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.

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).

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.

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.

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.

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.

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.

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.

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	3-5 years	After 5 years
			($ million)		
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.