HALF-YEARLY FINANCIAL REPORT 2017/18

Focused on the future

HOGG ROBINSON GROUP PLC

Hogg Robinson Group is a leading global B2B services company specialising in travel, payments and expense management.

We help companies, governments and financial institutions manage and control their expenditure.

We combine high-quality service delivered by experienced staff with the very latest digital solutions based on our own technology.

Our aim is to provide superior service and technology solutions that add real value to our clients and meet their unique requirements.

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HOGG ROBINSON GROUP PLC

SUMMARY OF RESULTS

Six months ended 30 September (unaudited)	2017	2016	Change (actual exchange rates)	Change (constant exchange rates) (1)
Revenue	£161.9m	£163.6m	(1%)	(5%)
Reported earnings				
– Operating profit	£18.9m	£20.3m	(7%)	(10%)
– Operating profit margin	11.7%	12.4%	(0.7pp)	
– Profit before tax	£13.3m	£14.0m	(5%)	(9%)
– Earnings per share	2.8p	2.9p	(3%)	
Underlying earnings (2)				
– Operating profit	£19.8m	£21.5m	(8%)	(11%)
– Operating profit margin	12.2%	13.1%	(0.9pp)	
– Profit before tax	£14.2m	£15.2m	(7%)	(10%)
– Earnings per share	3.0p	3.2p	(6%)	
Interim dividend per share	0.760p	0.715p	+6%	
Free cash inflow (3)	£0.5m	£6.5m	(£6.0m)	
Net debt (4)	(£30.1m)	(£31.0m)	+£0.9m	
Online adoption (5)	53%	51%	+2pp	

OPERATIONAL HIGHLIGHTS

- Considerable progress in delivering initial planned strategic initiatives
- HRG's sales and client management teams increased and we are delighted to announce and welcome significant new clients won during the period including Cognizant, KUKA, LiLAC, Pladis and Rolls-Royce
- Further strengthened market leadership position in New Distribution Capability (NDC). Ahead of schedule to make NDC content available to our clients in H2
- Completed and integrated acquisition of travel innovator eWings.com, creating both a new solution for the SME sector and helping to increase the speed of delivery of HRG's technology strategy
- Fraedom's commercial and development teams strengthened, with ePayables product and new release of Fraedom's mobile app launched in H1
- Further strategic investment and additional growth initiatives across both businesses to be undertaken in H2
- Exceeded target of circa £20m annualised savings from the Group's 3-year restructuring programme with six months still to run and further opportunities identified
- Ongoing deployment of home workers with close to one quarter of the Group's staff now working remotely

FINANCIAL HIGHLIGHTS

- Results in line with management's expectations as investment is made in the strategic future of both businesses
- As expected, HRG's revenue declined 7% and underlying operating profit fell 17% at constant currency, largely reflecting the previously indicated rollover impact of client losses and sales slowdown during the second half of FY17, as well as planned investment in strategic priorities
- Fraedom delivered a strong financial performance with revenue up 12% and underlying operating profit up 30% at constant currency, after planned investment in the period to support the accelerated growth strategy
- Group underlying operating profit margin down 0.9pp to 12.2%. After adjusting for the cost of strategic investments, margin would be broadly in line with prior year
- Group pension deficit decreased by £21.7m to £243.5m, driven largely by a 0.1pp increase in the discount rate
- Successful refinancing of the Group's £150m Revolving Credit Facility completed
- Interim dividend up 6% to 0.760p per share, with cover of 3.9 times (2016: 4.5 times)

CURRENT TRADING AND OUTLOOK

- Trading in the second half of the financial year to date has progressed in line with management's expectations
- The Board is committed to its strategic focus on significantly growing both HRG and Fraedom over the medium term and is encouraged by the initial results from the investments being made. While mindful that the Group operates in markets that continue to be influenced by ongoing macroeconomic and geopolitical uncertainties, the Board believes the Group will deliver a full-year performance in line with its expectations

Notes:
(1) Local currency results for September 2017 have been translated at September 2016 exchange rates.
(2) Before amortisation of acquired intangibles and exceptional items.
(3) Free cash flow is the change in net debt before acquisitions and disposals, Employee Benefit Trust purchases, dividends and the impact of foreign exchange movements.
(4) A calculation of net debt is shown in Note 18 of the Notes to the Consolidated Half-Year Financial Information.
(5) Online adoption is the proportion of travel bookings made by clients using proprietary or third-party online booking tools.
(6) Our financial statements disclose financial measures which are required under IFRS. We also report additional financial measures that we believe enhance the relevance and usefulness of the financial statements. These are important for understanding underlying business performance.

HALF-YEARLY REVIEW

"I'm delighted to see early and positive results from our new strategy for growth, the first phase of which has seen us invest in the future of our business. Performance is in line with our expectations and as previously indicated, this year is one of transition as we invest to accelerate growth and our investment to date is reflected in these numbers. Our re-focused growth strategy and the actions we are taking have been well received in our markets, with a pleasing number of new blue chip client wins reflecting the high quality proposition of our technology platform as well as our known reputation for delivering excellent service.

Looking ahead to the full year, we are confident that we will deliver on our expectations and that our strategy positions us to accelerate growth across the Group over the medium term. Reflecting this confidence in the future, the Board has declared an interim dividend payment up 6% on the prior year."

David Radcliffe, Chief Executive

Overview

In May, we set out an ambitious strategy for the Group – **To grow HRG through market leadership and innovation, and to accelerate the growth of Fraedom through partnership and market disruption, while driving shareholder value**. I am delighted to report that we are seeing early signs of success.

Our clear focus is to significantly grow our two businesses over the medium term and during the first six months of this financial year we made substantial progress in delivering the strategic initiatives prioritised for each of our businesses. Details of these achievements are set out later in my review.

Our new sales strategy is already delivering new signings and we welcomed a number of exciting new clients in the period. Notable new client wins for HRG include Cognizant, KUKA, LiLAC, Pladis and Rolls-Royce. These and other new signings represent a great example of our new strategy in action, and collectively represent approximately 10% of additional new sales in a full year. In Fraedom, we launched an ePayables product into the rapidly-growing Payments sector and rolled out a new release of our mobile app during the period.

Our culture is one of innovation and we seek to lead and disrupt in our markets. We have seen real progression on several fronts during the period, particularly with respect to technology and its involvement with distribution. This is attracting considerable interest and support from suppliers, clients and prospects. An example of this is HRG's ground-breaking New Distribution Capability (NDC) related agreement with British Airways – the first of its kind amongst global travel management companies (TMCs) – whereby, in its first phase, bookings made via a Global Distribution Service (GDS) in key European markets will not be subject to their Distribution Technology Charge of €9.50 per fare component. In addition to our ongoing developments with British Airways and Iberia, we are also building new direct connections with American Airlines and Lufthansa.

The period has been both opportunistic but not without its challenges. As previously predicted, we saw continued migration by clients to online booking as well as ongoing competitive pricing pressure, and inevitably this has put further pressure on the Group's revenue albeit a move to online self-booking does lift our margin in the medium term. In addition, we have seen slower organic growth in some sectors, notably Government, Energy & Marine and Banking & Finance, in the UK and in North America.

FY18 was anticipated as a year of transition for the Group, as we absorb the FY17 rollover effect of lost clients and the slowdown of sales whilst building on the initial investments needed to drive our growth strategy. Therefore, year-on-year Group revenue and earnings declined as expected for the 6-month period. Against this backdrop, operational efficiency continues to be a priority right across the Group and, to date, we have achieved £20.2m of annualised savings against a target of circa £20m over the 3-year programme, ending 31 March 2018. We are pleased with how our teams are managing this transition period delivering activities that will deliver longer-term, sustainable revenue and earnings growth.

Strategy in action

We described in our last full-year results our ambition to significantly grow our two businesses through the successful implementation of a number of strategic initiatives, several of which were already under way at that time. We are pleased with the progress made to date and the following is an update on the actions taken during the first half in the delivery of our key initiatives.

HRG

Technology innovations

We have continued to develop our market-leading technology platform adding further value to our clients and improving the end-customer experience. During the period, the HRG travel app went live and is performing well. As well as being well received by existing clients, it has also proved a major influence in helping to win new business. Additionally, the HRG Online booking system has been completely upgraded and now comes with multi-lingual capability, further improving HRG's offering. Pilot testing of HRG's updated reporting suite was concluded during the period and will be rolled out to clients during H2.

In June, we completed our acquisition and commenced integration of travel innovator eWings.com, creating both a new solution for the SME sector under the eWings.com brand and increasing the speed of delivery of HRG's technology strategy. In particular, the development of our new OneView product, which will allow HRG to navigate

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across the whole market and offer different sources of content including GDS, travel aggregator and HRG's new direct connections to airlines, has been accelerated by at least two years.

Sales force
As a key near-term initiative to drive revenue growth, we are expanding the scale and improving the capabilities of our sales force. Since the beginning of the financial year, we have recruited additional sales staff including those focused on winning large global accounts and others as product specialists. We also increased the size of HRG's sales support team, including bid writers, during the period. Sales staff recruitment is ongoing and we anticipate additional personnel joining us in H2.

Supplier revenue
Our aim is to work more closely with our key supplier partners using our recently-developed technology. Development has been progressing for our new ContentHub technology. This underpins all future content acquisition and, for airlines, is based on IATA NDC 17.2, which is the latest and most functional standard. Recent discussions with airline partners are proving very constructive and the teams are ahead of schedule to make NDC content available through HRG Online during the second half of the year. Progress is also well underway for Hotel, Rental Car and Rail ContentHub.

