

# HALF-YEARLY FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

30 November 2011



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## WELCOME AND OVERVIEW

David Radcliffe, Chief Executive

# OVERVIEW

## Strong first half – continuing good prospects



### Financial

- Revenue up 10% (up 6% at constant currency)
- Underlying profit before tax up 22%
- Profitable across all travel regions and Spendvision
- Net debt down £17m to £69m
- New UK triennial pension valuation finalised with modest increase in cash contributions
- Interim dividend up 20% to 0.6p per share; commitment of total dividend for the year of at least 1.8p

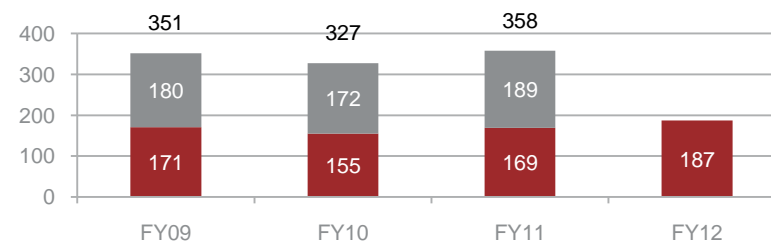
### Operational

- HRG client activity up 7%
- HRG client spend up 13% (up 9% at constant currency)
- Managed client retention rate above 90%

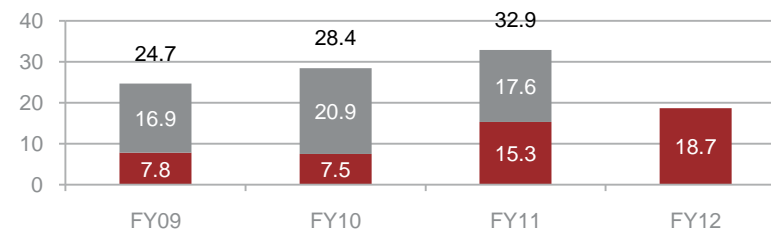
### Growth prospects remain good

- Positive industry data support long-term growth
- Strong pipeline of new business across multiple sectors

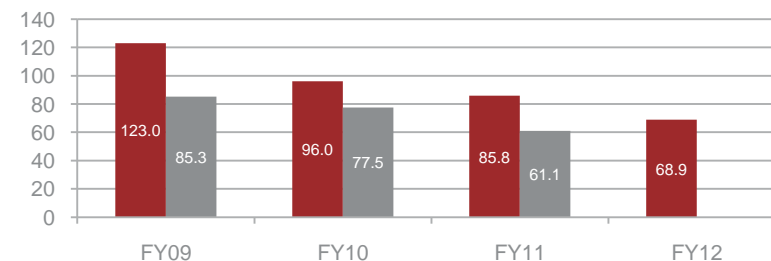
#### Revenue (£m)



