

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.

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.

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.

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.