Operational improvements
We have worked hard in recent years to implement operational improvements, drive productivity and lower costs. This work is ongoing. As part of this initiative, we have for some time provided opportunities for staff to work from home and we now have more than 1,000 staff operating remotely. During H1, we consolidated a number of our operations dealing with low-cost travel into our hub location in Warsaw and migrated our emergency support functions in Belgium, France and Germany to a single location in Europe.

FRAEDOM

Partner development
As we have sought to enhance and strengthen our partner relationships and accelerate market penetration, we increased the strength of the commercial team following the recruitment of a new Chief Commercial Officer in H1. We have also strengthened our partner development teams, providing capacity to support partner development customisations and the on-boarding requirements of new partners.

Payables and payment functionalities
We have increased our sales, support and consulting resources, and continued to grow Fraedom's development teams in order to accelerate the product roadmap through partnerships, self investment and plug-in capabilities. We continue to concentrate our efforts in the rapidly-growing Payments sector, while accelerating the development and roll-out of innovative new technology including the ePayables product launched in H1. Fraedom continued during H1 to deliver more functionality into its Card Management platform including virtual card management controls, dynamic funding tooling, and support for advanced features such as 'ghost' cards. Fraedom is well positioned to capitalise on the B2B payments opportunity and we will continue to invest in this key area.

Mobile and expenses
Work continued during the period as we aim to simplify the expense management process by enabling truly touchless transactions. As we pursue a mobile-first development strategy, we are now growing a dedicated mobile team who, during H1, rolled out a new release of Fraedom's mobile app. As we've grown our mobile development capability, we increased both the pace of new functionality being deployed on the app while also delivering a white-label version of the app across Fraedom's partner base. A brand new expense management user experience, covering coding, cash, templates and requests, was also rolled out by our development teams during the period. This new user experience sets the benchmark for all our products, and moves Fraedom's user experience to a new level of excellence supporting the drive towards consumerisation of business tools.

Enterprise developments
As part of this work, we conducted a full review in H1 to achieve efficiencies of the partner sales and on-boarding processes, and we will begin implementing recommendations in H2.

As the business gears up for H2, Fraedom will continue to leverage investments in each key strategic area to drive pipeline growth while at the same time deliver operational efficiencies where possible.

Our new strategy is both significant and ambitious, with a number of initiatives underpinning the four key strategic pillars in each of HRG and Fraedom. We have made clear and positive progress in the first half but are equally excited about the further opportunities ahead. The second half will see us pursue further growth initiatives, alongside the planned investment to support these, which we look forward to updating shareholders on at the year-end.

Group performance in H1 FY18

The Group's financial results were in line with our expectations during the first half of the financial year.

On a reported basis, revenue was marginally down year on year for the six months while underlying operating profit was 8% lower and underlying profit before tax declined 7%. Both reported revenue and earnings benefited from favourable foreign exchange movements. At constant currency, revenue, underlying operating profit and underlying profit before tax were down 5%, 11% and 10% respectively.

Within HRG, revenue declined 7% and underlying operating profit fell 17%, both at constant currency. These declines were expected and reflect a 12% fall in travel booking activity, primarily due to the rollover impact of client losses and a slowdown in sales during the second half of FY17. The ongoing expected moves to online self-booking also contributed to these declines. The decline in underlying operating profit margin from 12.7% to 11.2% was driven by the planned increase in specific incremental operating expenditure (£1.2m) and the reduction in travel activity caused by Easter falling during H1. Adjusting for the cost of strategic investments, underlying operating profit margin declined by 0.6pp to 12.1% at constant currency. We also experienced some client churn during the first half of the current year as we continue to focus on only engaging in contracts which will be profitable to HRG or that offer strategic advantage to the Group.

Nonetheless, as part of our growth strategy, we have also invested in our strategic initiatives and I am delighted to report that HRG's new sales proposition is creating a healthy 'buzz' in the market with what seems to be clear sales differentiation from those of our peer group. Our transparent financial model, combined with NDC and our technology, which is centred upon the needs of clients and end-customers, has led to

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a number of exciting new wins during the period, including Cognizant, KUKA, LiLAC, Pladis and Rolls-Royce, and created a strong pipeline.

Two and a half years into our 3-year restructuring programme, we continue to deliver real benefits in terms of increased efficiency and lower operating cost. During the 6-month period, we incurred net exceptional costs of £0.9m following the re-sizing and re-shaping of our operations in France, Germany, Italy, Switzerland and the UK. These actions saved £0.4m in the half year, and are expected to realise savings of £1.7m in FY18 and £2.9m on an annualised basis. Over the past 30 months, we have achieved annualised savings of £20.2m with net exceptional costs of £8.4m. These operational improvements, together with our superior technology, are helping to provide ongoing improvements to the way we service our clients while underpinning our growth strategy.

Fraedom continues to grow in line with our expectations, reporting a 12% increase in revenue and a 30% rise in underlying operating profit for the period, both at constant currency. These increases take Fraedom's share of the Group's reported revenue and underlying operating profit to 11% and 19% respectively, with much of this growth coming from new and existing banking partners. Underlying operating profit margin rose from 17.8% to 20.8% as a result of the growth in revenue exceeding the increase in net operating costs after capitalisation of development expenditure. As I referred to earlier, in line with our strategy, we recruited additional staff across Fraedom's operations during the first half and invested further in technology aimed at providing greater functionality and innovative solutions to both our Partner and Direct clients.

Although continuing to focus on cash generation and tight cost control, we have commenced investment in the growth strategy announced earlier in the year. This has led to the acquisition of eWings.com (£2.6m) in the period as well as an increase in both capitalised investment (£1.4m) and specific incremental operating expenditure (£1.6m) linked to the strategic growth initiatives. Despite these additional investments, net debt of £30.1m at 30 September 2017 is £0.9m lower year on year and, at a ratio of 0.5 times EBITDA for the last 12 months (2016: 0.5 times), significantly below the 1.0 times EBITDA normal limit referred to in the Group's capital allocation policy. Free cash generation has also been assisted by a reduction in tax payments of £2.9m and interest payments on debt of £0.4m.

The period also saw the successful completion of the refinancing of our Revolving Credit Facility (RCF) that was due to mature in May 2018. It has been replaced with a similar sized 4-year facility of £150m and has been designed to provide the liquidity required to deliver the strategic initiatives, while continuing to pay down the instalments on the fixed rate loan as they become due.

BOARD CHANGES

Kevin Ruffles stepped down from his role as Chief Operating Officer and relinquished his position as a member of the Board on 31 May 2017. Kevin remains involved with the Group, undertaking a variety of special project roles until his retirement on 31 May 2018.

William Brindle was promoted to Chief Operating Officer on 12 September 2017. He has been instrumental in formulating our technological and distribution positioning which is and will continue to be an important part of our strategy. William's responsibilities will continue as they are in relation to Fraedom, Distribution and Technology.

DIVIDEND

The Board has declared an interim dividend of 0.760p per share, up 6% on the interim payment a year ago. The interim dividend will be paid on 8 January 2018 to shareholders on the register at the close of business on 8 December 2017. The ex-dividend date is 7 December.

Current trading and outlook

Trading in the second half of the financial year to date has progressed in line with management's expectations. The Board is committed to its strategic focus on significantly growing both HRG and Fraedom over the medium term and is encouraged by the initial results from the investments being made. While mindful that the Group operates in markets that continue to be influenced by ongoing macroeconomic and geopolitical uncertainties, the Board believes the Group will deliver a full-year performance in line with its expectations.

Operational review

HRG

HRG is our global travel management business. As one of the world's leading travel management companies, HRG continues to innovate and to lead. HRG helps clients manage their total travel expense and achieve safe and successful business travel by combining the control, transparency and savings an organisation needs, with the digital experience, personal service and global support required by today's business traveller.

Six months ended 30 September

	2017	2016	Change(2)	Change (constant exchange rates)
Revenue	**£144.1m**	£148.4m	(2.9%)	(6.7%)
Share of Group revenue	**89.0%**	90.7%	(1.7pp)	
Operating profit	**£15.2m**	£17.6m	(13.6%)	(15.9%)
Underlying operating profit (1)	**£16.1m**	£18.8m	(14.4%)	(16.5%)
Share of Group underlying operating profit	**81.3%**	87.4%	(6.1pp)	
Underlying margin (1)	**11.2%**	12.7%	(1.5pp)	
Online adoption	**53%**	51%	+2pp	
Travel booking activity			(12%)	
Travel spend				(11%)

(1) Before amortisation of acquired intangibles and exceptional items

(2) Actual exchange rates used where applicable

- Clients continuing to focus on cost control and value for money in response to uncertain conditions
- Release of HRG's new travel portal, online booking tool and mobile app well received by clients
- HRG's investment in technology providing first-mover advantage as airline distribution changes

In the six months ended 30 September 2017, revenue declined 7% year on year with underlying operating profit down 17%, both at constant currency. The rollover

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impact of client losses and a slowdown in sales during H2 FY17, reflected in a 12% fall in client travel bookings, were the principal reasons for these expected declines. The resulting 1.5pp decline in underlying operating profit margin to 11.2% was driven by the planned increase in specific incremental operating expenditure (£1.2m) and the reduction in travel activity caused by Easter falling during H1. Excluding the increase in strategic operating expenditure, underlying operating profit margin declined by 0.6pp to 12.1% at constant currency.

During the first half of the financial year, air travel bookings accounted for 47% of all bookings, hotel 27%, and rail 17% (2016: air 46%, hotel 29%, rail 17%).