#### Underlying PBT <sup>(1)</sup> (£m)



#### Net debt (£m)



■ 30-Sep ■ 31-Mar

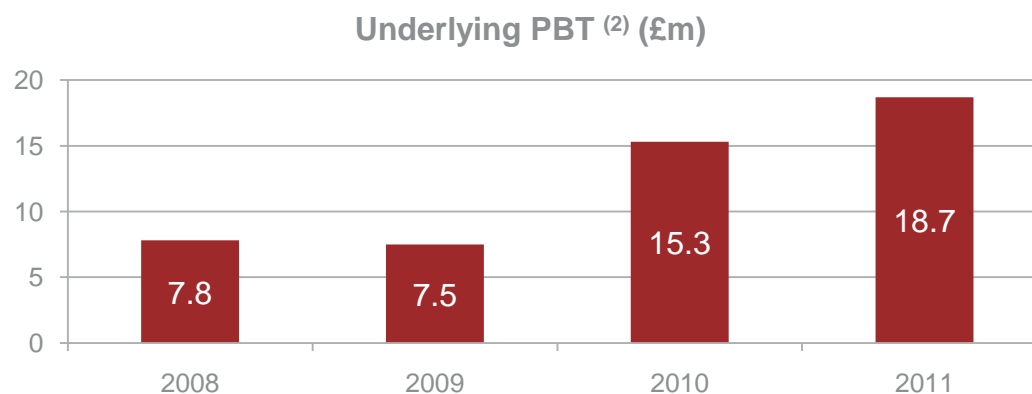
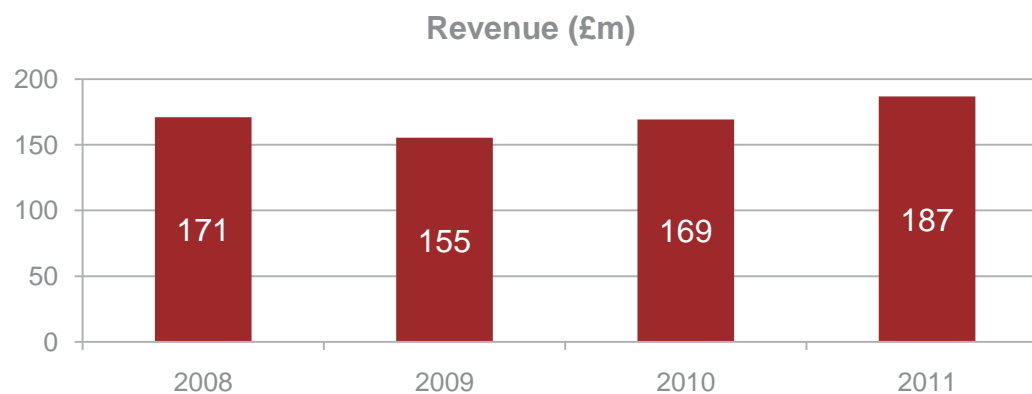
(1) Before amortisation of acquired intangibles and exceptional items

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## FINANCIAL REVIEW

Julian Steadman, Group Finance Director

# H1 REVENUE AND EARNINGS TRENDS <sup>(1)</sup>



(1) Six months ended 30 September

(2) Before amortisation of acquired intangibles and exceptional items

# KEY FINANCIALS FOR THE HALF YEAR

Six months ended 30 September	2011	2010	Change
Revenue	£186.8m	£169.2m	+10%
Underlying operating profit <sup>(1)</sup>	£23.4m	£19.5m	+20%
Underlying operating profit margin <sup>(1)</sup>	12.5%	11.5%	+1.0 pp
Underlying profit before tax <sup>(1)</sup>	£18.7m	£15.3m	+22%
Underlying earnings per share <sup>(1)</sup>	4.1p	3.3p	+24%
Free cash flow <sup>(2)</sup>	(£0.7m)	(£6.1m)	+£5.4m
Net debt	£68.9m	£85.8m	-£16.9m
Interim dividend	0.6p	0.5p	+20%

(1) Before amortisation of acquired intangibles

(2) Free cash flow is the change in net debt before acquisitions and disposals, Employee Benefits Trust purchases, dividends and the impact of foreign exchange movements

# CONSOLIDATED REVENUE AND PROFIT

Six months ended 30 September	2011 £m	2010 £m	Change
Revenue	186.8	169.2	+10.4%
Staff costs	111.0	98.8	+12.3%
Other costs	52.4	50.9	+2.9%
	163.4	149.7	+9.2%
Underlying operating profit <sup>(1)</sup>	23.4	19.5	+20%
Underlying operating profit margin <sup>(1)</sup>	12.5%	11.5%	+1.0 pp
Average employees (FTE)	5,446	5,183	+5.1%
Revenue per FTE (£'000)	34.3	32.6	+5.2%

