased by 7.7% and operating profit by 5.7%. The events of the Arab Spring together with the natural disasters in Japan and New Zealand had an estimated adverse impact of $11 million on the results, whilst there was a further $4 million adverse impact due to changes to certain management contract terms. Results did, however, benefit from a liquidated damages receipt of $6 million during the year. RevPAR grew by 0.6% compared to 2010 and by 5.7% excluding Egypt, Bahrain and Japan.

In the owned and leased estate, revenue increased by $3 million (7.0%) to $46 million and operating profit increased by $1 million (25.0%), or at a constant currency by 9.3% and 25.0% respectively.

*Greater China*

Revenue and operating profit before exceptional items increased by $27 million (15.2%) to $205 million and by $13 million (24.1%) to $67 million respectively.

Managed revenue increased by $17 million (28.3%) to $77 million and operating profit increased by $13 million (43.3%) to $43 million. At constant currency, revenue increased by 26.7% and operating profit increased by 43.3%. Continued strong economic growth in the region helped to drive RevPAR growth of 10.3%. Excluding Shanghai, where RevPAR growth was tempered by strong comparatives due to the World EXPO held in May to October 2010, comparable RevPAR grew by 17.4%. There was also continued significant system size growth for the managed estate in the region (14.2% rooms growth in 2011 and 12.6% in 2010).

On both a constant and actual currency basis, owned and leased revenue increased by $10 million (8.6%) to $126 million and operating profit increased by $4 million (12.1%) to $37 million. The InterContinental Hong Kong drove RevPAR growth of 13.4%.

Regional costs increased by $4 million to $16 million (33.3%), reflecting increased investment in operations and infrastructure in the region to support the growth of the Group s brands.

*Central*

During 2011, net central costs increased by $8 million from $139 million to $147 million (5.8%). At constant currency, net central costs increased by $4 million (2.9%). The movement was primarily driven by increased investment to support growth in the business. Central revenue mainly comprised technology fee income.

*System Fund*

In the year to December 31, 2011, Fund income increased by 9.8% to $1.2 billion primarily as a result of growth in hotel room revenues and marketing programs. The increase in proceeds from the sale of Priority Club Rewards points mainly reflects the strong performance of co-brand credit card schemes.

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## LIQUIDITY AND CAPITAL RESOURCES

### Sources of liquidity

The Group is primarily financed by a $1.07 billion syndicated bank facility which expires in November 2016 (the Syndicated Facility ), £250 million of public bonds which are repayable on December 9, 2016 and £400 million of public bonds which are repayable on November 28, 2022. The $1.07 billion Syndicated Facility was undrawn at the year end. The £400 million 3.875% bonds, which were issued during the year under the Group s £750 million Medium Term Notes program, extend the maturity profile and diversify the sources of the Group s debt. Short-term borrowing requirements are met from drawings under bilateral bank facilities. Additional funding is provided by the 99-year finance lease (of which 93 years remain) on the InterContinental Boston. In the Group s opinion, the available facilities are sufficient for the Group s present liquidity requirements.

The £250 million public bonds were issued on December 9, 2009 at a coupon of 6% and were initially priced at 99.465% of face value and are unsecured. Interest is payable annually on December 9, in each year commencing December 9, 2010 to the maturity date. Currency swaps were transacted at the same time the bonds were issued in order to swap the proceeds and interest flows into US dollars.

The £400 million public bonds were issued on November 28, 2012 at a coupon of 3.875% and were initially priced at 98.787% of face value and are unsecured. Interest is payable annually on November 28, in each year commencing November 28, 2013 to the maturity date.

At December 31, 2012, gross borrowings were $1,258 million, including the finance lease obligation of $212 million. The currency denomination of the borrowings was $212 million of US dollar denominated borrowings, $1,041 million of sterling denominated borrowings and $5 million of New Zealand dollar denominated borrowings. The impact of the currency swaps traded in December 2009 is to convert $415 million of these sterling denominated borrowings above into US dollar denominated borrowings; the fair value of the currency swaps disclosed as a component of net debt was a liability of $11 million at December 31, 2012.

The Group held cash and short-term deposits at December 31, 2012 amounting to $195 million. Credit risk is minimized by operating a policy that generally restricts the investment of surplus cash to counterparties with an A credit rating or better or those providing adequate security. Notwithstanding that counterparties must have an A credit rating or better, during periods of significant financial market turmoil, counterparty exposure limits are significantly reduced and counterparty credit exposure reviews are broadened to include the relative placing of credit default swap pricings. Most of the Group s surplus funds are held in the United Kingdom or United States although $7 million (2011 $2 million) is held in a country where repatriation is restricted as a result of foreign exchange regulations.

Net debt of $1,074 million at December 31, 2012, comprised the gross borrowings of $1,258 million and the currency swap fair value of $11 million less cash and short-term deposits of $195 million.

The Syndicated Facility contains two financial covenants: interest cover and net debt divided by earnings before interest, tax, depreciation and amortization ( EBITDA ). 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.

Further details of exchange and interest rate risk and financial instruments are disclosed in Item 11. Quantitative and qualitative disclosures about market risk .

### Cash from operating activities

Net cash from operating activities totaled $472 million for the year ended December 31, 2012 (2011 $479 million) after the payment of additional UK pension scheme contributions which were $57 million higher than in 2011.

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.

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**Cash from investing activities**

Net cash outflows due to investing activities totaled $128 million (2011 $38 million) comprising capital expenditure of $133 million (2011 $194 million) including investment in the technology infrastructure of $70 million (2011 $46 million), less proceeds from the disposal of hotels and investments of $5 million (2011 $156 million). Proceeds in 2011 mainly relate to the disposals of the Hotel Indigo San Diego, Staybridge Suites Cherry Creek, Holiday Inn Atlanta-Gwinnett Place and a hotel asset and partnership interest in Australia.

The Group had committed contractual capital expenditure of $81 million at December 31, 2012 (2011 $14 million), reflecting its commitment to invest in the growth of the Group s brands.

**Cash used in financing activities**

Net cash used in financing activities totaled $329 million (2011 $334 million), after the payment of shareholder returns of $786 million (2011 $148 million), including a $505 million special dividend and $107 million of share buybacks. Net borrowings increased by $533 million (2011 decreased by $119 million) largely due to the issue of new long-term bonds. $84 million (2011 $75 million) was spent on share purchases in order to fulfill share incentive awards.

Overall net debt increased during the year by $536 million to $1,074 million at December 31, 2012.

**Off-balance sheet arrangements**

At December 31, 2012, the Group had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Group s financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

**Contractual obligations**

The Group had the following contractual obligations outstanding as of December 31, 2012:

| | Total amounts committed | Less than 1 year | 1-3 years ($ million) | 3-5 years | After 5 years |
|---|---|---|---|---|---|
| Long-term debt obligations(i)(ii) | 1,067 | | 5 | 415 | 647 |
| Interest payable(ii) | 354 | 51 | 102 | 76 | 125 |
| Finance lease obligations(iii) | 3,396 | 16 | 32 | 32 | 3,316 |
| Operating lease obligations | 387 | 47 | 59 | 44 | 237 |
| Agreed pension scheme contributions(iv) | 87 | 62 | 25 | | |
| Capital contracts placed | 81 | 81 | | | |
| | 5,372 | 257 | 223 | 567 | 4,325 |

(i) Repayment period classified according to the related facility maturity date.

(ii) Including the impact of derivatives.

(iii)

Represents the minimum lease payments related to the 99-year lease (of which 93 years remain) on the InterContinental Boston. Payments under the lease step up at regular intervals over the lease term.

(iv) Primarily relates to the recovery plan agreed with trustees of the InterContinental Hotels UK Pension Plan (see below).

In addition, the Group has committed to invest up to $60 million in two joint venture arrangements of which $37 million had been spent at December 31, 2012.

In limited cases, the Group may provide performance guarantees to third-party hotel owners to secure management contracts. Forecast payments of $6 million have been provided for in the Financial Statements and the maximum unprovided exposure under such guarantees is $50 million at December 31, 2012.

As of December 31, 2012, the Group had outstanding letters of credit of $38 million mainly relating to self insurance programs.

The Group may occasionally guarantee loans made to facilitate third-party ownership of hotels in which the Group has an equity interest and also a management contract. As of December 31, 2012, there were no such guarantees in place.

The Group has given warranties in respect of the disposal of certain of its former subsidiaries and hotels. It is the view of the Directors that, other than to the extent that liabilities have been provided for in the Consolidated Financial Statements, such warranties are not expected to result in material financial loss to the Group.

**Pension plan commitments**

The Group operates the following material defined benefit plans: the InterContinental Hotels UK Pension Plan and, in the United States, the InterContinental Hotels Pension Plan and the InterContinental Hotels non-qualified plans.

On an IAS 19 Employee Benefits basis, the InterContinental Hotels UK Pension Plan had a surplus of $97 million at December 31, 2012, net of the tax that would be deducted at source in respect of a refund of surplus taking into account amounts payable under funding commitments. The defined benefit section of this plan is closed to new members and will close to future accrual for current members with effect from July 1, 2013. In addition, there are unfunded UK pension arrangements for certain members affected by the lifetime or annual allowances which will also close to future accrual with effect from July 1, 2013; at December 31, 2012, these arrangements had an IAS 19 deficit of $62 million.

The most recent actuarial valuation of the InterContinental Hotels UK Pension Plan was carried out as at March 31, 2012 and showed a deficit of £132 million on a funding basis. Under the recovery plan agreed with the trustees, the Group aims to eliminate this deficit by July 31, 2014 principally through additional Company contributions of £130 million. In respect of these additional Company contributions, £10 million was paid in July 2012, £45 million was paid in October 2012, £30 million is due for payment in July 2013, £15 million is due for payment in July 2014 and £30 million will be paid into a funding trust on release of a trustee charge over a hotel asset. The amount in the funding trust may be available for release to the plan on July 31, 2014 to the extent that a funding deficit remains at that time. The plan is formally valued every three years, or earlier with the agreement of the Company and trustees, and future valuations could lead to changes in the amounts payable by the Company.

The US-based plans are closed to new members and pensionable service no longer accrues for current employee members. On an IAS 19 basis, at December 31, 2012 the plans had a combined deficit of $98 million. In 2013, the Group expects to make contributions to these plans of $10 million.

The Group is exposed to the funding risks in relation to the defined benefit sections of the InterContinental Hotels UK Pension Plan and the US-based InterContinental Hotels Pension Plan, as explained in Item 3. Key information Risk factors .

## ITEM 6. *DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES*

## DIRECTORS AND SENIOR MANAGEMENT

Overall strategic direction of the Group is provided by the Board of Directors, comprising Executive and Non-Executive Directors, and by members of the Executive Committee.