Many organisations are focused on transformation and digitalisation. The release of HRG's new travel portal and the re-skin of its online booking tool have been welcomed by clients seeking to enhance the traveller experience and to access more travel content. This has been complemented by the roll-out of the new HRG mobile travel app.

Changes in airline distribution through the advent of NDC, combined with HRG's investment in client-facing technology solutions, have prompted increased interest from existing and potential clients, and airlines alike. In light of these developments, as well as our transparent financial model which is more client than supplier focused, the market is responding positively to HRG's unique proposition. By contrast, there continues to be clear evidence of competitors focusing on supplier revenue as a means of growing both their top line and earnings and, as a result, aggressive pricing tactics still dominate strategic bids.

We anticipate that HRG will continue to experience margin pressure in the short term as a result of the ongoing growth in online adoption and aggressive pricing in the market. However, over the medium term, we expect margins to increase as we reduce costs and grow incremental volume and revenues through the delivery of our strategy. Programme management and technology solutions provide additional revenue opportunities for the Group, while encouraging the development of more strategic and higher margin relationships with many of our clients.

HRG's technology is central to our success as it supports client demand and enhances the traveller experience. Through a combination of NDC, online booking tools and a mobile-first strategy, HRG is well positioned in this respect.

Our ongoing focus on delivering added value travel management solutions has resulted in a successful period of client retention. Like any business, we lost some clients during the first half principally due to price as our model is mainly focused on only engaging in contracts which will be profitable for HRG or which offer strategic benefit to the Group. We are delighted to report that during the first half of our financial year we retained and/or expanded relationships with many clients including Allianz, Bayer, EY, Eisenmann, Liebherr and Syngenta.

FRAEDOM

Fraedom is our FinTech business which was borne out of our initial investment in a business called Spendvision. Fraedom enables banking partners to grow their commercial card business, and direct clients manage their expenses, by developing innovative cloud-based solutions which are always effortless for customers to use.

Fraedom has two channels or routes to market: (1) Partners – typically banks, which use Fraedom's technology to build and brand payment and expense products for their own business customers, and (2) Direct – clients which buy Fraedom's technology to use within their own businesses to help them implement expense solutions for their company.

Six months ended 30 September

	2017	2016	Change(2)	Change (constant exchange rates)
Revenue	**£17.8m**	£15.2m	+17.1%	+11.8%
Share of Group revenue	11.0%	9.3%	+1.7pp	
Operating profit	**£3.7m**	£2.7m	+37.0%	+29.6%
Underlying operating profit (1)	**£3.7m**	£2.7m	+37.0%	+29.6%
Share of Group underlying operating profit	18.7%	12.6%	+6.1pp	
Underlying margin (1)	20.8%	17.8%	+3.0pp	

(1) Before amortisation of acquired intangibles and exceptional items

(2) Actual exchange rates used where applicable

- Continued revenue growth
- Additional investment in development capacity and sales resource
- Expanded functionality of Fraedom mobile app

In the six months ended 30 September 2017, revenue increased by 12% year on year with underlying operating profit up 30%, both at constant currency. Underlying operating profit margin rose from 17.8% to 20.8% as a result of the growth in revenue exceeding the increase in net operating costs after capitalisation of development expenditure.

New and existing banking partners continue to deliver consistent revenue growth for Fraedom and the sales pipeline for new banking partners is healthy with interest from new prospects across all geographies.

Fraedom continues to successfully execute on its strategic plan to innovate through investment in its global platform, functionality and user experience. The business has recruited 40 new highly-skilled people during the first half of the financial year, adding further development capacity to all modules, including payments, card administration, expense management, and reporting.

Several technology initiatives have been advanced in the first half. We have invested in a new reporting strategy aimed at providing leading edge interactive smart reporting to our Partners and Direct clients. The new expense management user experience was successfully deployed, which includes coding, cash, easy-to-use templates and requests workflow at the same time as adding additional card management features.

In line with Fraedom's mobile first strategy, the business continues to invest by expanding the functionality of the Fraedom mobile app, providing new features to both the Partner and Direct channels.

Fraedom launched Concept Fraedom during the period, unleashing the talent and skill of our development team into the frontier areas of augmented reality, artificial intelligence and 'bot' technologies, thereby paving the way for our future R&D innovations.

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Fraedom continues its commitment as an employer of choice and a leader in developing its people, and has launched the Fraedom University and the Fraedom Global Village as major initiatives to foster internal talent and develop future leaders from within the business.

HRG – REGIONAL ACTIVITY

Below we provide trading detail on our material travel management businesses. The Group's regional structures exist to serve its global capability and hence do not operate for the sake of separate regional profitability.

Europe

Six months ended 30 September

	2017	2016	Change(2)	Change (constant exchange rates)
Revenue	£97.5m	£100.8m	(3.3%)	(6.8%)
Share of HRG revenue	67.7%	67.9%	(0.2pp)	
Operating profit	£9.9m	£12.7m	(22.0%)	(24.4%)
Underlying operating profit (1)	£10.8m	£13.1m	(17.6%)	(19.8%)
Share of HRG underlying operating profit	67.1%	69.7%	(2.6pp)	
Underlying margin (1)	11.1%	13.0%	(1.9pp)	
Online adoption	48%	47%	+1pp	
– UK	62%	60%	+2pp	
– Nordics	59%	59%	-	
– Germany	29%	28%	+1pp	
Travel booking activity			(10%)	
– UK			(18%)	
– Nordics			(2%)	
– Germany			(8%)	
Travel spend				(8%)
– UK				(15%)
– Nordics				+2%
– Germany				(7%)

(1) Before amortisation of acquired intangibles and exceptional items

(2) Actual exchange rates used where applicable

UK

Trading decreased primarily due to the impact of prior year client losses and a slowdown in FY17 sales activity; global wins in H1 include Bearing Point which has begun trading, Cognizant and Rolls-Royce which are expected to start trading in Q3/Q4; the 3-year cost restructuring programme remains a key focus with additional property consolidation and a further increase in the number of home workers.

Nordics

Trading levels held up well in spite of rollover effect of some prior year client losses; good underlying growth in booking activity in Sweden; oil market driven decline in Norway appears to be slowing; MGE continued to show year-on-year revenue growth in H1 following expansion of the team.

Germany

Business travel market remains relatively flat despite a fairly strong economy; lower travel activity and client spend mainly reflecting rollover effect of client losses in the second half of FY17; continued strong performance by our Sports business driven by successful work with FC Bayern Tours and key Bundesliga clients; ongoing growth in our MGE business with double-digit year-on-year revenue increase in H1; new and existing clients showing interest and demand for direct connect solutions.

North America

Six months ended 30 September

	2017	2016	Change(2)	Change (constant exchange rates)
Revenue	£37.9m	£38.9m	(2.6%)	(6.7%)
Share of HRG revenue	26.3%	26.2%	+0.1pp	
Operating profit	£4.4m	£5.7m	(22.8%)	(24.6%)
Underlying operating profit (1)	£4.4m	£6.0m	(26.7%)	(28.3%)
Share of HRG underlying operating profit	27.3%	31.9%	(4.6pp)	
Underlying margin (1)	11.6%	15.4%	(3.8pp)	
Online adoption	67%	61%	+6pp	
Travel booking activity			(16%)	
Travel spend				(13%)

(1) Before amortisation of acquired intangibles and exceptional items

(2) Actual exchange rates used where applicable

– Lower client activity and spend primarily due to impact of prior year client losses and decreased trading in Energy & Marine and Banking & Finance sectors; sales team strengthened with new leadership during the period; key contract extensions include Smiths Group and Syngenta; future benefit expected from global client wins including Cognizant, KUKA, LiLAC and Rolls-Royce

Asia Pacific

Six months ended 30 September

	2017	2016	Change(2)	Change (constant exchange rates)
Revenue	£8.7m	£8.7m	–	(4.6%)
Share of HRG revenue	6.0%	5.9%	+0.1pp	
Operating profit/(loss)	£0.9m	(£0.8m)	+212.5%	+212.5%
Underlying operating profit/(loss) (1)	£0.9m	(£0.3m)	+400.0%	+400.0%
Share of HRG underlying operating profit	5.6%	(1.6%)	+7.2pp	
Underlying margin (1)	10.3%	(3.4%)	+13.7pp	
Online adoption	40%	45%	(5pp)	
– Australia	68%	68%	–	
Travel booking activity			(23%)	
– Australia			(34%)	
Travel spend				(23%)
– Australia				(37%)

(1) Before amortisation of acquired intangibles and exceptional items

(2) Actual exchange rates used where applicable

– Performance improvement largely attributed to: the results of a turnaround in Australia where the business has been right-sized, an increase in incentive deals, and investment in sales resource and support in this strategic market.

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Financial review

OVERVIEW

Revenue of £161.9m was down both at reported and constant exchange rates by 1.0% and 5.0% respectively. Underlying operating profit, which is before amortisation of acquired intangibles of £nil (2016: £0.1m) and exceptionals of £0.9m (2016: £1.1m), decreased by £1.7m resulting in the margin decreasing from 13.1% to 12.2% at reported exchange rates. At constant exchange rates underlying operating profit was down 10.7%. Underlying profit before tax was down by 6.6% to £14.2m while underlying EPS was down by 6.3% from 3.2p to 3.0p.

Reported operating profit decreased by 6.9% to £18.9m (2016: £20.3m). Reported profit before tax decreased 5.0% from £14.0m to £13.3m and reported EPS was down by 3.4% from 2.9p to 2.8p.