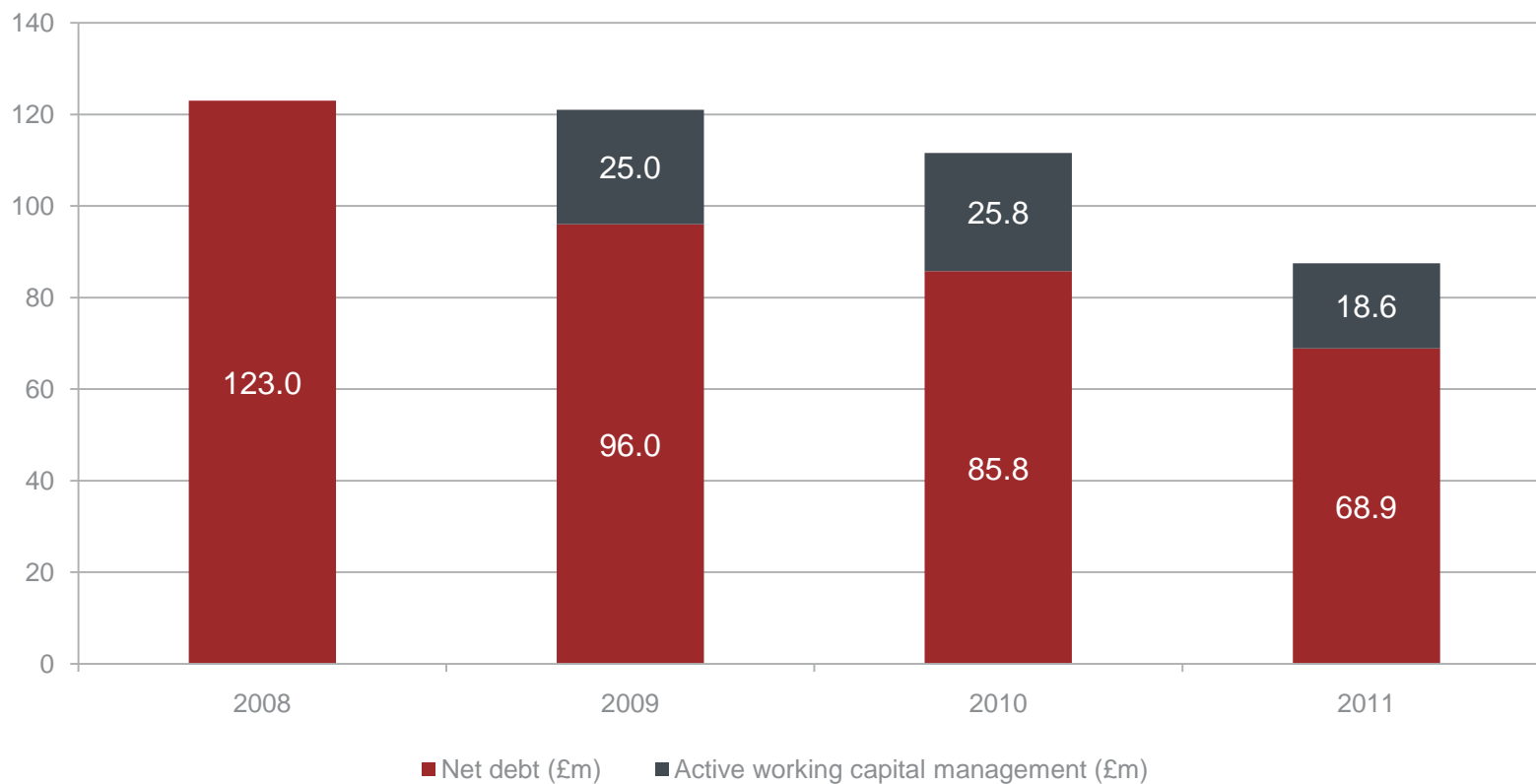
(1) Before amortisation of acquired intangibles

# SEGMENTAL REVENUE AND PROFIT

Six months ended 30 September	Change			
	2011 £m	2010 £m	Reported rates	Constant currency
Europe	125.1	115.1	8.7%	3.4%
North America	39.0	38.0	2.6%	4.7%
Asia Pacific	15.6	10.1	54.5%	41.6%
Spendvision	7.1	6.0	18.3%	16.6%
<b>Revenue</b>	<b>186.8</b>	<b>169.2</b>	<b>10.4%</b>	<b>6.4%</b>
Europe	15.0	13.6	+£1.4m	+£0.7m
North America	6.8	5.6	+£1.2m	+£1.2m
Asia Pacific	0.7	(0.1)	+£0.8m	+£0.8m
Spendvision	0.9	0.4	+£0.5m	+£0.4m
<b>Underlying operating profit <sup>(1)</sup></b>	<b>23.4</b>	<b>19.5</b>	<b>+£3.9m</b>	<b>+£3.1m</b>
<b>Underlying operating profit margin <sup>(1)</sup></b>	<b>12.5%</b>	<b>11.5%</b>	<b>1.0 pp</b>	