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The Directors and officers of InterContinental Hotels Group PLC at March 21, 2013 were:

| Directors | Title | Initially appointed to the Board | Date of next reappointment by shareholders |
|---|---|---|---|
| Patrick Cescau | Director and Chairman | 2013 | 2013 |
| David Kappler(1) | Director and Senior Independent Director | 2004 | 2013 |
| Kirk Kinsell | Director | 2010 | 2013 |
| Jennifer Laing(1) | Director | 2005 | 2013 |
| Jonathan Linen(1) | Director | 2005 | 2013 |
| Luke Mayhew(1) | Director | 2011 | 2013 |
| Dale Morrison(1) | Director | 2011 | 2013 |
| Tracy Robbins | Director | 2011 | 2013 |
| Tom Singer | Director and Chief Financial Officer | 2011 | 2013 |
| Richard Solomons | Director and Chief Executive | 2003 | 2013 |
| Ying Yeh(1) | Director | 2007 | 2013 |

(1) Non-executive independent director.

| Officers | Title | Initially appointed to position |
|---|---|---|
| Keith Barr* | Chief Executive, Greater China | 2011 |
| Angela Brav | Chief Executive, Europe | 2011 |
| Larry Light* | Chief Brands Officer | 2012 |
| Eric Pearson | Executive Vice President and Chief Information Officer | 2012 |
| Jan Smits | Chief Executive, Asia, Middle East and Africa | 2011 |
| George Turner | Executive Vice President, General Counsel and Company Secretary | 2009 |

* In April 2013 Kenneth MacPherson will join the Group as Chief Executive, Greater China. With effect from June 1, 2013 Keith Barr will be appointed to the newly created position of Chief Commercial Officer, responsible for brands, sales, marketing and distribution. During the transition Larry Light will continue in his role as Chief Brands Officer. Following the transition Larry will stay on as a senior IHG advisor.

**Former Directors and Officers**

Graham Allan served as a Director until June 2012. David Webster served as a Director and Chairman of InterContinental Hotels Group PLC until December 2012.

**Directors and Officers**

***Patrick Cescau, Non-Executive Chairman***

Appointed to the Board: January 1, 2013

Skills and Experience: From 2005 to 2008, Patrick was Group Chief Executive of Unilever Group, having previously been Chairman of Unilever PLC, Vice-Chairman of Unilever NV and Foods Director, following a progressive career with the Company, which began in France in 1973. Prior to being appointed to the Board of Unilever NV in 1999, as Finance Director, he was Chairman of a number of the Company s major operating companies and divisions, including in the USA, Indonesia and Portugal.

Board Contribution: Patrick has held board positions for more than 12 years in leading global businesses and brings extensive international experience in brands, consumer products, as well as finance. As Chairman, Patrick is responsible for leading the Board and ensuring it operates in an effective manner and promoting constructive relations with shareholders. Patrick is Chairman of the Nomination Committee.

Other Appointments: Currently a Non-Executive Director of International Consolidated Airlines Group S.A. and the Senior Independent Director and Non-Executive Director of Tesco PLC. Patrick is also a trustee of the Leverhulme Trust and Chairman of the St Jude India Children s Charity. He was formerly a Senior Independent Director and Non-Executive Director of Pearson PLC and a Director at INSEAD.

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***Richard Solomons, Chief Executive***

Appointed to the Board: February 10, 2003

Skills and Experience: A chartered accountant and a member of the Executive Committee of the World Travel & Tourism Council. From 2003 to 2011 Richard was Chief Financial Officer and Head of Commercial Development. Since joining the Group in 1992 he has held a variety of senior financial and operational roles, including Chief Operating Officer of The Americas Hotels division and Finance Director of the Hotels business prior to the separation of Six Continents PLC in April 2003. He became Chief Executive in July 2011.

Board Contribution: Richard has extensive experience in finance and is responsible for the executive management of the Group and ensuring the implementation of Board strategy and policy.

***Tom Singer, Chief Financial Officer***

Appointed to the Board: September 26, 2011

Skills and Experience: Prior to joining the Group, Tom was Group Finance Director and a main board member of Bupa, a global healthcare provider. Previously Group Finance Director and Chief Operating Officer at William Hill PLC and Finance Director at Moss Bros Group PLC.

Board Contribution: Tom has extensive financial experience obtained from UK and international finance roles. He is responsible, together with the Board, for overseeing the financial operations of the Group and setting its financial strategy.

***Kirk Kinsell, President, The Americas***

Appointed to the Board: August 1, 2010

Skills and Experience: Kirk has 30 years experience in the hospitality industry, including senior franchise positions with Holiday Inn Corporation and ITT Sheraton. He joined the Group in 2002 as Senior Vice President, Chief Development Officer for The Americas region. He became an Executive Committee member in September 2007 and was previously President, Europe, Middle East and Africa until June 2011.

Board Contribution: Kirk has vast experience in the hospitality industry and is responsible for the business development and performance of all the hotel brands and properties in The Americas region.

***Tracy Robbins, Executive Vice President, Human Resources and Group Operations Support***

Appointed to the Board: August 9, 2011

Skills and Experience: Tracy has over 27 years experience in human resources roles in service industries. She joined the Group in December 2005 from Compass Group PLC, a world-leading food service company, where she was Group Human Resources Leadership & Development Director. Previously Group Human Resources Director for Forte Hotels Group. She also spent seven years at Tesco PLC as a Retail Human Resources Manager where she implemented a culture change and restructuring strategy across 150 stores.

Board Contribution: Tracy has many years of experience in human resources and is responsible for global talent management, leadership development, employee reward strategy and implementation, organizational capability and operations support.

***David Kappler, Senior Independent Non-Executive Director***

Appointed to the Board: June 21, 2004

Skills and Experience: David is a fellow of the Chartered Institute of Management Accountants. Formerly Chief Financial Officer of Cadbury Schweppes plc and Non-Executive Chairman of Premier Foods plc. He also served as a Non-Executive Director of Camelot Group plc and HMV Group plc.

Board Contribution: David brings over 35 years knowledge and experience in financial reporting, risk management and internal financial controls. As Chairman of the Audit Committee he is responsible for leading the Committee to ensure internal controls and risk management systems are in place. David is Chairman of the Audit Committee.

Other Appointments: David is a Non-Executive Director of Shire plc, a member of the Europe Advisory Council of Trilantic Capital Partners and Chairman of ADS2 Brands Limited.

***Jennifer Laing, Independent Non-Executive Director***

Appointed to the Board: August 25, 2005

Skills and Experience: Jennifer was Associate Dean, External Relations at London Business School, until 2007. A fellow of the Marketing Society and of the Institute of Practitioners in Advertising, she has over 30 years experience in advertising including 16 years with Saatchi & Saatchi.

Board Contribution: Jennifer has over 30 years experience in marketing and advertising and is Chairman of the Corporate Responsibility Committee, responsible for the Corporate Responsibility objectives and strategy. Jennifer is Chairman of the Corporate Responsibility Committee.

Other Appointments: Currently a Non-Executive Director of Hudson Global, Inc., a US human resources company and Premier Foods plc, a branded food producer.

***Jonathan Linen, Independent Non-Executive Director***

Appointed to the Board: December 1, 2005

Skills and Experience: Jonathan was formerly Vice Chairman of the American Express Company, having held a range of senior positions throughout his career of over 35 years with American Express.

Board Contribution: Jonathan has over 25 years experience working in the financial and branded sectors and is a member of the Remuneration Committee.

Other Appointments: Currently a Non-Executive Director of Yum! Brands, Inc. and Modern Bank, N.A., a US private banking company. Jonathan also serves on a number of US councils and advisory boards.

***Luke Mayhew, Independent Non-Executive Director***

Appointed to the Board: July 1, 2011

Skills and Experience: Luke is currently a Non-Executive Director of Brambles Limited, a global provider of supply chain and information management solutions. Previously he served for 12 years on the Board of John Lewis Partnership, 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 WH Smith PLC and Chairman of Pets at Home Group Limited.

Board Contribution: Luke has over 30 years experience in senior roles in the branded sector and is Remuneration Committee chairman at Brambles Limited and has been since 2006. As Chairman of the IHG Remuneration Committee he is responsible for setting the remuneration policy. Luke is Chairman of the Remuneration Committee.

Other Appointments: Currently a Non-Executive Director of Brambles Limited.

***Dale Morrison, Independent Non-Executive Director***

Appointed to the Board: June 1, 2011

Skills and Experience: 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.

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

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***Ying Yeh, Independent Non-Executive Director***

Appointed to the Board: December 1, 2007

Skills and Experience: Ying was formerly Vice President and Chairman, Greater China Region, Nalco Company and Chairman and President, North Asia Region, President, Business Development, Asia Pacific Region and Vice President, Eastman Kodak Company. She was, for 15 years, a diplomat with the US Foreign Service in Hong Kong and Beijing until 1997.

Board Contribution: Ying has over 20 years experience gained from working in senior positions in global organizations across a broad range of sectors.

Other Appointments: Currently a Non-Executive Director of AB Volvo, a transportation related products and services company, ABB Ltd, a global leader in power and automation technologies and Samsonite International S.A., a travel luggage company.

**Other members of the Executive Committee**

In addition to the Executive Directors on the Board, the Executive Committee comprises:

***Keith Barr, Chief Executive, Greater China***

Joined the Group: 2000

Skills and Experience: Keith has over 20 years experience in the hospitality industry. He has held senior appointments including Vice President of Sales and Revenue Management, Vice President of Operations and Chief Operating Officer, Australia, New Zealand and South Pacific. He was appointed Managing Director, Greater China in June 2009 and became Chief Executive, Greater China in April 2011.

Key responsibilities: These include business development and performance of all the hotel brands and properties in the Greater China region.

***Angela Brav, Chief Executive, Europe***

Joined the Group: 1988

Skills and Experience: Angela has over 24 years experience in the hospitality industry, including hotel operations, franchise relations and technology solutions. She has held various senior roles in the Group s US and European businesses prior to becoming Chief Operating Officer, North America. She was appointed Chief Executive, Europe in August 2011.

Key responsibilities: These include business development and performance of all the hotel brands and properties in Europe.

***Larry Light, Chief Brands Officer***

Joined the Group: 2012

Skills and Experience: Larry is one of the world s leading brand consultants and was formerly Chief Marketing Officer for McDonald s. Larry has held previous executive roles in media, marketing and advertising for BBDO Worldwide and Ted Bates Advertising and has made many academic contributions on branding principles and methods.

Key responsibilities: These include building on the Group s strategy of developing and nurturing a powerful portfolio of preferred brands.

***Eric Pearson, Executive Vice President and Chief Information Officer***

Joined the Group: 1997

Skills and Experience: Eric has a background in engineering and technology and started his career at IHG over 15 years ago. Since then he has held various senior positions in the field of emerging technologies and global e-commerce. Eric most recently held the position of Chief

Marketing Officer for The Americas region.

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Key responsibilities: These include global technology, including IT systems and information management, throughout the Group.

***Jan Smits, Chief Executive, Asia, Middle East and Africa***

Joined the Group: 2002

Skills and Experience: Jan has 31 years experience in the hospitality industry. He held various senior positions in the Asia and Australasia region. He became Managing Director, Asia Australasia in June 2009. Following the amalgamation of our Middle East and Africa region with our Asia Australasia region, he became Chief Executive, Asia, Middle East and Africa in August 2011.

Key responsibilities: These include business development and performance of all the hotel brands and properties in Asia, Middle East and Africa.

***George Turner, Executive Vice President, General Counsel and Company Secretary***

Joined the Group: 2008

Skills and Experience: George is a solicitor and qualified to private practice in 1995. Prior to joining the Group, George spent 12 years with Imperial Chemical Industries PLC where he held a number of key positions including Deputy Company Secretary. He was appointed Executive Vice President, General Counsel and Company Secretary in January 2009.

Key responsibilities: These include corporate governance, risk management, insurance, regulatory, internal audit, legal, corporate responsibility and public affairs.

Steven Sickel, who has been an interim member of the Executive Committee, will return to his full-time role leading Distribution Relationship Marketing in June 2013.

There are no family relationships between any of the persons named above.

There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any person named above was selected as a director or member of senior management.