During the period, eWings.com was acquired for £2.6m, investment in capital expenditure increased by £1.7m and loan issue costs of £1.6m were incurred, following the renewal of the Group's principal banking facility, committed until 30 June 2021. Net debt of £30.1m at 30 September 2017 represented a reduction of £0.9m year-on-year and equates to a ratio of 0.5 times EBITDA for the last 12 months (2016: 0.5 times). Since 31 March 2017, net debt has increased by £9.1m, principally due to a decline in working capital (£7.4m) resulting from lower client travel activity, and the acquisition of eWings.com.

On an accounting basis, the Group-wide pre-tax pension deficits have decreased by £21.7m to £243.5m since the year-end. The UK Defined Benefit Scheme ('the UK Scheme') deficit decreased by £22.1m to £225.2m due to a decrease in liabilities of £17.6m and an increase in the fair value of plan assets of £4.5m. The £17.6m decrease in liabilities was primarily due to the impact of a higher discount rate and an update of membership data following on from the work being performed as part of the triennial valuation. On a post-tax basis, the Group pension deficit at the year-end was £205.2m.

The triennial valuation, based on actuarial values at 31 March 2017, is still underway during which the Company will be discussing with the Trustees the appropriateness of the existing recovery plan. It is expected that the funding valuation performed by the UK Scheme's actuary will factor in the latest demographic assumptions.

The Board has declared an interim dividend of 0.760p per share, up 6% on the interim payment a year ago. The dividend will be paid on 8 January 2018 to shareholders on the register at the close of business on 8 December 2017.

REVENUE

Reported revenue decreased by 1.0% to £161.9m, comprised of a decrease of 5.0% at constant exchange rates partly offset by 4.0% favourable currency movements.

OPERATING EXPENSES

Reported operating expenses decreased by 0.2% to £143.0m.

Underlying operating expenses, which are before amortisation of acquired intangibles and exceptional items remained the same as the prior period at £142.1m. At constant exchange rates this represented a 4.1% decrease, comprised of a 2.3% decrease in staff costs and 7.9% decrease in other expenses.

UNDERLYING OPERATING PROFIT

Underlying operating profit, which is before amortisation of acquired intangibles and exceptional items, decreased by 7.9% from £21.5m to £19.8m, or by 10.7% at constant exchange rates. Underlying operating profit margin decreased from 13.1% to 12.2%.

EXCEPTIONAL ITEMS

The cost of exceptional items was £0.9m (2016: £1.1m). These relate to planned cost restructuring programmes across the Group and are mainly in respect of redundancy costs £0.9m (2016: £0.9m), partly offset by a pension curtailment gain of £0.1m (2016: £nil), and property exit costs £0.1m (2016: £0.2m).

FINANCE COSTS

Finance costs decreased by £0.9m to £5.9m, reflecting a reduction in interest on bank overdrafts and loans and lower finance costs relating to retirement benefit obligations, partly offset by higher amortisation of loan issue costs in relation to the renewed banking facility in the period and the unwind of present value discounting on contingent consideration in relation to the acquisition of eWings.com (see note 26 to the financial statements).

TAXATION

The tax charge of £3.8m (2016: £3.9m) for the half year represents an overall effective tax rate (ETR) of 29% of the reported profit before tax (2016: 28%). The underlying ETR was 28%. We anticipate an underlying ETR of circa 28% in the foreseeable future.

EPS

Underlying EPS fell by 6% from 3.2p to 3.0p. Reported EPS fell by 3% from 2.9p to 2.8p.

CASH FLOW

Free cash inflow, which is the change in net debt before acquisitions and disposals, Employee Benefit Trust share purchases, dividends and the impact of foreign exchange movements on net debt balances, was £0.5m (2016: £6.5m).

Cash outflow in respect of working capital was £7.4m (2016: £2.9m). The net cash outflow related to interest was £1.8m (2016: £2.2m). Dividends received from equity accounted investments were £0.2m (2016: £0.6m). Loan issue costs in relation to the renewal of the banking facility were incurred in the period of £1.6m. Tax paid in cash was £3.6m (2016: £6.5m). Capital expenditure, which is primarily internal software development and office equipment, was £5.8m (2016: £4.1m). Cash costs for pension deficit reduction were £3.8m (2016: £3.7m). Of the £1.6m cash outflow in respect of exceptional items, £0.8m was paid relating to current period charges and £0.8m related to prior year exceptional charges.

In addition to free cash flow, other cash flow items relate to the acquisition of eWings.com of £2.6m, share purchases of £0.7m made by the Employee Benefit Trust (2016: £0.7m), £6.2m of dividends paid to shareholders during the year (2016: £5.9m) and £0.1m of adverse foreign exchange related movements (2016: favourable £2.3m).

FUNDING AND NET DEBT

The principal banking facility is a £150m multi-currency revolving credit facility (RCF) that was renewed in July 2017 and is committed for four years until 30 June 2021, with an interest margin of 1.85% above LIBOR. The RCF is used for loans, letters of credit and guarantees, with interest based on the inter-bank lending rate for the appropriate currency plus a margin. At the end of September 2017, £48.4m of the facility was utilised. In addition, the Group has a £20m fixed rate loan, repayable by 2018, and additional uncommitted facilities amounting to around £14m at the half year.

HALF-YEARLY REVIEW

Continued

We have a capital allocation policy that confirms a robust framework within which the Group will operate, and within which there is liquidity available for our growth strategy.

Net external interest costs were covered 13.2 times by underlying EBITDA (2016: 12.1 times).

Net debt decreased from 30 September 2016 by £0.9m to £30.1m and was equivalent to 0.5 times EBITDA for the last 12 months (2016: 0.5 times).

We continue to operate well within our banking covenants. The principal covenants continue to be measured semi-annually, at the end of March and the end of September, against EBITDA. The covenants require that net interest is covered at least 4.0 times by EBITDA and net debt is less than 3.0 times EBITDA, both on a rolling 12-month basis. The definition of EBITDA and Net Debt for covenant purposes is not materially different from the definition used in these financial statements. Interest charges do not include notional interest on pension deficit or amortisation of upfront costs related to financing arrangements and discounting charges.

PENSIONS

The Group-wide pension deficits under IAS 19 have decreased by £21.7m to £243.5m before tax.

The UK Scheme deficit decreased by £22.1m to £225.2m due to a decrease in liabilities of £17.6m and an increase in the fair value of plan assets of £4.5m. The decrease in liabilities is primarily due to a 0.1% increase in discount rate and an update of membership data following on from the work being performed as part of the triennial valuation. For several years, the UK Scheme has been closed to new entrants and has capped increases in pensionable salary. The UK defined benefit section was closed to future accrual on 30 June 2013 and replaced with a defined contribution section.

At 30 September 2017, there was a deferred tax asset of £38.3m (2016: £42.0m) relating to the UK deficit and an asset of £nil (2016: £0.1m) relating to the overseas schemes.

RELATED PARTIES

Related party disclosures are provided in note 24 to the financial statements.

FOREIGN CURRENCY

The following principal exchange rates have been used in the financial statements:

	Income statement			Balance sheet		
	Six months ended 30 September			30 September	31 March	
	2017	2016	Change	**2017**	2017	Change
Euro	**1.13**	1.22	+7%	**1.13**	1.17	+3%
Swiss Franc	**1.27**	1.33	+5%	**1.30**	1.25	-4%
US Dollar	**1.31**	1.37	+4%	**1.34**	1.25	-7%
Canadian Dollar	**1.69**	1.77	+5%	**1.68**	1.67	-1%

GOING CONCERN

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. Having reassessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing its condensed interim financial statements.

HALF-YEARLY REVIEW

Continued

SUMMARY INCOME STATEMENT

Six months ended 30 September	2017 £m	2016 £m
Revenue	161.9	163.6
EBITDA before exceptional items	25.8	27.2
Depreciation and amortisation (1)	(6.0)	(5.7)
Underlying operating profit	19.8	21.5
Amortisation of acquired intangibles	–	(0.1)
Exceptional items	(0.9)	(1.1)
Operating profit	18.9	20.3
Share of associates and joint ventures	0.3	0.5
Finance costs	(5.9)	(6.8)
Profit before tax	13.3	14.0
Taxation	(3.8)	(3.9)
Profit for the period	9.5	10.1

SUMMARY BALANCE SHEET

	30 September 2017 £m	31 March 2017 £m
Goodwill and other intangible assets	261.3	256.9
Property, plant, equipment and investments	11.7	12.5
Working capital	(40.0)	(43.0)
Current tax liabilities (net)	(4.5)	(5.2)
Deferred tax assets (net)	37.5	41.6
Net debt	(30.1)	(21.0)
Pension liabilities (pre-tax)	(243.5)	(265.2)
Provisions and other items	(0.9)	(2.9)
Net liabilities	(8.5)	(26.3)

SUMMARY CASH FLOW STATEMENT

Six months ended 30 September	2017 £m	2016 £m
EBITDA before exceptional items	25.8	27.2
Cash paid in respect of exceptional items	(1.6)	(2.2)
Working capital movements	(7.4)	(2.9)
Interest paid	(1.8)	(2.2)
Dividends received from equity accounted investments	0.2	0.6
Loan issue costs	(1.6)	-
Tax paid	(3.6)	(6.5)
Capital expenditure	(5.8)	(4.1)
Pension funding in excess of EBITDA charge	(3.8)	(3.7)
Other movements	0.1	0.3
Free cash inflow	0.5	6.5
Acquisitions and disposals	(2.6)	0.4
Employee Benefit Trust share purchases	(0.7)	(0.7)
Dividends paid to external shareholders	(6.2)	(5.9)
Currency translation and other	(0.1)	2.3
(Increase)/reduction in net debt	(9.1)	2.6