(1) Before amortisation of acquired intangibles and exceptional items

# NET DEBT (1)



(1) At 30 September

# CASH FLOW AND NET DEBT

Six months ended 30 September	2011 £m	2010 £m	Change £m
EBITDA <sup>(1)</sup>	28.7	24.3	4.4
Cash flow from exceptional items	-	(0.9)	0.9
Working capital movements			
- Normal trading	(3.6)	(10.3)	6.7
- Active management	(12.5)	(9.1)	(3.4)
Interest <sup>(2)</sup>	(3.4)	(1.4)	(2.0)
Tax	(2.3)	(2.3)	-
Capital expenditure	(5.3)	(3.9)	(1.4)
Additional pension contributions	(3.1)	(3.0)	(0.1)
Other movements	0.8	0.5	0.3
<b>Free cash flow</b>	<b>(0.7)</b>	<b>(6.1)</b>	<b>5.4</b>
Acquisitions and disposals	(1.4)	(0.3)	(1.1)
Employee Benefits Trust	(2.4)	-	(2.4)
Dividends	(2.8)	(2.4)	(0.4)
Currency translation	(0.5)	0.5	(1.0)
<b>Increase in net debt</b>	<b>(7.8)</b>	<b>(8.3)</b>	<b>0.5</b>

- Normal seasonal cash outflow in H1
- Active working capital management being reduced
- Interest reflects refinancing in November 2010
- Capital expenditure is primarily IT development
- Debt now 1.2x EBITDA

(1) Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) is before exceptional items

(2) Includes dividends received from associates and joint ventures

# BALANCE SHEET

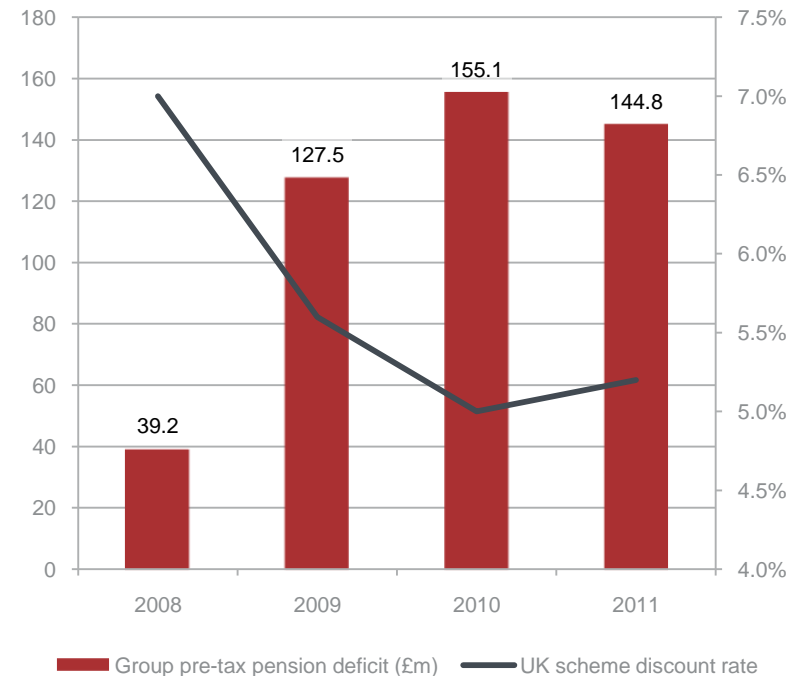
£m	Changes since		
	30 Sep 11	31 Mar 11	30 Sep 10
Goodwill & other intangible assets	247.9	(2.0)	(1.6)
PPE and investments	16.8	1.5	0.8
Working capital			
- Normal trading	(65.0)	3.7	(10.6)
- Active management	(18.6)	12.5	7.2
Current tax liabilities (net)	(6.3)	(1.6)	2.3
Deferred tax assets (net)	44.7	5.8	(7.3)
Net debt	(68.9)	(7.8)	16.9
Pension liabilities (pre-tax)	(144.8)	(30.1)	10.3
Provisions and other items	(1.9)	0.9	2.1
<b>Net assets/(liabilities)</b>	<b>3.9</b>	<b>(17.1)</b>	<b>20.1</b>

- An asset-light balance sheet - HRG is a cash flow business
- Active working capital management programme is being reduced
- Net debt down £16.9m from September 2010 to £68.9m
- Pension deficit remains volatile