**COMPENSATION**

In fiscal 2012, the aggregate compensation (including pension contributions, bonus and awards under the long term incentive plans) of the Directors and officers of the Company was $30.0 million. The aggregate amount set aside or accrued by the Company in fiscal 2012 to provide pension retirement or similar benefits for those individuals was $0.8 million. An amount of $8.6 million was charged in fiscal 2012 in respect of bonuses payable to them under performance related cash bonus schemes and long term incentive plans.

Note 3 of Notes to the Consolidated Financial Statements sets out the aggregate compensation of the Directors. The following are details of the Company s principal share schemes, in which the Directors of the Company participated during the period.

**Annual Bonus Plan**

The Group s Annual Bonus Plan ( ABP ), sets out the terms under which annual performance-related bonuses are awarded, and enables eligible employees, including Executive Directors, to receive all or part of their bonus in the form of deferred shares. The deferred shares are released on the third anniversary of the award date. In relation to 2012, a fixed percentage of the bonus was awarded in the form of shares with no voluntary deferral and no matching shares. Awards of deferred shares under the ABP are conditional on the participants remaining in the employment of a participating company or leaving for a qualifying reason as set out in the plan rules. Participation in the ABP is at the discretion of the Remuneration Committee. The number of shares is calculated by dividing a specific percentage of the participant s annual performance-related bonus by the middle market quoted prices on the three consecutive dealing days immediately preceding the date of grant. A number of executives participated in the plan during the year, and conditional rights over 340,924 (2011 528,213) shares were awarded to participants.

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**Long Term Incentive Plan**

The Long Term Incentive Plan ( LTIP ) allows Executive Directors and eligible employees to receive share awards, subject to the achievement of performance conditions, set by the Remuneration Committee, which are normally measured over a three-year period. Awards are normally made annually and, except in exceptional circumstances, will not exceed three times salary for Executive Directors and four times salary in the case of other eligible employees. During 2012, conditional rights over 2,698,714 (2011 3,257,364) shares were awarded to employees under the plan. The plan provides for the grant of nil cost options to participants as an alternative to conditional share awards.

**Executive Share Option Plan**

For options granted, the option price is not less than the market value of an ordinary share, or the nominal value if higher. The market value is the quoted price on the business day preceding the date of grant, or the average of the middle market quoted prices on the three consecutive dealing days immediately preceding the date of grant. A performance condition has to be met before options can be exercised. The performance condition is set by the Remuneration Committee. The plan was not operated during 2012 and no options were granted in the year under the plan. The latest date that any options currently outstanding may be exercised is April 4, 2015.

**Options and ordinary shares held by Directors**

Details of the Directors interests in the Company s shares are set out on page 66 and pages F-47 to F-49.

**BOARD PRACTICES**

**Contracts of service**

The Remuneration Committee s policy is for Executive Directors to have rolling contracts with a notice period of 12 months. Richard Solomons, Tom Singer, Kirk Kinsell and Tracy Robbins have service agreements with a notice period of 12 months. All new appointments will have 12-month notice periods, unless, on an exceptional basis to complete an external recruitment successfully, a longer initial notice period reducing to 12 months is used, in accordance with the UK Corporate Governance Code.

Non-Executive Directors have letters of appointment. Patrick Cescau was appointed as Non-Executive Chairman on January 1, 2013 following the retirement of David Webster on December 31, 2012. David Webster s appointment as Non-executive Chairman, effective from January 1, 2004, was subject to six months notice. Patrick Cescau s appointment as Non-Executive Chairman, effective from January 1, 2013, is subject to 12 months notice.

David Kappler signed a letter of appointment effective from his date of original appointment to the Board on June 21, 2004. This was also renewed, effective from June 27, 2005. Jennifer Laing and Jonathan Linen signed letters of appointment effective from their appointment dates, respectively August 25, 2005 and December 1, 2005. Ying Yeh signed a letter of appointment effective from her appointment date of December 1, 2007. Dale Morrison signed a letter of appointment effective from his appointment date of June 1, 2011. Luke Mayhew signed a letter of appointment effective from his appointment date of July 1, 2011.

**Directors contracts**

| Directors | Contract effective date | Unexpired term/ notice period |
|---|---|---|
| Richard Solomons | July 1, 2011 | 12 months |
| Kirk Kinsell | August 1, 2010 | 12 months |
| Tracy Robbins | August 9, 2011 | 12 months |
| Tom Singer | September 26, 2011 | 12 months |

See Note 3 of Notes to the Consolidated Financial Statements for details of Directors service contracts.

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**Payments on termination**

No provisions for compensation for termination following change of control, nor for liquidated damages of any kind, are included in the current Directors contracts. In the event of any early termination of an Executive Director s contract the policy is to seek to minimize any liability.

Upon retirement, and under certain other specified circumstances on termination of their employment, a Director will become eligible to receive benefit from their participation in a Company pension plan. See Note 3 of Notes to the Consolidated Financial Statements for details of Directors pension entitlements at December 31, 2012.

**Committees**

Each Committee of the Board has written terms of reference which are approved by the Board and subject to review every year. These are available on the Company s website www.ihgplc.com/investors under corporate governance/committees or from the Company Secretary s office upon request. During the year, the terms of reference of all of the Committees of the Board were reviewed against the latest best practice guidance and the UK Corporate Governance Code ( Code ). As a result, some minor amendments in respect of the Code were made to update the Audit and Remuneration Committee s terms of reference.

***Executive Committee***

Its role is to consider and manage a range of important strategic and business issues facing the Group. Amongst many other things it is responsible for monitoring the performance of the business. It is authorized to approve capital and revenue investment within levels agreed by the Board.

Governance: The Committee is chaired by the Chief Executive and usually meets monthly. Members of the Committee comprise the Executive Directors and the most senior executives from the Group. The Committee recommends to the Board significant decisions which require its approval.

***Audit Committee***

The Audit Committee is chaired by David Kappler who has recent and relevant financial experience. During 2012, the other Committee members were Graham Allan (until his retirement on June 15, 2012), Jennifer Laing and Dale Morrison. All Audit Committee members are independent.

The Committee s key responsibilities are set out below:

- to review the integrity of the Company s internal financial controls, internal controls and risk management systems, as well as review reports from management, Global Internal Audit ( GIA ) and the external auditors (Ernst & Young LLP ( E&Y ));

- to review the Group s processes for detecting and addressing fraud, misconduct and control weaknesses and consider the response to any such occurrence, including overseeing the whistleblowing process;

- to review and maintain the role and effectiveness of the internal audit function;

- to oversee the Group s relations with our external auditors and make recommendations on their appointment, reappointment, removal and independence;

- to pre-approve the external auditor s non-audit work and associated fees; and to oversee the Group s Code of Ethics and Business Conduct and associated procedures for monitoring adherence.

The Committee was in place throughout 2012. The Committee had the opportunity to meet with the internal and external auditors on at least four occasions in the year without the presence of management.

The Board is satisfied that David Kappler has recent and relevant financial experience as a qualified accountant and former Chief Financial Officer of Cadbury Schweppes plc. At the invitation of the Committee, the Chief Executive, Chief Financial Officer, Head of GIA and external auditors attend meetings.

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E&Y have been the Group s independent external auditors since 2003. To ensure the auditor s independence is safeguarded, lead audit partners rotate every five years. In 2011 the lead audit partner was rotated. The Committee reviews the relationship the Group has with E&Y annually and for the year ended December 31, 2012, the Committee was satisfied with the independence, objectivity and effectiveness of the relationship with E&Y as the external auditors.

A key factor that may impair the external auditors independence is a lack of control over the volume of non-audit services. To address this issue all proposals for non-audit work are subject to pre-approved limits and additionally there is a prohibition on the undertaking of certain services. The Committee is aware of, and sensitive to, investor body guidelines on non-audit fees.

The Head of GIA is responsible for reporting and ensuring findings of internal audit work are brought to the attention of local management and the Committee as appropriate. During 2012 GIA operated in all the Group s principal regions.

***Remuneration Committee***

The Remuneration Committee, chaired by Luke Mayhew, also comprises the following independent Non-Executive Directors: David Kappler, Jonathan Linen and Ying Yeh. The Remuneration Committee agrees, on behalf of the Board, all aspects of the remuneration of the Executive Directors and the Executive Committee members, and agrees the strategy, direction and policy for the remuneration of other senior executives who have a significant influence over the Company s ability to meet its strategic objectives.

***Nomination Committee***

The Nomination Committee comprises the Chairman of the Board and all the Non-Executive Directors. It is chaired by the Chairman of the Board except when matters relating to this position are discussed, in which case it is chaired by an independent Non-Executive Director. The Committee leads the process for Board appointments and nominates candidates for approval by the Board. The balance of skills, experience, independence and knowledge of Board members is evaluated in order to define the requirements for a particular appointment. The Committee generally engages external consultants to advise on candidates for Board appointments and appointments are made on merit, against objective criteria, including ability to commit time, and with due regard for the benefits of diversity, including gender. The Committee also has responsibility for succession planning and assists in identifying and developing the role of the Senior Independent Director.

The Board plans for its own succession with the support of the Committee. Independent consultants are engaged for all Non-Executive Director appointment searches. The Committee remains focused, on behalf of the Board, on Board succession planning for both Executive and Non-Executive Directors. By way of example, since 2008 eight Directors have joined the Board and seven have left. During 2012, the Committee also considered a more detailed review of the talent pool within the business, looking to future succession planning for Executive Directors.

***Corporate Responsibility Committee***

The Corporate Responsibility Committee is chaired by Jennifer Laing. During 2012 the other Committee members were Graham Allan (until his retirement on June 15, 2012), Luke Mayhew, Dale Morrison from November 2, 2012, Richard Solomons and Ying Yeh. The Corporate Responsibility Committee ensures that the Company has in place the right policies, management, measurement systems and key programs to enable it to deliver against its Corporate Responsibility strategy.

***Disclosure Committee***

Its duties include ensuring that information required to be disclosed in reports pursuant to UK and US accounting, statutory or listing requirements, fairly represents the Group s position in all material respects.

Governance: The Committee is chaired by the Group s Financial Controller. Members of the Committee comprise the Company Secretary and other senior executives. The Committee reports to the Chief Executive, the Chief Financial Officer and to the Audit Committee.

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*General Purposes Committee*

The Committee 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.

Governance: The Committee comprises any one Executive Committee member together with a senior officer from an agreed and restricted list of senior executives. It is always chaired by an Executive Committee member and the other Executive Directors are notified in advance of the business of the meeting.

A description of the significant ways in which the Company s actual corporate governance practices differ from the New York Stock Exchange corporate governance requirements followed by US companies can be found on page 85.

**EMPLOYEES**

The Group employed 7,981 people worldwide in the year ended December 31, 2012 whose costs were borne by the Group. Of these, 94% were employed on a full-time basis and 6% were employed on a part-time basis.

The table below analyzes the geographic distribution of the average number of employees for the last three fiscal periods.

| | Americas | Europe | AMEA | Greater China | Central | Total |
|---|---|---|---|---|---|---|
| 2012 | 2,552 | 1,866 | 1,195 | 1,051 | 1,317 | 7,981 |
| 2011 | 2,895 | 1,574 | 1,195 | 1,000 | 1,292 | 7,956 |
| 2010 | 3,309 | 1,206 | 1,142 | 964 | 1,237 | 7,858 |

The costs of the above employees are borne by the Group. In addition, the Group employs 5,018 (2011 4,462, 2010 4,489) people who work in managed hotels or directly on behalf of the System Fund and whose costs are borne by those hotels or by the Fund.

When the Group s entire estate is taken into account (including employees working in the franchised and managed hotels who are not employed by IHG) over 350,000 people worked globally across the Group s brands as at December 31, 2012.