(1) Excluding amortisation of acquired intangibles

CONSOLIDATED INCOME STATEMENT

For the period ended 30 September 2017

	Notes	Half year ended 30 September 2017 £m Unaudited	Half year ended 30 September 2016 £m Unaudited
Revenue	7	161.9	163.6
Operating expenses	8	(143.0)	(143.3)
Operating profit		18.9	20.3
Analysed as:			
Underlying operating profit	7	19.8	21.5
Amortisation of acquired intangibles	7,8	–	(0.1)
Exceptional items	7,8	(0.9)	(1.1)
Operating profit		18.9	20.3
Share of results of associates and joint ventures		0.3	0.5
Finance costs	10	(5.9)	(6.8)
Profit before tax		13.3	14.0
Income tax expense	11	(3.8)	(3.9)
Profit for the period		9.5	10.1
Profit attributable to:			
Owners of the Company	12	9.0	9.4
Non-controlling interests		0.5	0.7
		9.5	10.1

		Half year ended 30 September 2017 pence	Half year ended 30 September 2016 pence
Earnings per share			
Basic	12	2.8	2.9
Diluted	12	2.7	2.8

The notes on pages 15 to 29 form an integral part of the condensed consolidated half-yearly financial information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 September 2017

	Half year ended 30 September			Half year ended 30 September		
	Other reserves £m Unaudited	Retained deficit £m Unaudited	2017 £m Unaudited	Other reserves £m Unaudited	Retained deficit £m Unaudited	2016 £m Unaudited
Profit for the period	–	9.5	9.5	–	10.1	10.1
Other comprehensive income/(expense)						
Items that will not be subsequently reclassified to profit or loss						
Remeasurements on defined benefit pension schemes	–	21.5	21.5	–	(152.4)	(152.4)
Deferred tax movement on pension liability	–	(3.7)	(3.7)	–	27.4	27.4
Deferred tax movement on pension liability attributable to impact of UK rate change	–	–	–	–	(3.8)	(3.8)
Items that may be subsequently reclassified to profit or loss						
Currency translation differences	(3.4)	–	(3.4)	11.5	0.5	12.0
Amounts charged to hedging reserve	–	–	–	0.1	–	0.1
Other comprehensive income/(expense) for the period, net of tax	(3.4)	17.8	14.4	11.6	(128.3)	(116.7)
Total comprehensive income/(expense) for the period	(3.4)	27.3	23.9	11.6	(118.2)	(106.6)
Total comprehensive income/(expense) attributable to:						
Owners of the Company	(3.4)	26.8	23.4	11.5	(118.9)	(107.4)
Non-controlling interests	–	0.5	0.5	0.1	0.7	0.8
	(3.4)	27.3	23.9	11.6	(118.2)	(106.6)

The notes on pages 15 to 29 form an integral part of the condensed consolidated half-yearly financial information.

CONSOLIDATED BALANCE SHEET

As at 30 September 2017

	Notes	30 September 2017 £m Unaudited	31 March 2017 £m Audited
Non-current assets			
Goodwill and other intangible assets	14	261.3	256.9
Property, plant and equipment	15	7.6	8.4
Investments accounted for using the equity method	16	4.1	4.1
Trade and other receivables		0.4	0.3
Deferred tax assets		41.4	45.2
		314.8	314.9
Current assets			
Trade and other receivables		107.6	106.5
Financial assets – derivative financial instruments	17	0.5	0.3
Current tax assets		1.0	0.7
Cash and cash equivalent assets	18	34.3	35.1
		143.4	142.6
Total assets		458.2	457.5
Non-current liabilities			
Financial liabilities – borrowings	18	(53.2)	(45.6)
Deferred tax liabilities		(3.9)	(3.6)
Trade and other payables		(5.7)	(1.5)
Retirement benefit obligations	20	(243.5)	(265.2)
Provisions	19	(2.1)	(2.1)
		(308.4)	(318.0)
Current liabilities			
Financial liabilities – borrowings	18	(9.6)	(10.1)
Financial liabilities – derivative financial instruments	17	(0.3)	(0.3)
Current tax liabilities		(5.5)	(5.9)
Trade and other payables		(142.3)	(148.3)
Provisions	19	(0.6)	(1.2)
		(158.3)	(165.8)
Total liabilities		(466.7)	(483.8)
Net liabilities		(8.5)	(26.3)
Equity			
Share capital	21	3.3	3.3
Share premium	21	179.9	179.4
Other reserves	22	21.3	24.7
Retained deficit		(214.6)	(234.8)
Attributable to owners of Hogg Robinson Group plc		(10.1)	(27.4)
Attributable to non-controlling interests		1.6	1.1
Total equity		(8.5)	(26.3)

The notes on pages 15 to 29 form an integral part of the condensed consolidated half-yearly financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 30 September 2017

	Attributable to equity holders of the Company						
	Share capital £m	Share premium £m	Other reserves £m	Retained deficit £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 April 2017	3.3	179.4	24.7	(234.8)	(27.4)	1.1	(26.3)
Retained profit for the period	–	–	–	9.0	9.0	0.5	9.5
Total other comprehensive income	–	–	(3.4)	17.8	14.4	–	14.4
Transactions with owners:							
– Dividends	–	–	–	(6.2)	(6.2)	–	(6.2)
– Share-based incentives – charge for the period	–	–	–	0.8	0.8	–	0.8
– Shares purchased by Employee Benefit Trust	–	–	–	(0.7)	(0.7)	–	(0.7)
– New shares issued to satisfy share-based incentives	–	0.5	–	(0.5)	–	–	–
Total transactions with owners	–	0.5	–	(6.6)	(6.1)	–	(6.1)
Balance at 30 September 2017 (unaudited)	**3.3**	**179.9**	**21.3**	**(214.6)**	**(10.1)**	**1.6**	**(8.5)**

	Attributable to equity holders of the Company						
	Share capital £m	Share premium £m	Other reserves £m	Retained deficit £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 April 2016	3.3	179.3	10.2	(243.3)	(50.5)	0.6	(49.9)
Retained profit for the period	–	–	–	9.4	9.4	0.7	10.1
Total other comprehensive income	–	–	11.5	(128.3)	(116.8)	0.1	(116.7)
Transactions with owners:							
– Dividends	–	–	–	(5.9)	(5.9)	–	(5.9)
– Share-based incentives – charge for the period	–	–	–	1.0	1.0	–	1.0
– Shares purchased by Employee Benefit Trust	–	–	–	(0.7)	(0.7)	–	(0.7)
– New shares issued to satisfy share-based incentives	–	0.1	–	–	0.1	–	0.1
Total transactions with owners	–	0.1	–	(5.6)	(5.5)	–	(5.5)
Balance at 30 September 2016 (unaudited)	3.3	179.4	21.7	(367.8)	(163.4)	1.4	(162.0)

The notes on pages 15 to 29 form an integral part of the condensed consolidated half-yearly financial information.

CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 September 2017

	Notes	Half year ended 30 September 2017 £m Unaudited	2016 £m Unaudited
Cash flows from operating activities			
Cash generated from operations	23	13.3	18.9
Interest paid		(1.8)	(2.2)
Tax paid		(3.6)	(6.5)
Cash flows generated from operating activities – net		7.9	10.2
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	26	(2.6)	–
Purchase of property, plant and equipment		(1.2)	(1.8)
Purchase and internal development of intangible assets		(4.7)	(2.3)
Proceeds from sale of property, plant and equipment		0.1	–
Dividends received from associates and joint ventures		0.2	0.6
Disposals of associates, joint ventures and other investments	16	–	0.4
Cash flows used in investing activities – net		(8.2)	(3.1)
Cash flows from financing activities			
Repayment of borrowings		(55.1)	(12.6)
New borrowings		63.4	–
Issue costs of new borrowings		(1.6)	–
Cash effect of currency swaps		(0.2)	(0.2)
Purchase of own shares by the Employee Benefit Trust		(0.7)	(0.7)
Dividends paid to external shareholders		(6.2)	(5.9)
Cash flows used in financing activities – net		(0.4)	(19.4)
Net (decrease) in cash and cash equivalents		(0.7)	(12.3)
Cash and cash equivalents at beginning of the period		35.0	43.7
Exchange rate effects		–	2.8
Cash and cash equivalents at end of the period		34.3	34.2
Cash and cash equivalent assets		34.3	34.4
Overdrafts		–	(0.2)
Cash and cash equivalents at end of the period		34.3	34.2

The notes on pages 15 to 29 form an integral part of the condensed consolidated half-yearly financial information.

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017

1 General information

Hogg Robinson Group plc is an international corporate services company specialising in travel, expense, payments and data management underpinned by proprietary technology.

The Company is a public limited company, incorporated and domiciled in the UK under the Companies Act 2006. The address of its registered office is Global House, Victoria Street, Basingstoke, Hampshire, RG21 3BT, United Kingdom.

The Company is listed on the Official List of the UK Listing Authority and the London Stock Exchange, and its registered number is 3946303.

This condensed consolidated half-yearly financial information was approved for issue on 23 November 2017.

This condensed consolidated half-yearly financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2017 were approved by the Board of Directors on 24 May 2017 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

This condensed consolidated half-yearly financial information has been reviewed, not audited.

2 Basis of preparation

This condensed consolidated half-yearly financial information for the half year ended 30 September 2017 has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with IAS 34, Interim Financial Reporting, as adopted by the European Union. The half-yearly condensed consolidated financial report should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. Having reassessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing its condensed interim financial statements.