# PENSION PLANS

- The deficit is likely to remain volatile
- Group-wide deficits up by £30m since 31 March 2011
- UK deficit of £134m before tax – up £30m
  - Asset values lower
  - Liabilities increased by lower discount rate
  - Triennial valuation agreed
  - Actuarial deficit at March 2011 is £21m lower than accounting basis
  - Annual deficit reduction payments increase modestly from £6.6m to £7.3m, effective April 2011; linked to RPI thereafter

Group pre-tax deficit (£m) <sup>(1)</sup>



(1) At 30 September

# SUMMARY

## Excellent financial results

- Revenue up 10% (up 6% at constant FX)
- Underlying operating profit margin up from 11.5% to 12.5%
- Profitable across all travel regions and Spendvision
- Underlying profit before tax up 22%; underlying EPS up 24%
- Net debt down £17m to £69m
- Interim dividend up 20% to 0.6p per share
  - Full-year dividend to be at least 1.8p per share (+20% over last year)

UK triennial pension valuation agreed with modest increase in cash contributions

Well prepared for the future

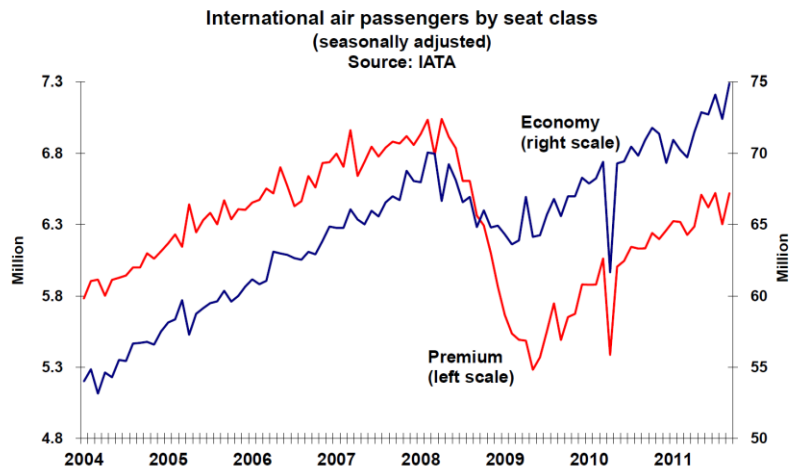
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## OPERATING REVIEW AND OUTLOOK

David Radcliffe, Chief Executive

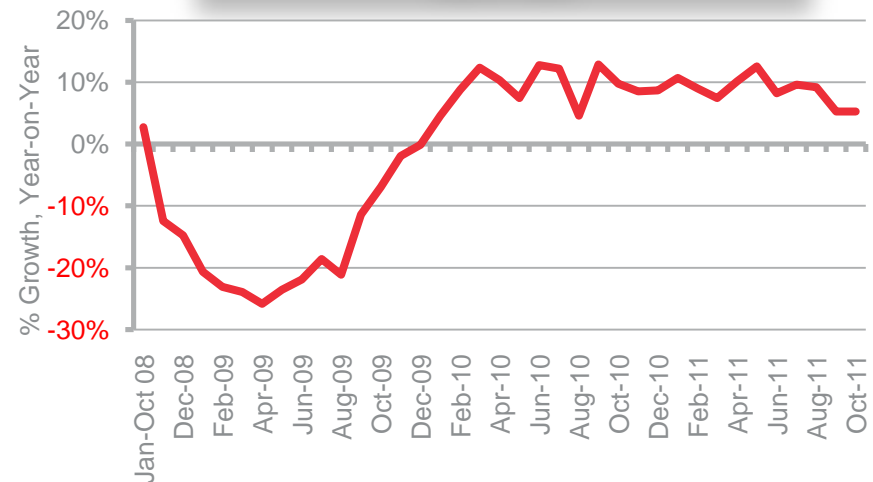
# MARKET OVERVIEW - continued long-term growth

## IATA – International Air Passenger Traffic by Ticket Type



- Overall air passenger traffic recovery momentum has continued through most of 2010 and 2011 to date
- The European volcanic ash crisis impacted traffic in April 2010, but demand has since recovered
- Air passenger traffic grew by 7% YOY during the six months to end-September 2011
- Overall passenger numbers are now back to above their pre-recession level of early 2008, but premium still 10% below