Under EU law, many employees of Group companies are now covered by the Working Time Regulations which came into force in the United Kingdom on October 1, 1998. These regulations implemented the European Working Time Directive and parts of the Young Workers Directive, and lay down rights and protections for employees in areas such as maximum working hours, minimum rest time, minimum days off and paid leave.

In the United Kingdom there is in place a national minimum wage under the National Minimum Wage Act. At December 31, 2012, the minimum wage for individuals between 18 and under the age of 21 was £4.98 per hour and £6.19 per hour for individuals age 21 and above. This particularly impacts businesses in the hospitality and retailing sectors. Compliance with the National Minimum Wage Act is being monitored by the Low Pay Commission, an independent statutory body established by the UK Government.

Less than 5% of the Group s UK employees are covered by collective bargaining agreements with trade unions.

Continual attention is paid to the external market in order to ensure that terms of employment are appropriate. The Group believes the Group companies will be able to conduct their relationships with trade unions and employees in a satisfactory manner.

**SHARE-BASED COMPENSATION**

During 2012, conditional rights over 2,698,714 shares were awarded to employees under the Long Term Incentive Plan and 340,924 shares were awarded to employees under the Annual Bonus Plan. No awards were granted under the Executive Share Option Plan. Details regarding the option pricing model and assumptions used to determine the fair value of the awards is included in Note 26 of Notes to the Consolidated Financial Statements.

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**SHARE OWNERSHIP**

The interests of the Directors and officers of the Group at March 21, 2013 were:

| Directors | Ordinary shares of 14 $^{194}/_{329}$ pence | % of shares outstanding[3] |
|---|---|---|
| Patrick Cescau | Nil | N/A |
| David Kappler | 1,308 | N/A |
| Kirk Kinsell | 405,281[1] | 0.14 |
| Jennifer Laing | 3,148 | N/A |
| Jonathan Linen | 6,853[2] | N/A |
| Luke Mayhew | 1,866 | N/A |
| Dale Morrison | 4,233[2] | N/A |
| Tracy Robbins | 256,126 | N/A |
| Tom Singer | 228,696 | N/A |
| Richard Solomons | 983,092 | 0.35 |
| Ying Yeh | Nil | N/A |
| **Officers** | | |
| Keith Barr | 127,756 | N/A |
| Angela Brav | 139,978 | N/A |
| Larry Light | Nil | N/A |
| Eric Pearson | 220,291 | N/A |
| Jan Smits | 216,272 | N/A |
| George Turner | 117,397 | N/A |

(1) 594 of which are held as ADSs.

(2) All of which are held as ADSs.

(3) Where no figure is given the shareholding represents less than 0.1% of shares outstanding.

The above shareholdings are all beneficial interests. The percentage of ordinary share capital owned by each of the Directors is negligible.

The Directors interests as at December 31, 2012 in options to subscribe for shares in InterContinental Hotels Group PLC are set out on page F-49.

The Directors do not have different voting rights from other shareholders of the Company.

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**ITEM 7.** ***MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS***
**MAJOR SHAREHOLDERS**

As far as is known to management, IHG is not directly or indirectly owned or controlled by another corporation or by any government. As at the dates shown, the Company had been notified, in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority, of the following significant holdings of voting rights in its ordinary shares:

| Identity of person or group | March 21, 2013* Number of shares/ADSs | Percent of class | March 21, 2012 Number of shares/ADSs | Percent of class | March 25, 2011 Number of shares/ADSs | Percent of class |
|---|---|---|---|---|---|---|
| Southeastern Asset Management, Inc. | N/A | N/A | 38,519,075 | 13.23% | N/A | N/A |
| FIL Limited (Fidelity International) | N/A | N/A | 13,850,157 | 4.76% | N/A | N/A |
| Cedar Rock Capital Limited | 14,923,417 | 5.56% | 14,923,417 | 5.13% | 14,923,417 | 5.13% |
| JP Morgan Asset Management Holdings Inc. | N/A | N/A | N/A | N/A | 14,592,363 | 5.01% |
| Blackrock, Inc. | 14,505,612 | 5.40% | 14,505,612 | 4.98% | 14,505,612 | 4.98% |
| Capital Research and Management Company. | N/A | N/A | 14,495,664 | 4.98% | 14,495,664 | 4.98% |
| Legal & General Group Plc | 11,336,113 | 4.22% | 11,336,113 | 3.89% | N/A | N/A |
| Lloyds Banking Group plc | N/A | N/A | 13,619,563 | 4.68% | N/A | N/A |

* The figures do not reflect the share consolidation on a 14 for 15 basis or the $0.5 billion share buyback program announced on August 7, 2012.

The Company s major shareholders do not have different voting rights from other shareholders of the Company. The Company does not know of any arrangements the operation of which may result in a change in its control.

As of March 21, 2013, 16,715,367 ADSs equivalent to 16,715,367 ordinary shares, or approximately 6.23% of the total ordinary shares in issue, were outstanding and were held by 787 holders. Since certain ordinary shares are registered in the names of nominees, the number of shareholders of record may not be representative of the number of beneficial owners.

As of March 21, 2013, there were a total of 49,290 record holders of ordinary shares, of whom 328 had registered addresses in the United States and held a total of 1,353,107 ordinary shares (0.50% of the total issued).

**RELATED PARTY TRANSACTIONS**

Other than those disclosed in Note 30 of Notes to the Consolidated Financial Statements, the Company has not entered into any related party transactions or loans for the period beginning January 1, 2012 up to March 21, 2013.

**ITEM 8.** ***FINANCIAL INFORMATION***
**CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

**Financial Statements**

See Item 18. Financial Statements .

**Legal proceedings**

Group companies have extensive operations in the United Kingdom, as well as internationally, and are involved in a number of legal claims and proceedings incidental to those operations. It is the Company s view that such proceedings, either individually or in the aggregate, have not in the recent past and are not likely to have a significant effect on the Group  s financial position or profitability.

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Notwithstanding the above, the Company notes the matters set out below. Litigation is inherently unpredictable and as at March 26, 2013, the outcome of these matters cannot be reasonably determined.

1. On April 20, 2012, the owner of a former hotel in China filed an arbitration petition with the China International Economic Trade Arbitration Committee against a Group company, Holiday Inns (China) Limited ( HICL ) seeking compensation for losses relating to the alleged mismanagement of the hotel. HICL subsequently filed a counterclaim. The Group intends to defend against this claim vigorously and pursue its counterclaim. As at March 26, 2013, it is not possible to determine whether any loss is probable or to estimate the amount of any loss.

2. On July 31, 2012, the UK s Office of Fair Trading (the OFT ) issued a Statement of Objections alleging that the Company (together with Booking.com B.V. and Expedia, Inc.) infringed competition law in relation to the online supply of room only hotel accommodation by online travel agents.

The Company is cooperating fully with the investigation. The OFT has not yet reached a decision as to whether competition law has been breached.

3. On August 10, 2012, the former owner of a hotel in China filed an arbitration notice with the International Economic and Trade Arbitration Commission Shanghai Committee ( CIETAC Shanghai ) containing numerous allegations in connection with the termination of a hotel management agreement and seeking damages from a Group company, Inter-Continental Hotels Corporation ( IHC ). IHC has subsequently filed with the International Economic and Trade Arbitration Commission in Beijing ( CIETAC Beijing ) a parallel claim against the owner for breach of contract.

On March 22, 2013, CIETAC Shanghai ruled in the owner s favor and granted an award of RMB 150,379,000 (approximately $24 million) against IHC. IHC s parallel claim against the owner has not yet been determined. IHC intends to pursue all available means of appeal against CIETAC Shanghai s ruling. IHC also intends to pursue vigorously its parallel claim in CIETAC Beijing. $24 million is included in contingent liabilities in Note 29 of the Consolidated Financial Statements in respect of the award against IHC.

4. On August 20, 2012, two plaintiffs filed a class action complaint in California against several online travel companies and hotel companies, including a Group company, InterContinental Hotels Group Resources, Inc. in connection with alleged anti-competitive practices. Several similar complaints have since been filed across the US by other plaintiffs alleging similar claims. All of these cases have been centralized in the Northern District of Texas, and consolidated for the purposes of pretrial proceedings (with the exception of cases which have been voluntarily dismissed). It is not possible to determine whether any loss is probable or to estimate the amount of any loss.

The Group intends to defend against these claims vigorously. As at March 26, 2013, the outcome of these matters cannot be reasonably determined.

**Dividends**

See Item 3. Key information Dividends .

**SIGNIFICANT CHANGES**

Except as otherwise stated in this Form 20-F, there have been no significant changes subsequent to December 31, 2012.

**ITEM 9.** ***THE OFFER AND LISTING***

The principal trading market for the Company s ordinary shares is the London Stock Exchange on which InterContinental Hotels Group PLC shares are traded. The ordinary shares are also listed on the New York Stock Exchange trading in the form of ADSs evidenced by ADRs. Each ADS represents one ordinary share. InterContinental Hotels Group PLC has a sponsored ADR facility with JP Morgan Chase Bank, N.A. as Depositary.

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The following tables show, for the fiscal periods indicated, the reported high and low middle market quotations (which represent an average of closing bid and ask prices) for the ordinary shares on the London Stock Exchange, as derived from the Daily Official List of the UK Listing Authority, and the highest and lowest sales prices of the ADSs as reported on the New York Stock Exchange composite tape.

| | £ per ordinary share | | $ per ADS | |
|---|---|---|---|---|
| **Year ended December 31,** | **High** | **Low** | **High** | **Low** |
| 2008 | 8.84 | 4.48 | 17.40 | 6.52 |
| 2009 | 9.04 | 4.46 | 14.67 | 6.04 |
| 2010 | 12.66 | 8.87 | 20.04 | 13.84 |
| 2011 | 14.35 | 9.55 | 23.28 | 15.27 |
| 2012 | 17.25 | 11.57 | 27.82 | 17.99 |

| | £ per ordinary share | | $ per ADS | |
|---|---|---|---|---|
| **Year ended December 31,** | **High** | **Low** | **High** | **Low** |
| **2011** | | | | |
| First quarter | 14.35 | 12.28 | 23.28 | 19.60 |
| Second quarter | 13.14 | 11.65 | 22.10 | 18.76 |
| Third quarter | 13.31 | 9.55 | 21.47 | 15.67 |
| Fourth quarter | 11.91 | 9.73 | 19.21 | 15.27 |
| **2012** | | | | |
| First quarter | 14.97 | 11.57 | 23.67 | 17.99 |
| Second quarter | 15.73 | 13.95 | 24.70 | 21.84 |
| Third quarter | 17.25 | 15.02 | 27.02 | 23.16 |
| Fourth quarter | 17.10 | 15.24 | 27.82 | 24.50 |
| **2013** | | | | |
| First quarter (through to March 21, 2013) | 20.22 | 17.07 | 30.64 | 27.82 |

| | £ per ordinary share | | $ per ADS | |
|---|---|---|---|---|
| **Month ended** | **High** | **Low** | **High** | **Low** |
| September 2012 | 16.50 | 15.96 | 26.72 | 25.37 |
| October 2012 | 16.69 | 15.30 | 26.93 | 24.62 |
| November 2012 | 16.91 | 15.24 | 27.16 | 24.50 |
| December 2012 | 17.10 | 16.44 | 27.82 | 26.38 |
| January 2013 | 18.80 | 17.07 | 29.74 | 27.82 |
| February 2013 | 19.89 | 18.94 | 30.64 | 28.59 |
| March 2013 (through to March 21, 2013) | 20.22 | 19.47 | 30.36 | 29.32 |

Fluctuations in the exchange rates between sterling and the US dollar will affect the dollar equivalent of the sterling price of the ordinary shares on the London Stock Exchange and, as a result, are likely to affect the market price of ADSs.