3 Accounting policies

There are no standards or interpretations that are effective for the first time for the financial year beginning on 1 April 2017 that would be expected to have a material impact on the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Accounting policies adopted are consistent with those of the Annual Consolidated Financial Statements for the year ended 31 March 2017, as described in those statements.

IFRS 15, 'Revenue from Contracts with Customers', was issued in May 2014, EU endorsed in September 2016 and is effective from 1 January 2018. The Standard provides a single principles based five step model to be applied to all sales contracts based on the transfer of control of goods and services to customers and identification of performance obligations on a contract by contract basis.

Management has performed an initial review of the impact on the Group of the new standard, effective for the Group from 1 April 2018, and it is expected to revise the timing of certain revenues in the Fraedom business. At the current time it is not possible to quantify the impact of this on the Group's total future revenues and profits. Current accounting treatment of contracts in the HRG business are believed to be in line with the new standard.

Management has an on-going project to continue assessing the impact to its financial statements to ensure compliance with IFRS 15 on adoption.

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material non-recurring items of income or expense that have been shown separately due to the significance of their nature or amount and do not form part of the underlying business of the Group.

Income tax expense in the half-year period is accrued using the tax rate that would be applicable to expected total annual earnings.

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

4 Estimates

The preparation of condensed consolidated half-yearly financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated half-yearly financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements for the year ended 31 March 2017, with the addition of the estimation that is required in determining the half-year provision for income tax expense.

5 Principal risks and uncertainties

The principal risks and uncertainties affecting the Group were identified as part of the Strategic Report and the Financial Risk Management note set out on pages 22 to 23 and 73 to 74 respectively of the Hogg Robinson Group plc Annual Report 2017, a copy of which is available on the Group's website www.hoggrobinson.com. The Board's view is that these risks and the risk management policies in place remain substantially unchanged for the second half of the current financial year. These risks and uncertainties can be summarised as follows:

Operational and external risks
- Change in industry business model and development and delivery of new business and new products
- Competitive environment
- Corruption or reputation risk
- Cyber
- Loss of a major client
- Loss of a supplier
- Retention of key staff
- Significant economic or other crisis
- Technology or systems failure
- Volatility of client activity or transactions risk

Financial risks
- Access to funding at affordable rates
- Changes to industry payment structures
- Cost and capital control
- Increased pension funding

There may be additional risks unknown to the Group and other risks, currently believed to be immaterial, which could turn out to be material. These risks, whether they materialise individually or simultaneously, could significantly affect the Group's business and financial results.

6 Seasonality

The Group's revenue and operating profit are affected by the seasonality of corporate travel business, with travel declining during the summer and Christmas holiday periods and, to a lesser extent, during Easter holidays, which are times when many corporate travellers are on holiday. Typically, the Group experiences the highest levels of revenue in the last months of its financial year, principally reflecting increased travel activity by its clients during this period.

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

7 Operating segments

The Chief Operating Decision Maker has been identified as the Executive Management Team, which reviews the Group's internal reporting in order to assess performance and allocate resources. The Executive Management Team has determined the operating segments based on these reports.

The Executive Management Team considers the business from the perspective of two core activities, travel management (HRG), which is analysed into three distinct geographic segments and includes hrgtec, and FinTech (Fraedom) which includes Fraedom Payments and Expense operations. During the period the Group acquired eWings (see note 26), the results of which are included in the Europe travel management segment. The Group's internal reporting processes do not distinguish between the numerous sources of income that comprise revenue for HRG. The performance of the operating segments is assessed based on a measure of operating profit excluding items of an exceptional nature. Interest income and expenditure and income tax expense are not included in the result for each operating segment that is reviewed by the Executive Management Team. Other information provided, except as noted below, to the Executive Management Team is measured in a manner consistent with that in the financial statements.

Total segment assets exclude cash and cash equivalent assets, current tax assets, financial assets and deferred tax assets which are managed on a central basis. These are included as part of the reconciliation to total Consolidated Balance Sheet assets.

	HRG				Fraedom	
	Europe £m	North America £m	Asia Pacific £m	Total £m	£m	Total £m
Half year ended 30 September 2017						
Revenue from external customers	97.5	37.9	8.7	144.1	17.8	161.9
Underlying operating profit	10.8	4.4	0.9	16.1	3.7	19.8
Amortisation of acquired intangibles	–	–	–	–	–	–
Operating profit before exceptional items	10.8	4.4	0.9	16.1	3.7	19.8
Exceptional items	(0.9)	–	–	(0.9)	–	(0.9)
Operating profit	9.9	4.4	0.9	15.2	3.7	18.9
Underlying margin	11.1%	11.6%	10.3%	11.2%	20.8%	12.2%
Half year ended 30 September 2016						
Revenue from external customers	100.8	38.9	8.7	148.4	15.2	163.6
Underlying operating profit/(loss)	13.1	6.0	(0.3)	18.8	2.7	21.5
Amortisation of acquired intangibles	–	(0.1)	–	(0.1)	–	(0.1)
Operating profit/(loss) before exceptional items	13.1	5.9	(0.3)	18.7	2.7	21.4
Exceptional items	(0.4)	(0.2)	(0.5)	(1.1)	–	(1.1)
Operating profit/(loss)	12.7	5.7	(0.8)	17.6	2.7	20.3
Underlying margin	13.0%	15.4%	-3.4%	12.7%	17.8%	13.1%

There is no material inter-segment revenue (2016: nil).

External revenue from clients by origin (where the Group's operations are located) is not materially different from external revenue from clients by geographical area (where the client is located) disclosed above.

A reconciliation of operating profit to total profit before income tax expense is provided in the Consolidated Income Statement.

	HRG				Fraedom	
	Europe £m	North America £m	Asia Pacific £m	Total £m	£m	Total £m
Total segment assets						
30 September 2017	266.8	85.9	10.5	363.2	17.8	381.0
31 March 2017	261.3	86.5	11.6	359.4	16.8	376.2

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

7 Operating segments continued

Reported segments' assets are reconciled to total assets as follows:

	30 September 2017 £m	31 March 2017 £m
Total segment assets	381.0	376.2
Cash and cash equivalent assets	34.3	35.1
Current tax assets	1.0	0.7
Financial assets – derivative financial instruments	0.5	0.3
Deferred tax assets	41.4	45.2
	458.2	457.5

8 Operating expenses

	Half year ended 30 September	
	2017 £m	2016 £m
Underlying operating expenses		
Staff costs (note 9)	98.2	96.3
Amortisation of intangible assets other than acquired intangible assets	4.0	3.6
Depreciation of property, plant and equipment	2.0	2.1
Operating lease rentals – buildings	5.3	5.8
Operating lease rentals – other assets	0.3	0.2
Currency translation differences	(0.1)	0.1
Other expenses	32.4	34.0
	142.1	142.1
Amortisation of acquired intangibles:		
Amortisation of client relationships	–	0.1
Exceptional items:		
Restructuring costs:		
– Staff costs (note 9)	0.8	0.9
– Other expenses	0.1	0.2
	0.9	1.1
Total operating expenses	143.0	143.3

Included within underlying operating expenses above is £1.2m relating to research (2016: £1.7m).

Exceptional items

Exceptional items of £0.9m (2016: £1.1m) were incurred during the period and relate to planned cost reduction programmes in HRG and Fraedom and are in respect of redundancy costs and property exit costs, comprising onerous lease provisions, totalling £1.0m, partly offset by a £0.1m pension curtailment gain that arose as a result of the cost restructuring programme in Switzerland.

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

9 Staff costs

	Half year ended 30 September					
	2017 Before exceptional items £m	**2017 Exceptional items £m**	**2017 £m**	2016 Before exceptional items £m	2016 Exceptional items £m	2016 £m
Wages and salaries	84.1	–	84.1	81.9	–	81.9
Social security costs	9.1	–	9.1	8.8	–	8.8
Other pension costs	4.1	(0.1)	4.0	4.5	–	4.5
Redundancy and termination costs (note 8)	0.1	0.9	1.0	0.1	0.9	1.0
Share-based incentives	0.8	–	0.8	1.0	–	1.0
	98.2	0.8	99.0	96.3	0.9	97.2
Other pension costs comprise:						
Defined benefit schemes						
– Current service charge and administration expenses	1.0	–	1.0	1.1	–	1.1
– Curtailment gain	(0.4)	(0.1)	(0.5)	–	–	–
– Defined contribution schemes	3.5	–	3.5	3.4	–	3.4
	4.1	(0.1)	4.0	4.5	–	4.5

	Half year ended 30 September	
	2017 number	2016 number
Average monthly number of staff employed by the Group including Key Management	4,508	4,695

10 Finance costs

	Half year ended 30 September	
	2017 £m	2016 £m
Interest on bank overdrafts and loans	1.4	1.9
Amortisation of issue costs on bank loans	0.4	0.3
Net interest expense on retirement obligations	3.5	4.3
Other finance charges	0.4	0.3
Unwinding of discount on contingent consideration (note 26)	0.2	–
Finance costs	5.9	6.8

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

11 Income tax expense

The tax charge is split as follows:

	Half year ended 30 September	
	2017 £m	2016 £m
United Kingdom	**0.2**	0.4
Overseas	**3.6**	3.5
Taxation charge	**3.8**	3.9

Taxes on income in the half-year periods to 30 September are accrued using the tax rate that would be applicable to the expected total annual earnings by country. An effective statutory tax rate of approximately 28% is anticipated for the year ended 31 March 2018 (31 March 2017: 28%). An effective tax rate on underlying earnings before exceptional items and amortisation of acquired intangibles of approximately 28% is anticipated for the year ended 31 March 2018 (31 March 2017: 28%).