**PLAN OF DISTRIBUTION**

Not applicable.

**SELLING SHAREHOLDERS**

Not applicable.

**DILUTION**

Not applicable.

**EXPENSES OF THE ISSUE**

Not applicable.

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**ITEM 10.** *ADDITIONAL INFORMATION*
**ARTICLES OF ASSOCIATION**

The Company s articles of association were adopted at the Annual General Meeting held on May 28, 2010. The following summarizes material rights of holders of the Company s ordinary shares under the material provisions of the Company s articles of association and English law. This summary is qualified in its entirety by reference to the Companies Act and the Company s articles of association. The Company s articles of association are filed as an exhibit to this Form 20-F.

The Company s shares may be held in certificated or uncertificated form. No holder of the Company s shares will be required to make additional contributions of capital in respect of the Company s shares in the future.

In the following description, a shareholder is the person registered in the Company s register of members as the holder of the relevant share.

**Principal objects**

The Company is incorporated under the name InterContinental Hotels Group PLC and is registered in England and Wales with registered number 5134420. The Company s articles of association do not restrict its objects.

**Directors**

Under the Company s articles of association, a director may not vote in respect of any proposal in which he, or any person connected with him, has any material interest other than by virtue of his interests in securities of, or otherwise in or through, the Company. This is subject to certain exceptions, including in relation to proposals (a) indemnifying him in respect of obligations incurred on behalf of the Company, (b) indemnifying a third-party in respect of obligations of the Company for which the director has assumed responsibility under an indemnity or guarantee, (c) relating to an offer of securities in which he will be interested as an underwriter, (d) concerning another body corporate in which the director is beneficially interested in less than one percent of the issued shares of any class of shares of such a body corporate, (e) relating to an employee benefit in which the director will share equally with other employees and (f) relating to liability insurance that the Company is empowered to purchase for the benefit of directors of the Company in respect of actions undertaken as directors (or officers) of the Company.

The directors are empowered to exercise all the powers of the Company to borrow money, subject to the limitation that the aggregate amount of all moneys borrowed by the Company and its subsidiaries shall not exceed an amount equal to three times the Company s share capital and consolidated reserves, unless sanctioned by an ordinary resolution of the Company.

Directors are not required to hold any shares of the Company by way of qualification.

**Rights attaching to shares**

Under English law, dividends are payable on the Company s ordinary shares only out of profits available for distribution, as determined in accordance with accounting principles generally accepted in the United Kingdom and by the Companies Act. Holders of the Company s ordinary shares are entitled to receive such dividends as may be declared by the shareholders in general meeting, rateably according to the amounts paid up on such shares, provided that the dividend cannot exceed the amount recommended by the directors.

The Company s Board of directors may pay shareholders such interim dividends as appear to them to be justified by the Company s financial position. If authorized by an ordinary resolution of the shareholders, the Board of directors may also direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid up shares or debentures of any other company).

Any dividend unclaimed after six years from the date the dividend was declared, or became due for payment, will be forfeited and will revert to the Company.

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**Voting rights**

Voting at any general meeting of shareholders is by a show of hands unless a poll, which is a written vote, is duly demanded. On a show of hands, every shareholder who is present in person or by proxy at a general meeting has one vote regardless of the number of shares held. On a poll, every shareholder who is present in person or by proxy has one vote for every share held by that shareholder. A poll may be demanded by any of the following:

- the chairman of the meeting;
- at least five shareholders present in person or by proxy and entitled to vote at the meeting;
- any shareholder or shareholders present in person or by proxy representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to vote at the meeting; or
- any shareholder or shareholders present in person or by proxy holding shares conferring a right to vote at the meeting on which there have been paid-up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A proxy form will be treated as giving the proxy the authority to demand a poll, or to join others in demanding one.

The necessary quorum for a general meeting is three persons carrying a right to vote upon the business to be transacted, whether present in person or by proxy.

Matters are transacted at general meetings of the Company by the proposing and passing of resolutions, of which there are two kinds:

- an ordinary resolution, which includes resolutions for the election of directors, the approval of Financial Statements, the cumulative annual payment of dividends, the appointment of auditors, the increase of authorized share capital or the grant of authority to allot shares; and
- a special resolution, which includes resolutions amending the Company s articles of association, disapplying statutory pre-emption rights, modifying the rights of any class of the Company s shares at a meeting of the holders of such class or relating to certain matters concerning the Company s winding up or changing the Company s name.

An ordinary resolution requires the affirmative vote of a majority of the votes of those persons voting at a meeting at which there is a quorum.

Special resolutions require the affirmative vote of not less than three-fourths of the persons voting at a meeting at which there is a quorum.

Annual General Meetings must be convened upon advance written notice of 21 days. Other meetings must be convened upon advance written notice of 14 days. The days of delivery or receipt of the notice are not included. The notice must specify the nature of the business to be transacted. The Board of directors may if they choose make arrangements for shareholders who are unable to attend the place of the meeting to participate at other places.

The articles of association specify that each Director shall retire every three years at the Annual General Meeting and unless otherwise decided by the Directors, shall be eligible for re-election. However, the UK Corporate Governance Code recommends that all Directors of FTSE 350 companies submit themselves for election or re-election (as appropriate) by shareholders every year. Therefore, all Directors will retire and offer themselves for election or re-election at the 2013 Annual General Meeting.

**Variation of rights**

If, at any time, the Company s share capital is divided into different classes of shares, the rights attached to any class may be varied, subject to the provisions of the Companies Act, with the consent in writing of holders of three-fourths in nominal value of the issued shares of that class or upon the adoption of a special resolution passed at a separate meeting of the holders of the shares of that class. At every such separate meeting, all of the provisions of the articles of association relating to proceedings at a general meeting apply, except that the quorum is to be the number of persons (which must be two or more) who hold or represent by proxy not less than one-third in nominal value of the issued shares of the class.

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**Rights in a winding-up**

Except as the Company s shareholders have agreed or may otherwise agree, upon the Company s winding up, the balance of assets available for distribution:

- after the payment of all creditors including certain preferential creditors, whether statutorily preferred creditors or normal creditors; and
- subject to any special rights attaching to any class of shares;

is to be distributed among the holders of ordinary shares according to the amounts paid-up on the shares held by them. This distribution is generally to be made in cash. A liquidator may, however, upon the adoption of a special resolution of the shareholders, divide among the shareholders the whole or any part of the Company s assets in kind.

**Limitations on voting and shareholding**

There are no limitations imposed by English law or the Company s articles of association on the right of non-residents or foreign persons to hold or vote the Company s ordinary shares or ADSs, other than the limitations that would generally apply to all of the Company s shareholders.

**MATERIAL CONTRACTS**

The following contracts have been entered into otherwise than in the course of ordinary business by members of the Group either (i) in the two years immediately preceding the date of this document in the case of contracts which are or may be material or (ii) which contain provisions under which any Group member has any obligation or entitlement which is material to the Group as at the date of this document. To the extent that these agreements include representations, warranties and indemnities, such provisions are considered standard in an agreement of that nature, save to the extent identified below.

**£750,000,000 Euro Medium Term Note Program**

In 2012, the Group updated its Euro Medium Term Note program (the Program ) and issued a tranche of £400,000,000 3.875% notes due November 28, 2022.

1. On November 9, 2012, an amended and restated trust deed (the Trust Deed ) was executed by InterContinental Hotels Group PLC as issuer (the Issuer ), Six Continents Limited and InterContinental Hotels Limited as guarantors (the Guarantors ) and HSBC Corporate Trustee Company (UK) Limited as trustee (the Trustee ), pursuant to which the trust deed dated November 29, 2009, as supplemented by the first supplemental trust deed dated July 7, 2011 between the same parties relating to the Program was amended and restated. Under the Trust Deed, the Issuer may issue notes ( Notes ) unconditionally and irrevocably guaranteed by the Guarantors, up to a maximum nominal amount from time to time outstanding of £750,000,000 (or its equivalent in other currencies).

Notes are to be issued in series (each a Series ) in bearer form. Each Series may comprise one or more tranches (each a Tranche ) issued on different issue dates. Each Tranche of Notes will be issued on the terms and conditions set out in the updated Base Prospectus dated November 9, 2012 (the Base Prospectus ) as amended and/or supplemented by a document setting out the final terms (the Final Terms ) of such Tranche or in a separate prospectus specific to such Tranche (the Drawdown Prospectus ).

Under the Trust Deed, each of the Issuer and the Guarantors has given certain customary covenants in favor of the Trustee.

Final Terms were issued (pursuant to the previous base prospectus dated November 27, 2009) on December 9, 2009 in respect of the issue of a Tranche of £250,000,000 6% Notes due December 9, 2016 (the 2009 Issuance ).

Final Terms were issued pursuant to the Base Prospectus on November 26, 2012 in respect of the issue of a Tranche of £400,000,000 3.875% Notes due November 28, 2022 (the 2012 Issuance ).

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The Final Terms issued under each of the 2009 Issuance and the 2012 Issuance provide that the holders of the Notes have the right to repayment if the Notes (a) become non-investment grade within the period commencing on the date of announcement of a change of control and ending 90 days after the change of control (the Change of Control Period ) and are not subsequently, within the Change of Control Period, reinstated to investment grade; (b) are downgraded from a non-investment grade and are not reinstated to its earlier credit rating or better within the Change of Control Period; or (c) are not credit rated and do not become investment-grade credit rated by the end of the Change of Control Period.

Further details of the Program and the Notes are set out in the Base Prospectus, a copy of which is available (as is a copy of each of the Final Terms dated December 7, 2009 relating to the 2009 Issuance and the Final Terms dated November 26, 2012 relating to the 2012 Issuance) on the Company s website at www.ihgplc.com. The Notes issued pursuant to the 2009 Issuance and the Notes issued pursuant to the 2012 Issuance are referred to as £250 million 6% bonds and the £400 million 3.875% bonds respectively in the Consolidated Financial Statements.

2. On November 27, 2009, the Issuer and the Guarantors entered into an agency agreement (the Agency Agreement ) with HSBC Bank PLC as principal paying agent and the Trustee, pursuant to which the Issuer and the Guarantors appointed paying agents and calculation agents in connection with the Program and the Notes.

Under the Agency Agreement, each of the Issuer and the Guarantors has given a customary indemnity in favor of the paying agents and the calculation agents. There was no change to the Agency Agreement in 2011 or 2012.

3. On November 9, 2012, the Issuer and the Guarantors entered into a dealer agreement (the Dealer Agreement ) with HSBC Bank PLC as arranger (the Arranger ) and Citigroup Global Markets Limited, HSBC Bank PLC, Lloyds TSB Bank PLC, Merrill Lynch International, Mitsubishi UFJ Securities International PLC and The Royal Bank of Scotland PLC as dealers (the Dealers ), pursuant to which the Dealers were appointed in connection with the Program and the Notes.

Under the Dealer Agreement, each of the Issuer and the Guarantors has given customary warranties and indemnities in favor of the Dealers.

**Syndicated Facility**

On November 7, 2011, the Company signed the Syndicated Facility, which comprises a five-year $1,070 million bank facility agreement with The Royal Bank of Scotland plc, NB International Finance B.V., Citigroup Global Markets Limited, HSBC Bank plc, Lloyds TSB Bank plc and The Bank of Tokyo-Mitsubishi UFJ, Ltd., all acting as mandated lead arrangers and Banc of America Securities Limited as facility agent.