Legislation was substantively enacted in Finance Act 2016 lowering the UK corporation tax rate to 17% from 1 April 2020. UK deferred tax balances have been valued at 17%.

12 Earnings per share

Earnings per share attributable to equity holders of the Company were as follows:

	Half year ended 30 September	
	2017 pence	2016 pence
Earnings per share		
Basic	**2.8**	2.9
Diluted	**2.7**	2.8

	Half year ended 30 September	
	2017 £m	2016 £m
Earnings for the purposes of earnings per share:		
Profit for the financial period	**9.5**	10.1
Less: amount attributable to non-controlling interests	**(0.5)**	(0.7)
Total	**9.0**	9.4

	Half year ended 30 September	
	2017 number m	2016 number m
Weighted average number of Ordinary shares in issue		
Issued (for basic EPS)	**323.8**	323.9
Effect of dilutive potential Ordinary shares – share-based incentives	**6.9**	6.2
For diluted EPS	**330.7**	330.1

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

12 Earnings per share continued

Underlying earnings per share

	Half year ended 30 September 2017 pence	Half year ended 30 September 2016 pence
Underlying earnings per share		
Basic	**3.0**	3.2
Diluted	**2.9**	3.1

	Half year ended 30 September 2017 £m	Half year ended 30 September 2016 £m
Earnings for the purposes of underlying earnings per share:		
Profit before tax from continuing operations	**13.3**	14.0
Add: amortisation of acquired intangibles	**–**	0.1
Add: exceptional items	**0.9**	1.1
Underlying profit before tax	**14.2**	15.2
Underlying income tax expense	**(4.0)**	(4.2)
Underlying profit for the financial period	**10.2**	11.0
Less: amounts attributable to non-controlling interests	**(0.5)**	(0.7)
Total	**9.7**	10.3

Underlying earnings are earnings before amortisation of acquired intangibles, exceptional items and related income tax expense.

13 Dividends

A dividend that related to the year ended 31 March 2017 amounting to 1.925p per ordinary share of £6,238,946 was paid on 1 August 2017. The dividend was paid to shareholders who were on the register at 30 June 2017. The Employee Benefit Trust has waived its rights to dividends.

The Directors have declared an interim dividend in respect of the six months ended 30 September 2017 of 0.760p per ordinary share payable on 8 January 2018 to shareholders who are on the register at 8 December 2017. This interim dividend, amounting to £2.5m has not been recognised as a liability in this half-yearly financial report, in accordance with IAS 10, Events after the Reporting Period.

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

14 Goodwill and other intangible assets

	30 September 2017 £m	31 March 2017 £m
Goodwill	239.4	235.9
Other intangible assets	21.9	21.0
	261.3	256.9

		Computer software			
	Goodwill £m	Externally acquired £m	Internally generated £m	Client relationships £m	Total £m
Cost					
At 1 April 2016	249.4	19.2	53.5	38.2	360.3
Additions	–	0.8	6.9	–	7.7
Disposals	–	(0.3)	(3.2)	–	(3.5)
Exchange differences	12.9	1.6	2.9	3.9	21.3
At 31 March 2017	262.3	21.3	60.1	42.1	385.8
Additions	–	0.2	4.5	–	4.7
Acquisitions (note 26)	5.8	0.6	–	–	6.4
Exchange differences	(2.3)	(0.2)	(0.9)	(0.8)	(4.2)
At 30 September 2017	**265.8**	**21.9**	**63.7**	**41.3**	**392.7**
Accumulated amortisation and impairment losses					
At 1 April 2016	26.4	17.9	35.9	38.0	118.2
Amortisation charge for the year	–	0.7	6.3	0.2	7.2
Disposals	–	(0.3)	(3.2)	–	(3.5)
Exchange differences	–	1.4	1.7	3.9	7.0
At 31 March 2017	26.4	19.7	40.7	42.1	128.9
Amortisation charge for the period	–	0.4	3.6	–	4.0
Exchange differences	–	(0.2)	(0.5)	(0.8)	(1.5)
At 30 September 2017	**26.4**	**19.9**	**43.8**	**41.3**	**131.4**
Carrying amount					
At 1 April 2016	223.0	1.3	17.6	0.2	242.1
At 31 March 2017	235.9	1.6	19.4	–	256.9
At 30 September 2017	**239.4**	**2.0**	**19.9**	**–**	**261.3**

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

15 Property, plant and equipment

	Property £m	Plant and equipment £m	Total £m
Cost			
At 1 April 2016	9.1	44.0	53.1
Additions for the year	0.3	3.1	3.4
Disposals for the year	(0.6)	(3.5)	(4.1)
Exchange differences	0.7	4.8	5.5
At 31 March 2017	9.5	48.4	57.9
Additions for the period	0.1	1.3	1.4
Disposals for the period	–	(0.3)	(0.3)
Exchange differences	(0.2)	(1.2)	(1.4)
At 30 September 2017	**9.4**	**48.2**	**57.6**
Accumulated depreciation			
At 1 April 2016	7.6	36.7	44.3
Depreciation charge for the year	0.5	3.8	4.3
Disposals for the year	(0.6)	(3.4)	(4.0)
Exchange differences	0.6	4.3	4.9
At 31 March 2017	8.1	41.4	49.5
Depreciation charge for the period	0.2	1.8	2.0
Disposals for the period	–	(0.1)	(0.1)
Exchange differences	(0.2)	(1.2)	(1.4)
At 30 September 2017	**8.1**	**41.9**	**50.0**
Carrying amount			
At 1 April 2016	1.5	7.3	8.8
At 31 March 2017	1.4	7.0	8.4
At 30 September 2017	**1.3**	**6.3**	**7.6**

The Group does not have any material capital commitments in respect of the purchase of property, plant and equipment.

16 Investments accounted for using the equity method

	£m
At 1 April 2016	3.7
Net share of profit for the year after tax and non-controlling interests	0.9
Dividends	(0.7)
Exchange differences	0.2
At 31 March 2017	4.1
Net share of profit for the period after tax and non-controlling interests	0.3
Dividends	(0.2)
Exchange differences	(0.1)
At 30 September 2017	**4.1**

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

16 Investments accounted for using the equity method continued

	Country of incorporation	Proportion held 30 September 2017	Proportion held 31 March 2017
Associates			
Liga Travel GmbH	Germany	49%	49%
Bavaria Lloyd Reiseburo GmbH	Germany	49%	49%
OFB Reisen GmbH (previously known as Austrian Sportstravel Management GmbH)	Austria	50%	50%
Joint ventures			
Hogg Robinson Jin Jiang Travel (China) Co Limited	China	51%	51%
Business Travel International BV	Netherlands	50%	50%
Fraedom Japan KK	Japan	–	45%

On 27 June 2016 the 49% share of besttravel dortmund GmbH was disposed of for cash consideration of £0.4m.

17 Financial assets and liabilities – derivative financial instruments

	30 September 2017 £m	31 March 2017 £m
At fair value		
Current assets:		
Forward foreign exchange contracts – held for trading	0.5	0.3
Current liabilities:		
Forward foreign exchange contracts – held for trading	(0.3)	(0.3)

The Group's financial instruments, measured at fair value, are all classed as level 2 in the fair value hierarchy, which is unchanged from 31 March 2017. In addition to the above, trade and other receivables and cash and cash equivalents are held as loans and receivables. Trade and other payables and borrowings are measured at amortised cost.

18 Financial liabilities – borrowings

	30 September 2017 £m	31 March 2017 £m
Current (due within one year)		
Bank loans	10.0	10.0
Overdrafts	–	0.1
Unamortised loan issue costs	(0.6)	(0.3)
Finance leases	0.2	0.3
	9.6	10.1
Non-current (due after more than one year)		
Bank loans	54.1	45.6
Unamortised loan issue costs	(1.0)	(0.1)
Finance leases	0.1	0.1
	53.2	45.6
	62.8	55.7

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

18 Financial liabilities – borrowings continued

Net debt

	30 September 2017 £m	31 March 2017 £m
Total financial liabilities – borrowings	62.8	55.7
Add back: Unamortised loan issue costs	1.6	0.4
Cash and cash equivalent assets	(34.3)	(35.1)
Net debt	30.1	21.0

19 Provisions

	Restructuring £m	Other £m	Total £m
At 1 April 2016	2.3	2.5	4.8
Additional provisions made in the year charged in the Consolidated Income Statement	4.3	0.2	4.5
Amounts used during the year	(5.5)	(0.2)	(5.7)
Unused provisions reversed	–	(0.5)	(0.5)
Exchange differences	0.1	0.1	0.2
At 31 March 2017	1.2	2.1	3.3
Additional provisions made in the period charged in the Consolidated Income Statement	1.2	0.1	1.3
Additional provisions made in the period in respect of property dilapidations included in property, plant and equipment	–	0.1	0.1
Amounts used during the period	(1.7)	(0.1)	(1.8)
Unused provisions reversed	(0.1)	(0.1)	(0.2)
Exchange differences	–	–	–
At 30 September 2017	**0.6**	**2.1**	**2.7**

Restructuring provisions represent redundancy and office closure costs in a number of Group companies and are disclosed as current liabilities because they are likely to give rise to payment within one year of the balance sheet date. At 30 September 2017, £0.5m (31 March 2017: £1.1m) was held against reorganisation provisions in respect of exceptional items.