The interest margin payable on borrowings under the Syndicated Facility is linked to IHG s consolidated net debt to consolidated EBITDA ratio. The margin can vary between LIBOR + 0.90% and LIBOR + 1.70% depending on the level of the ratio. The facility was undrawn at December 31, 2012.

**Disposal to Westbridge**

On March 10, 2006 a Sale and Purchase Agreement ( SPA ) was entered into between BHR Luxembourg S.à.r.l. and other wholly owned subsidiaries of IHG as sellers (BHR Luxembourg S.à.r.l. being the principal seller) and Cooperatie Westbridge Europe I U.A. as purchaser and Westbridge Hospitality Fund L.P. as the purchaser s guarantor. Under the SPA the sellers agreed to sell 23 hotels situated across Europe in France, Germany, Belgium, the Netherlands, Austria, Italy and Spain.

The agreed sale price was 352 million. IHG s share of the proceeds was 345.2 million (before transaction costs), in cash and the assumption of debt, and the balance of 6.8 million relates to third-party minority interests.

The hotels continue to be operated by the purchaser under the same brands under 15-year franchise agreements.

Under the SPA the sellers gave certain customary warranties and indemnities to the purchaser.

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**Disposal to Morgan Stanley Real Estate Funds**

On July 13, 2006 a sale and purchase agreement ( SPA ) was entered into between BHR Holdings BV and other wholly owned subsidiaries of IHG as sellers (BHR Holdings BV being the principal seller) and a subsidiary of Morgan Stanley Real Estate Funds MSREF VI Danube BV. Under the SPA the sellers agreed to sell seven InterContinental branded hotels situated across Europe in France, Germany, the Netherlands, Austria, Hungary, Italy and Spain.

The agreed sale price for the seven hotels was 634 million. The Group retained 30-year management contracts on the hotels, with two ten-year renewals at the Group s discretion, giving a total potential contract length of 50 years.

Under the SPA the sellers gave certain customary warranties and indemnities to the purchaser.

**EXCHANGE CONTROLS**

There are no restrictions on dividend payments to US citizens.

Although there are currently no UK foreign exchange control restrictions on the export or import of the capital or the payment of dividends on the ordinary shares or the ADSs, from time to time English law imposes restrictions on the payment of dividends to persons resident (or treated as so resident) in or governments of (or persons exercising public functions in) certain countries (each of the foregoing, a Prohibited Person ).

There are no restrictions under the articles of association or under English law that limit the right of non-resident or foreign owners to hold or vote the ordinary shares. However, under current English law, ordinary shares or ADSs may not be owned by a Prohibited Person. In addition, the Company s articles of association contain certain limitations on the voting and other rights of any holder of ordinary shares, whose holding may, in the opinion of the directors, result in the loss or failure to secure the reinstatement of any license or franchise from any US governmental agency held by Six Continents Hotels Inc or any subsidiary thereof.

**TAXATION**

This section provides a summary of material US federal income tax and UK tax consequences to US holders, as defined below, of owning and disposing of ordinary shares or ADSs of the Company. This section addresses only the tax position of a US holder who holds ordinary shares or ADSs as capital assets. This section does not, however, discuss the provisions of the Internal Revenue Code of 1986, as amended (the Code ) known as the Medicare Contribution tax or the tax consequences to holders subject to special rules, such as

- certain financial institutions;
- insurance companies;
- dealers and traders in securities who use a mark-to-market method of tax accounting;
- persons holding ordinary shares or ADSs as part of a hedge, straddle, conversion transaction, integrated transaction or wash sale or persons entering into a constructive sale with respect to the ordinary shares or ADSs;
- persons whose functional currency for US federal income tax purposes is not the US dollar;
- partnerships or other entities classified as partnerships for US federal income tax purposes;

persons liable for the alternative minimum tax;

tax-exempt organizations;

persons who acquired the Company s ADSs or ordinary shares pursuant to the exercise of any employee stock option or otherwise in connection with employment; or

holders that, directly or indirectly, hold 10% or more of the Company s voting stock.

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This section does not generally deal with the position of a US holder who is resident or, in the case of an individual, ordinarily resident in the UK for UK tax purposes or who is subject to UK taxation on capital gains or income by virtue of carrying on a trade, profession or vocation in the UK through a branch, agency or permanent establishment to which such ADSs or ordinary shares are attributable ( trading in the UK ).

As used herein, a US holder is a beneficial owner of ordinary shares or ADSs who is for US federal income tax purposes (i) a citizen or individual resident of the US, (ii) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; (iii) an estate whose income is subject to US federal income tax regardless of its source, or (iv) a trust if a US court can exercise primary supervision over the trust s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

This section is based on the Code, its legislative history, existing and proposed regulations, published rulings and court decisions, and on UK tax laws and the published practice of HM Revenue and Customs ( HMRC ), all as of the date hereof. These laws, and that practice, are subject to change, possibly on a retroactive basis.

This section is further based in part upon the representations of the Depositary and assumes that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. For US federal income tax purposes, an owner of ADRs evidencing ADSs will generally be treated as the owner of the underlying shares represented by those ADSs. In practice, HMRC will also regard holders of ADSs as the beneficial owners of the ordinary shares represented by those ADSs (although case law has cast some doubt on this). The discussion below assumes that HMRC s position is followed. Generally, exchanges of ordinary shares for ADRs, and ADRs for ordinary shares, will not be subject to US federal income tax or UK taxation on capital gains, although UK stamp duty reserve tax ( SDRT ) may arise as described below.

The US Treasury has expressed concerns that parties to whom American depositary shares are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by US holders of American depositary shares. Such actions would also be inconsistent with the claiming of the preferential rates of tax, described below, for qualified dividend income. Accordingly, the availability of the preferential rates of tax for qualified dividend income described below could be affected by actions taken by parties to whom the ADRs are pre-released.

The following discussion assumes that the Company is not, and will not become, a passive foreign investment company (a PFIC ), as described below.

*Investors should consult their own tax advisors regarding the US federal, state and local, the UK and other tax consequences of owning and disposing of shares and ADSs in their particular circumstances.*

**Taxation of dividends**

***United Kingdom Taxation***

Under current UK tax law, the Company will not be required to withhold tax at source from dividend payments it makes.

A US holder who is not resident for UK tax purposes in the UK and who is not trading in the UK will generally not be liable for UK taxation on dividends received in respect of the ADSs or ordinary shares.

***United States Federal Income Taxation***

A US holder is subject to US federal income taxation on the gross amount of any dividend paid by the Company out of its current or accumulated earnings and profits (as determined for US federal income tax purposes). Distributions in excess of the Company s current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a return of capital to the extent of the US holder s basis in the shares or ADSs and thereafter as capital gain. Because the Company has not historically maintained, and does not currently maintain, books in accordance with US tax principles, the Company does not expect to be in a position to determine whether any distribution will be in excess of the Company s current and accumulated earnings and profits as computed for US federal income tax purposes. As a result, the Company expects that amounts distributed will be reported to the Internal Revenue Service (the IRS ) as dividends.

Subject to applicable limitations and the discussion above regarding concerns expressed by the US Treasury, dividends paid to certain non-corporate US holders will be taxable at the preferential rates applicable to long-term capital gain if the dividends constitute qualified dividend income. The Company expects that dividends paid by the Company with respect to the shares or ADSs will constitute qualified dividend income. US holders should consult their own tax advisors to determine whether they are subject to any special rules that limit their ability to be taxed at these preferential rates.

Dividends must be included in income when the US holder, in the case of shares, or the Depositary, in the case of ADSs, actually or constructively receives the dividend, and will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. For foreign tax credit limitation purposes, dividends will generally be income from sources outside the United States.

The amount of any dividend paid in pounds will be the US dollar value of the sterling payments made, determined at the spot sterling/US dollar rate on the date the dividend distribution is includible in income, regardless of whether the payment is in fact converted into US dollars. If the dividend is converted into US dollars on the date of receipt, a US holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in income to the date the payment is converted into US dollars will be treated as ordinary income or loss and, for foreign tax credit limitation purposes, from sources within the United States.

**Taxation of Capital Gains**

***United Kingdom Taxation***

A US holder who is not resident or, in the case of an individual, ordinarily resident for UK tax purposes in the UK and who is not trading in the UK will not generally be liable for UK taxation on capital gains, or eligible for relief for allowable losses, realized or accrued on the sale or other disposal of ADSs or ordinary shares.

A US holder of ADSs or ordinary shares who is an individual and who, broadly, has temporarily ceased to be resident or ordinarily resident in the UK or has become temporarily treated as non-resident for UK tax purposes for a period of less than five years of assessment and who disposes of ordinary shares or ADSs during that period may, for the year of assessment when that individual becomes resident again in the UK, be liable to UK tax on capital gains (subject to any available exemption or relief), notwithstanding the fact that such US holder was not resident or ordinarily resident in the UK at the time of the sale or other disposal.

The concept of ordinary residence is proposed to be abolished with effect from 6 April 2013.

***United States Federal Income Taxation***

A US holder that sells or otherwise disposes of ordinary shares or ADSs will recognize a capital gain or loss for US federal income tax purposes equal to the difference between the amount realized and its tax basis in the ordinary shares or ADSs, each determined in US dollars. Such capital gain or loss will be long-term capital gain or loss where the holder has a holding period greater than one year. The capital gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. The deductibility of capital losses is subject to limitations.

**PFIC Rules**

The Company believes that it was not a PFIC for US federal income tax purposes for its 2012 taxable year. However, this conclusion is an annual factual determination and thus may be subject to change. If the Company were to be treated as a PFIC, gain realized on the sale or other disposition of ordinary shares or ADSs would in general not be treated as capital gain. Instead, gain would be treated as if the US holder had realized such gain ratably over the holding period for the ordinary shares or ADSs and, to the extent allocated to the taxable year of the sale or other exchange and to any year before the Company became a PFIC, would be taxed as ordinary income. The amount allocated to each other taxable year would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. In addition, similar rules would apply to any excess distribution received on the ordinary shares or ADSs (generally, the excess of any distribution received on the ordinary shares or ADSs during the taxable year over 125% of the average amount of distributions received during a specified prior period), and the preferential rates for qualified dividend income received by certain non-corporate US holders would not apply. Certain elections may be available (including a market-to-market election) to US holders that would result in alternative treatments of the ordinary shares or ADSs. If the Company were to be treated as a PFIC in any taxable year in which a US holder held ordinary shares or ADSs, a US holder may be required to file an annual report with the IRS containing such information as the Treasury Department may require.

**Additional Tax considerations**

***United States Backup Withholding and Information Reporting***

Payments of dividends and other proceeds with respect to ADSs and ordinary shares may be reported to the IRS and to the US holder. Backup withholding may apply to these reportable payments if the US holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its US federal income tax returns. Certain US holders (including, among others, corporations) are not subject to information reporting and backup withholding. The amount of any backup withholding from a payment to a US holder will be allowed as a credit against the holder s US federal income tax liability and may entitle the holder to a refund, provided that the required information is timely furnished to the IRS. US holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

***United Kingdom Inheritance Tax***

An individual who is neither domiciled nor deemed domiciled in the UK (under certain UK rules relating to previous domicile or long residence) is only chargeable to UK inheritance tax to the extent the individual owns assets situated in the UK. As a matter of UK law, it is not clear whether the situs of an ADS for UK inheritance tax purposes is determined by the place where the depositary is established and records the entitlements of the depositholders, or by the situs of the underlying share which the ADS represents, but the UK tax authorities are likely to take the view that the ADSs, as well as the ordinary shares, are UK situs assets.

However, an individual who is domiciled in the United States (for the purposes of the Estate and Gift Tax Convention) and is not a UK national as defined in the Convention will not be subject to UK inheritance tax (to the extent UK inheritance tax applies) in respect of the ordinary shares or ADSs on the individual s death or on a transfer of the ordinary shares or ADSs during their lifetime, provided that any applicable US federal gift or estate tax is paid, unless the ordinary shares or ADSs are part of the business property of a UK permanent establishment or pertain to a UK fixed base of an individual used for the performance of independent personal services. Where the ordinary shares or ADSs have been placed in trust by a settlor, they may be subject to UK inheritance tax unless, when the trust was created, the settlor was domiciled in the United States and was not a UK national. If no relief is given under the Convention, inheritance tax may be charged on the amount by which the value of the transferor s estate is reduced as a result of any transfer made by way of gift or other undervalue transfer by an individual, broadly within seven years of death, or on the death of an individual, and in certain other circumstances. Where the ordinary shares or ADSs are subject to both UK inheritance tax and to US federal gift or estate tax, the Estate and Gift Tax Convention generally provides for either a credit against US federal tax liabilities for UK inheritance tax paid or for a credit against UK inheritance tax liabilities for US federal tax paid, as the case may be.

***United Kingdom Stamp Duty and Stamp Duty Reserve Tax ( SDRT )***

Neither stamp duty nor SDRT will generally be payable in the UK on the purchase or transfer of an ADS, provided that the ADS and any separate instrument or written agreement of transfer are executed and remain at all times outside the UK. UK legislation does however provide for stamp duty (in the case of transfers) or SDRT to be payable at the rate of 1.5% on the amount or value of the consideration (or, in some cases, the value of the ordinary shares) where ordinary shares are issued or transferred to a person (or a nominee or of a person) whose business is or includes issuing depositary receipts or the provision of clearance services. In accordance with the terms of the deposit agreement, any tax or duty payable on deposits of ordinary shares by the depositary or by the custodian of the depositary will typically be charged to the party to whom ADSs are delivered against such deposits.

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Following litigation on the subject, HMRC has accepted that it will no longer seek to apply the 1.5% SDRT charge when new shares are issued to a clearance service or depositary receipt system on the basis that the charge is not compatible with EU law. In HMRC s view, the 1.5% SDRT or stamp duty charge will continue to apply to transfers of shares into a clearance service or depositary receipt system unless they are an integral part of an issue of share capital. This view is currently being challenged in further litigation. *Accordingly, specific professional advice should be sought before paying the 1.5% SDRT or stamp duty charge in any circumstances.*

A transfer of the underlying ordinary shares will generally be subject to stamp duty or SDRT, normally at the rate of 0.5% of the amount of value of the consideration (rounded up to the next multiple of £5 in the case of stamp duty). A transfer of ordinary shares from a nominee to its beneficial owner, including the transfer of underlying ordinary shares from the depositary to an ADS holder, under which no beneficial interest passes, will not be subject to stamp duty or SDRT.

**DOCUMENTS ON DISPLAY**

It is possible to read and copy documents referred to in this Annual Report on Form 20-F that have been filed with the SEC at the SEC s public reference room located at 100 F Street, NE Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The Company s SEC filings since May 22, 2002 are also publicly available through the SEC s website located at www.sec.gov.

**ITEM 11.** ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***
**Exchange and interest rate risk, and financial instruments**

The Group s treasury policy is to manage financial risks that arise in relation to underlying business needs. The activities of the treasury function are carried out in accordance with Board approved policies and are subject to regular audit. The treasury function does not operate as a profit center.

***Treasury risk management***

The treasury function seeks to reduce the financial risk of the Group and manages liquidity to meet all foreseeable cash needs. Treasury activities may include money market investments, spot and forward foreign exchange instruments, currency options, currency swaps, interest rate swaps and options and forward rate agreements. One of the primary objectives of the Group s treasury risk management policy is to mitigate the adverse impact of movements in interest rates and foreign exchange rates.

***Credit risk***

Credit risk on treasury transactions is minimized by operating a policy on the investment of surplus cash that generally restricts counterparties to those with an A credit rating or better or those providing adequate security.

Notwithstanding that counterparties must have an A credit rating or better, during periods of significant financial market turmoil, counterparty exposure limits are significantly reduced and counterparty credit exposure reviews are broadened to include the relative placing of credit default swap pricings.

The Group trades only with recognized, creditworthy third parties. It is the Group s policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In respect of credit risk arising from financial assets, the Group s exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Most of the Group s surplus funds are held in the United Kingdom or United States, although $7 million (2011 $2 million) is held in a country where repatriation is restricted as a result of foreign exchange regulations.

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*Currency risk*

The US dollar is the predominant currency of the Group s revenue and cash flows. Movements in foreign exchange rates can affect the Group s reported profits, net assets and interest cover. To hedge translation exposure, wherever possible, the Group matches the currency of its debt (either directly or via derivatives) to the currency of its net assets, whilst maximizing the amount of US dollars borrowed to reflect the predominant trading currency. At December 31, 2012, the Group held currency swaps with a principal of $415 million (2011 $415 million) and short dated foreign exchange swaps with principals of 75 million (2011 75 million) and $170 million (2011 $nil).

The Group is exposed to foreign currency risk on income streams denominated in foreign currencies. From time to time, the Group hedges a portion of forecast foreign currency income by taking out forward exchange contracts. The designated risk is the spot foreign exchange risk. There were no such contracts in place at either December 31, 2012 or December 31, 2011.

A general strengthening of the US dollar (specifically a five cent fall in the sterling: US dollar rate) would increase the Group s profit before tax by an estimated $2.8 million (2011 $3.3 million, 2010 $3.5 million) and increase net assets by an estimated $1.8 million (2011 decrease of $10.4 million, 2010 decrease of $5.6 million). Similarly, a five cent fall in the euro: US dollar rate would reduce the Group s profit before tax by an estimated $2.3 million (2011 $1.9 million, 2010 $1.4 million) and decrease net assets by an estimated $16.1 million (2011 $10.3 million, 2010 $8.2 million).

*Interest rate risk and sensitivity*

Interest rate exposure is managed within parameters that stipulate that fixed rate borrowings should normally account for no less than 25% and no more than 75% of net borrowings for each major currency. This is usually achieved through the use of interest rate swaps. Due to relatively low interest rates and the level of the Group s debt, 100% of borrowings in major currencies were fixed rate debt at December 31, 2012.

At December 31, 2012, the Group did not hold any interest rate swaps (2011 notional principals held of $100 million swapping floating for fixed).

Based on the year-end net debt position and given the underlying maturity profile of investments, borrowings and hedging instruments at that date, neither a one percentage point rise in US dollar, euro nor sterling interest rates would impact the annual net interest charge in the current or prior two years.

The tables on page 80 provide information about the Group s derivative and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps, currency swaps and debt obligations. For long-term debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. For currency swaps, the table presents notional amounts and weighted average interest rates by expected maturity dates. Weighted average variable rates are based on rates set on the last day of the period. The actual currencies of the instruments are indicated in parentheses.

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*At December 31, 2012*

| | Expected to mature before December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | Thereafter | Total | Fair value(i) |
| | ($ million, except percentages) | | | | | | |
| **Long-term debt:** | | | | | | | |
| Fixed rate public bonds 2016 (sterling) | | | | 403 | | 403 | 456 |
| Fixed rate payable | | | | 6.0% | | 6.0% | |
| Fixed rate public bonds 2022 (sterling) | | | | | 638 | 638 | 652 |
| Fixed rate payable | | | | | 3.9% | 3.9% | |
| Fixed rate lease debt (US dollar) | | | | | 212 | 212 | 268 |
| Fixed rate payable | | | | | 9.7% | 9.7% | |
| Variable rate bank debt (New Zealand dollar) | | | 5 | | | 5 | 5 |
| Variable interest rate payable | | | 4.7% | | | 4.7% | |
| | (local currency million, except percentages) | | | | | | |
| **Currency swaps:** | | | | | | | |
| Principal receivable (sterling) | | | | 250 | | 250 | (19) |
| Fixed rate receivable | | | | 6.0% | | 6.0% | |
| Principal payable (US dollar) | | | | 415 | | 415 | |
| Fixed rate payable | | | | 6.2% | | 6.2% | |

(i) Represents the net present value of the expected cash flows discounted at current market rates of interest, except for the public bonds which are shown at market value.

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**ITEM 12.** ***DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES***

**Fees and charges payable to a depositary**

| Category (as defined by SEC) | Depositary actions | Associated fee |
|---|---|---|
| (a) Depositing or substituting the underlying shares | Each person to whom ADRs are issued against deposits of Shares, including deposits and issuances in respect of: | $5 for each 100 ADSs (or portion thereof) |
| | share distributions, stock split, rights, merger | |
| | Exchange of securities or any other transactions or event or other distribution affecting the ADSs or the Deposited Securities | |
| (b) Receiving or distributing dividends | Distribution of stock dividends | $5 for each 100 ADSs (or portion thereof) |
| | | $0.02 or less per ADS (or portion thereof) |
| | Distribution of cash | |
| (c) Selling or exercising rights | Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities | $5.00 for each 100 ADSs (or portion thereof) |
| (d) Withdrawing an underlying security | Acceptance of ADRs surrendered for withdrawal of deposited securities | $5.00 for each 100 ADSs (or portion thereof) |
| (e) Transferring, splitting or grouping receipts | Transfers, combining or grouping of depositary receipts | $1.50 per ADS |
| (f) General depositary services, particularly those charged on an annual basis | Other services performed by the depositary in administering the ADRs | $0.02 per ADS (or portion thereof)* not more than once each calendar year and payable at the sole discretion of the depositary by billing Holders or by deducting such charge from one or more cash dividends or other cash distributions |
| (g) Expenses of the depositary | Expenses incurred on behalf of Holders in connection with: | Expenses payable at the sole discretion of the depositary by billing Holders or by deducting charges from one or more cash dividends or other cash distributions $20 per transaction |
| | Compliance with foreign exchange control regulations or any law or regulation relating to foreign investment | |

The depositary s or its custodian s compliance with applicable law, rule or regulation

Stock transfer or other taxes and other governmental charges

Cable, telex, facsimile transmission/delivery

Transfer or registration fees in connection with the deposit and withdrawal of Deposited Securities

Expenses of the depositary in connection with the conversion of foreign currency into US dollars (which are paid out of such foreign currency)

Any other charge payable by depositary or its agents

* These fees are not currently being charged by the depositary.

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**Fees and charges payable by a depositary**

***Direct payments***

JPMorgan Chase Bank, N.A. is the depositary for IHG s ADS program. The depositary s principal executive office is at: 1 Chase Manhattan Plaza, Floor 58, New York, NY 10005-1401, United States of America. The depositary, has agreed to reimburse certain reasonable Company expenses related to the Company s ADR Program and incurred by the Company in connection with the ADR Program. During the year ended December 31, 2012 the Company received $624,329 from the depositary in respect of legal, accounting and other fees incurred in connection with preparation of Form 20-F and ongoing SEC compliance and listing requirements, investor relations programs and advertising and public relations expenditure.

***Indirect payments***

As part of its service to the Company, JPMorgan has agreed to waive fees for the standard costs associated with the administration of the ADR Program, associated operating expenses and investor relations advice. In the year ended December 31, 2012, JPMorgan agreed to waive fees and expenses amounting to $20,000.