Other includes provisions for onerous contracts, property dilapidations and litigation, which are likely to give rise to payment after more than one year of the balance sheet date, ranging from 2 to 8 years.

Provision has been made for the present value of property lease commitments in respect of properties surplus to operational requirements. Allowance has been made for anticipated sublet rental income, and costs to restore premises to their original condition upon vacating them where such an obligation exists under the lease.

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

20 Retirement benefit obligations

Defined benefit pension arrangements

The Group's principal defined benefit pension arrangement is the Hogg Robinson (1987) Pension Scheme (the UK Scheme). The UK Scheme was available to most UK employees until it was closed to new members in March 2003, with benefits based on final pensionable salary. The increase in final pensionable salary since 31 March 2003 is predominantly limited to the lower of the increase in inflation and 5% per annum. The most recent actuarial valuation of the scheme was carried out at 31 March 2014 by an independent qualified actuary.

Following a consultation process with active members, the UK defined benefit section was closed to future accrual on 30 June 2013 and replaced with a defined contribution section.

The Group also operates defined benefit schemes in Switzerland, Germany, Italy and France.

The provision in the Consolidated Balance Sheet arising from obligations in respect of all of the Group's defined benefit schemes is as follows:

	30 September 2017 £m	31 March 2017 £m
UK scheme:		
Defined benefit obligations	**(508.4)**	(526.0)
Fair value of plan assets	**283.2**	278.7
Deficit – UK Scheme	**(225.2)**	(247.3)
Deficit – Overseas Scheme	**(18.3)**	(17.9)
	(243.5)	(265.2)

The following amounts have been included in the Consolidated Income Statement in respect of the UK Scheme:

	Half year ended 30 September	
	2017 £m	2016 £m
Current service charge and administration expense	**0.4**	0.4
Net interest expense on retirement benefit obligations	**3.3**	4.1
Total charge to Consolidated Income Statement	**3.7**	4.5

The key assumptions used for the UK Scheme were:

	30 September 2017	31 March 2017
Rate of increase in final pensionable salary	**2.90%**	2.90%
Rate of increase in pensions in payment – accrued before 1999	**5.00%**	5.00%
Rate of increase in pensions in payment – accrued after 1999	**3.40%**	3.40%
Discount rate	**2.80%**	2.70%
Inflation – RPI	**3.40%**	3.40%
Inflation – CPI	**2.60%**	2.60%

The net present value of the defined benefit obligations of the UK Scheme is sensitive to both the actuarial assumptions used and to market conditions. If the discount rate assumption was 0.1% lower, the obligations would be expected to increase by £10.8m and if it was 0.1% higher, they would be expected to decrease by £10.5m. If the inflation assumption was 0.1% lower, the obligations would be expected to decrease by £4.4m and if it was 0.1% higher, they would be expected to increase by £2.7m.

Defined contribution arrangements

The Group also operates defined contribution plans which receive fixed contributions from group companies. The Group's legal or constructive obligation for these plans is limited to the contributions. The expense recognised in the current period in relation to these contributions was £3.5m (2016: £3.4m).

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

21 Share capital and share premium account

	Ordinary shares of 1p each Number
Authorised	
At 1 April 2017 and 30 September 2017	**513,808,171**
Issued, called up and fully paid	
At 1 April 2017	325,563,002
Shares issued in the period	637,662
At 30 September 2017	**326,200,664**

	£m
Issued, called up and fully paid	
At 1 April 2017 and 30 September 2017	**3.3**

The Company issued 570,668 shares for total consideration receivable of £425,479 during the period to 30 September 2017 on the exercise of options under the Company Share Option Plan (CSOP) and 66,994 shares for total consideration receivable of £37,752 on the exercise of options under the Company's Sharesave Schemes.

The total number of Ordinary shares in the Company held by the Employee Benefit Trust as at 30 September 2017 was 1,612,146 (31 March 2017: 2,630,326) with a market value of £1.2m (31 March 2017: £1.8m).

Share premium account

	£m
At 1 April 2017	179.4
New shares issued	0.5
At 30 September 2017	**179.9**

22 Other reserves

	Exchange reserve £m	Hedging reserve £m	Total other reserves £m
Balance at 1 April 2016	10.4	(0.2)	10.2
Other comprehensive income:			
Fair value movement on cash flow hedges	–	0.2	0.2
Currency translation differences	14.3	–	14.3
Balance at 31 March 2017	24.7	–	24.7
Other comprehensive income:			
Currency translation differences	(3.4)	–	(3.4)
Balance at 30 September 2017	**21.3**	**–**	**21.3**

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

23 Cash generated from operations

	Half year ended 30 September	
	2017 £m	2016 £m
Profit before tax from continuing operations	13.3	14.0
Adjustments for:		
Depreciation and amortisation (note 14 and 15)	6.0	5.8
Net increase in provisions	1.1	1.3
Share of results of associates and joint ventures	(0.3)	(0.5)
Finance costs (note 10)	5.9	6.8
Pension curtailment gain	(0.5)	–
Share-based incentives	0.8	1.0
Other timing differences	–	(0.4)
	26.3	28.0
Cash expenditure charged to provisions	(1.8)	(2.5)
Change in trade and other receivables	(1.5)	(5.0)
Change in trade and other payables	(5.9)	2.1
Pension funding in excess of charge to operating profit	(3.8)	(3.7)
Cash generated from operations	13.3	18.9

24 Related party transactions

There have been no material changes in the nature of related party transactions since 31 March 2017 as reported in note 27 of the Group's 31 March 2017 Annual Report.

25 Contingent liabilities

In 1994 Compagnie Dens Ocean NV (CDO), an indirectly owned subsidiary, received a claim from the Belgian Customs authorities resulting in a liquidator being appointed in 1995. Civil litigation is in process with criminal proceedings being considered pending the final outcome of the civil action. The liquidator is defending the civil action vigorously and the Directors continue to believe, on the basis of legal advice received, that any future impact on the net assets of the Group would not be material.

26 Acquisitions

On 7 June 2017 the Group acquired 92.73% of eWings.com GmbH, an online travel management company servicing the SME market in Germany and Sweden. The total consideration was £6,477k. As a result of the acquisition the Group is expected to utilise the online platform and technology for servicing clients across the HRG network.

The following table summarises the consideration paid for eWings.com GmbH, and the amounts of assets and acquired liabilities assumed recognised at the acquisition date.

Consideration

	7 June 2017 £000's
Cash	2,768
Contingent consideration	3,709
Total consideration	**6,477**

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION

For the period ended 30 September 2017 – continued

26 Acquisitions continued

Recognised amounts of identifiable assets acquired and liabilities assumed

	Provisional fair value £000's
Cash and cash equivalents	126
Internally generated computer software	647
Property, plant and equipment	4
Trade and other receivables	18
Deferred tax asset	194
Trade and other payables	(63)
Corporation tax liabilities	(39)
Deferred tax liability	(194)
Total identifiable assets	693
Goodwill	5,784
Total consideration	**6,477**

Purchase consideration – cash outflow

	£000's
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	2,768
Less: Balances acquired	
Cash	126
Net outflow of cash – investing activities	**2,642**

The fair values are provisional and subject to adjustments which can be made within twelve months of the acquisition date.

The goodwill of £5,784k arises from a number of factors including efficiencies through knowledge transfer and unrecognised assets such as the workforce.

Acquisition related costs of £0.2m have been charged to operating expenses in the Consolidated Income Statement for the period.

The contingent consideration arrangement requires the Group to pay to the former owners of eWings.com GmbH additional amounts based on the future profitability of the company. The fair value of the contingent consideration of £3,709k was estimated by calculating the present value of the future expected cash flow. The estimate is based on a pre tax discount rate of 14%.

The potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is between £2.0m and £7.0m.

The revenue and loss after tax of eWings.com GmbH for the period from 7 June 2017 to 30 September 2017 are £0.1m and £0.2m respectively. Revenues and profits between 1 April 2017 and 7 June 2017 would not have materially impacted the Group's revenue and profit.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that, to the best of their knowledge, this condensed consolidated half-yearly financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of consolidated financial information, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

The Directors of Hogg Robinson Group plc are listed in the Hogg Robinson Group plc Annual Report for 31 March 2017, with the exception of the following changes in the period: K A Ruffles retired as Chief Operating Officer on 31 May 2017, and W F Brindle was appointed as Chief Operating Officer on 12 September 2017:

N H Northridge(1)	*Chairman*
D J C Radcliffe	*Chief Executive*
M N Maher	*Chief Financial Officer*
W F Brindle	*Chief Operating Officer*
A E Hubka(1)	
J J Krumins(1)	
M A Whiteling(1)	
P M Williams(1)	

(1) Non-Executive Directors

By Order of the Board

Keith Burgess
Company Secretary

23 November 2017

INDEPENDENT REVIEW REPORT TO HOGG ROBINSON GROUP PLC

REPORT ON THE CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

Our conclusion

We have reviewed Hogg Robinson Group plc's consolidated half-yearly financial statements (the "interim financial statements") in the half-yearly financial report of Hogg Robinson Group plc for the 6 month period ended 30 September 2017. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Consolidated Balance Sheet as at 30 September 2017;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Cash Flow Statement for the period then ended;
- the Consolidated Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half-yearly financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

RESPONSIBILITIES FOR THE INTERIM FINANCIAL STATEMENTS AND THE REVIEW

Our responsibilities and those of the Directors

The half-yearly financial report, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London

23 November 2017

Notes:
(a) The maintenance and integrity of the Hogg Robinson Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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