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## PART II

**ITEM 13.** ***DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES***

None.

**ITEM 14.** ***MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS***

None.

**ITEM 15.** ***CONTROLS AND PROCEDURES***

**Disclosure controls and procedures**

As at the end of the period covered by this report, the Group carried out an evaluation under the supervision and with the participation of the Group s management, including the Chief Executive and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Rules 13a-15(e)). These are defined as those controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the specified periods. Based on that evaluation, the Chief Executive and Chief Financial Officer concluded that the Group s disclosure controls and procedures were effective.

**Management s report on internal control over financial reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934.

Management has issued a report on the effectiveness of the Group s internal control over financial reporting as at December 31, 2012. This report appears on page F-1 of the Group s Consolidated Financial Statements contained in this Annual Report.

Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on the Company s internal control over financial reporting. This report appears on page F-2 of the Group s Consolidated Financial Statements contained in this Annual Report.

**Changes in internal control over financial reporting**

There have been no significant changes in the Group s internal controls over financial reporting that occurred during the period covered by this Form 20-F that have materially affected, or are reasonably likely to materially affect, the Group s internal control over financial reporting.

**ITEM 16.** ***[RESERVED]***

**ITEM 16A.** ***AUDIT COMMITTEE FINANCIAL EXPERT***

The Senior Independent Director David Kappler, who has significant recent and relevant financial experience is the Audit Committee Financial Expert as defined under the regulations of the US Securities and Exchange Commission. David Kappler is independent as that term is defined under the listing standards of the NYSE.

**ITEM 16B.** ***CODE OF ETHICS***

The Board has adopted a global Code of Ethics and Business Conduct that applies to all directors, officers and employees of the Group, including the Chief Executive and Chief Financial Officer. This Code of Ethics has been signed by the Chief Executive and the Chief Financial Officer of the Company and by the Group Financial Controller and regional financial heads. The Company has published its Code of Ethics and Business Conduct on its website www.ihgplc.com. No amendment has been made to the provisions of the Code of Ethics (as published on the Company s website) and no waivers have been granted by the Board in respect of the Code of Ethics.

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### ITEM 16C. *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

Fees for professional services provided by Ernst & Young LLP, the Group s independent auditors in each of the last two fiscal periods in each of the following categories are:

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| | ($ million) | |
| Audit fees | 4.6 | 3.7 |
| Audit-related fees | 2.1 | 1.8 |
| Tax fees | 0.5 | 0.7 |
| Total | 7.2 | 6.2 |

Further detail is provided in Note 4 Auditor s remuneration paid to Ernst & Young LLP of Item 18 Financial Statements .

Audit fees in respect of the pension scheme were not material.

The Audit Committee has a process to ensure that any non-audit services do not compromise the independence and objectivity of the external auditor and that relevant United Kingdom and United States professional and regulatory requirements are met. A number of criteria are applied when deciding whether pre-approval for such services should be given. These include the nature of the service, the level of fees and the practicality of appointing an alternative provider, having regard to the skills and experience required to supply the service effectively. Cumulative fees for audit and non-audit services are presented to the Audit Committee on a quarterly basis for review. The Audit Committee is responsible for monitoring adherence to the pre-approval policy.

### ITEM 16D. *EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES*

Not applicable.

### ITEM 16E. *PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS*

| Period of fiscal year | (a) Total number of shares (or units) purchased | (b) Average price paid per share (or unit) | (c) Total number of shares (or units) purchased as part of publicly announced plans or programs | (d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs |
|---|---|---|---|---|
| Month 1 (no purchases in this month) | 0 | 0.00 | 0 | 28,982,476 |
| Month 2 | 1,749,286 | £ 13.97 | 0 | 28,982,476 |
| Month 3 | 275,000 | £ 14.40 | 0 | 28,982,476 |
| Month 4 (no purchases in this month) | 0 | 0.00 | 0 | 28,982,476 |
| Month 5 (no purchases in this month) | 0 | 0.00 | 0 | 28,982,476 |
| Month 6 (no purchases in this month) | 0 | 0.00 | 0 | 29,084,373* |
| Month 7 (no purchases in this month) | 0 | 0.00 | 0 | 29,084,373 |
| Month 8 (no purchases in this month) | 0 | 0.00 | 0 | 29,084,373 |
| Month 9 (no purchases in this month) | 0 | 0.00 | 0 | 29,084,373 |
| Month 10 | 1 | £ 16.63 | 0 | 27,217,301 |

| | | | | |
|---|---|---|---|---|
| Month 11 | 3,358,500 | £ 16.05 | 3,358,500 | 23,858,801 |
| Month 12 | 2,235,460 | £ 16.55 | 785,460 | 23,073,341 |

* Reflects the resolution passed at the Company s Annual General Meeting held on May 25, 2012.

Reflects the resolution passed at the Company s General Meeting held on October 8, 2012.

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The Group s current $500 million share repurchase program was announced on August 7, 2012. By March 21, 2013, 4,243,960 shares had been repurchased at an average price of 1,621 pence per share (approximately £68.8 million).

During fiscal 2012, 3,474,286 ordinary shares were purchased by the Company s Employee Share Ownership Trust at prices ranging from 1,387 pence to 1,665 pence per share, for the purpose of satisfying future share awards to employees.

**ITEM 16F.** ***CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT***

Not applicable.

**ITEM 16G.** ***SUMMARY OF SIGNIFICANT CORPORATE GOVERNANCE DIFFERENCES FROM NYSE LISTING STANDARDS***

The Group is committed to compliance with the principles of corporate governance and aims to follow the corporate governance practices specified in the UK Corporate Governance Code, the Code issued by the Financial Services Authority in the United Kingdom.

IHG has also adopted the corporate governance requirements of the US Sarbanes-Oxley Act and related rules and of the NYSE, to the extent that they are applicable to it as a foreign private issuer. As a foreign private issuer IHG is required to disclose any significant ways in which its corporate governance practices differ from those followed by US companies. These are as follows:

**Basis of regulation**

The Code contains a series of principles and provisions. It is not, however, mandatory for companies to follow these principles. Instead, companies must disclose how they have applied them and disclose, if applicable, any areas of non-compliance along with an explanation for the non-compliance. In contrast, US companies listed on the NYSE are required to adopt and disclose corporate governance guidelines adopted by the NYSE. IHG s statement of compliance with the UK Code s requirements for 2012 is contained in the Company s Annual Report and Financial Statements for the year ended December 31, 2012.

**Independent Directors**

The Code s principles recommend that at least half the Board, excluding the Chairman, should consist of independent Non-Executive Directors. As at March 21, 2013 the Board consisted of the Chairman, independent at the time of his appointment, four Executive Directors and six independent Non-Executive Directors. NYSE listing rules applicable to US companies state that companies must have a majority of independent directors. The NYSE set out five bright line tests for director independence. The Board s judgment is that all of its Non-Executive Directors are independent. However it did not explicitly take into consideration the NYSE s tests in reaching this determination.

**Chairman and Chief Executive**

The Code recommends that the Chairman and Chief Executive should not be the same individual to ensure that there is a clear division of responsibility for the running of the Company s business. There is no corresponding requirement for US companies. The roles of Chairman and Chief Executive were, as at March 21, 2013 and throughout 2012 fulfilled by separate individuals.

**Committees**

The Company has a number of Board Committees which are similar in purpose and constitution to those required for domestic companies under NYSE rules. The Remuneration, Audit and Nomination Committees consist only of Non-Executive Directors. The NYSE requires US companies to have a nominating/corporate governance committee composed entirely of independent directors. The committee is responsible for identifying individuals qualified to become Board members and to recommend to the Board a set of corporate governance principles. As the Company is subject to the Code, the Company s Nomination Committee is only responsible for nominating, for approval of the Board, candidates for appointment to the Board, though it also assists in developing the role of the Senior Independent Director. The Company s Nomination Committee consists of the Company Chairman and all the independent Non-Executive Directors. The Chairman of the Company is not a member of either of the Remuneration or the Audit Committees. The Audit Committee is chaired by an independent Non-Executive Director who, in the Board s view, has the experience and qualifications to satisfy the criteria under US rules for an audit committee financial expert .

**Non-Executive Director meetings**

Non-management directors of US companies must meet on a regular basis without management present, and independent directors must meet separately at least once per year. The Company s Non-Executive Directors have met without Executive Directors being present, and intend to continue this practice, before every Board meeting if possible.

**Shareholder approval of equity compensation plans**

The NYSE rules require that shareholders must be given the opportunity to vote on all equity compensation plans and material revisions to those plans. The Company complies with UK requirements which are similar to the NYSE rules. The Board does not, however, explicitly take into consideration the NYSE s detailed definition of material revisions .

**Code of Ethics**

The NYSE requires companies to adopt a code of business conduct and ethics, applicable to directors, officers and employees. Any waivers granted to directors or officers under such a code must be promptly disclosed. The Company s Code of Ethics and Business Conduct, applicable to all directors, officers and employees, is available on the Company s website. No waivers have been granted under this Code.

**Compliance certification**

Each Chief Executive of a US company must certify to the NYSE each year that he or she is not aware of any violation by the Company of any NYSE corporate governance listing standard. As the Company is a foreign private issuer, the Company s Chief Executive is not required to make this certification. However he is required to notify the NYSE promptly in writing after any of the Company s Executive Officers become aware of any non-compliance with those NYSE corporate governance rules applicable to the Company.

**ITEM 16H.** ***MINE SAFETY DISCLOSURE***

Not applicable.

## PART III

**ITEM 17.** ***FINANCIAL STATEMENTS***

The Group reports its results in US dollars, and this is the currency in which dividends are declared.

Dividends are paid in sterling and the US dollar amount of the declared dividend is translated into sterling at the prevailing exchange rate immediately prior to their announcement.

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**ITEM 18.** ***FINANCIAL STATEMENTS***

The following Consolidated Financial Statements and related schedule, together with the report thereon of Ernst & Young LLP, are filed as part of this Annual Report:



**ITEM 19.** ***EXHIBITS***

The following exhibits are filed as part of this Annual Report:

| | |
|---|---|
| Exhibit 1 | Articles of Association of the Company (incorporated by reference to Exhibit 1 of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated April 11, 2011) |
| Exhibit 4(a)(i) | Five-year $1,070 million bank facility agreement dated November 7, 2011, among The Royal Bank of Scotland plc, NB International Finance B.V., Citigroup Global Markets Limited, HSBC Bank plc, Lloyds TSB Bank plc and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference to Exhibit 4(a)(i) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated March 29, 2012) |
| Exhibit 4(a)(ii) | First supplemental trust deed dated July 7, 2011 modifying and restating the Euro Medium Term Note program governed by a trust deed dated November 29, 2009 (incorporated by reference to Exhibit 4(a)(ii) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated March 29, 2012) |
| Exhibit 4(a)(iii) | Amended and Restated Trust Deed dated November 9, 2012 relating to a £750 million Euro Medium Term Note Program, among InterContinental Hotels Group PLC, Six Continents Limited, InterContinental Hotels Limited and HSBC Corporate Trustee Company (UK) Limited |
| Exhibit 4(c)(i) | Tracy Robbins service contract dated August 9, 2011 (incorporated by reference to Exhibit 4(c)(i) of the InterContinental Hotels Group PLC Annual Report on Form 20-F (File No. 1-10409) dated March 29, 2012) |
| Exhibit 4(c)(ii) | Tom Singer s service contract dated July 26, 2011 (incorporated by reference to Exhibit 4(c)(ii) of the InterContinental Hotels Group PLC Annual Report on Form& |