## STR Global – World Hotel RevPAR



- Global hotel RevPAR growth rate has averaged approximately 9% during the six months to end September 2011
- More challenging comparatives

# MARKET PROSPECTS

- Global corporate travel spend of \$838 billion in calendar year 2010<sup>(1)</sup>:
  - Managed corporate spend estimated to be 50% of global corporate spend<sup>(2)</sup>
- Top four TMCs believed to account for <18% of global managed corporate travel market
- Forecast industry growth of 4-6% per annum globally
  - Corporate travel spend forecast to grow 6.0% in calendar year 2011<sup>(1)</sup>
  - Corporate travel spend forecast to grow 4.3% p.a. over next decade<sup>(1)</sup>
  - IATA 2010-2014 forecast CAGR 5.9% per annum for international air passenger traffic <sup>(3)</sup>

(1) World Travel & Tourism Council, November 2011

(2) PhoCusWright, 2009

(3) International Air Transport Association, June 2011

# OUR CLIENT ACTIVITY

## Corporate travel recovery continues:

- Further growth from existing clients

## Client priorities:

- Ongoing control of travel spend
- Maximising overall value of travel-related expenditure
- Continuing demand for excellent service

## Specific trends:

- Trend towards single-point regional service centres replacing country locations
- More mandatory approach to travel policy compliance
- Increased focus on passenger security
- Closer control of corporate meetings expenditure
- More online and self booking

## Implications for HRG:

- Opportunities for HRG to demonstrate the breadth of the Group's service offering in travel, expense and data management
- HRG's technology solutions and products playing an increasingly important role
- Margin improvement opportunities
- Managed consolidation into regional hubs
- Client revenue growth not always directly linked to profitability

# ANOTHER PERIOD OF GROWTH

New clients added in H1 FY12 include



Recently renewed and expanded contracts include



Agilent Technologies



BG GROUP



Weatherford

WELLS FARGO

# TECHNOLOGY

## Our proprietary technology provides the following:

- The ability to meet client needs today, tomorrow and in the future
- Opportunity for increased operating efficiencies
- Platform for new service developments
- Significant competitive advantage
- Ability to move quickly when necessary

## Key developments during the period

- Released upgrades to HRG Online™ and HRG i-Suite™
- Extended pilot testing of TripCase
- Entered exploratory discussions with American Airlines on ‘direct connect’

# SUMMARY

- Financial performance was strong
- Improved balance sheet capacity
- Prospects for corporate travel activity remain good
- Continued client wins and retention

**STRONG FIRST-HALF RESULTS**

# OUTLOOK

- Mindful of the prevailing macroeconomic uncertainty
- Board is confident that HRG will continue to progress and deliver PBT for the full year in line with expectations
- Commitment for full-year dividend of at least 1.8p (up 20% over last year)

**POSITIONED FOR FURTHER PROGRESS**

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Appendix

# **SUPPLEMENTARY INFORMATION**

# WHY WE ARE WINNING

We deliver value for money

An experienced global network

A proven fee-based business model

- Stress tested during the recession
- Flexibility reduces earnings volatility

A stable and diverse client portfolio

- No single client or sector dominates
- Contract-backed, with multi-year relationships

Technology

- Standalone
- Own data integration and independent warehouse capability
- Flexible connectivity

Our service culture



- Client retention rate remains above 90%
- Strong new sales pipeline
- Demonstrated ability to provide real value to clients, particularly in times of crisis

# GROWTH STRATEGY

**Core activity** Provision of travel, expense and data management services to corporations or large national organisations

**Market**

- Take advantage of the growth in corporate travel expenditure and the accelerating trend to outsource on a global basis

**Clients**

- Grow market share through new and existing clients

**Partnerships**

- Nurture long-term partnerships with suppliers who recognise our value

**Geography**

- Leverage our global footprint

**Technology**

- Continue to develop our proprietary technology

**Acquisition**

- Seek opportunities for strategic, low-risk M&A – bolt-on or extra service



**POTENTIAL FOR GROWTH**

# TAXATION

Six months ended 30 September	2011			2010		
	Pre-tax £m	Tax £m	Rate %	Pre-tax £m	Tax £m	Rate %
Underlying profit	18.7	(5.6)	30%	15.3	(4.7)	31%
Amortisation of acquired intangibles	(2.1)	0.6	29%	(2.0)	0.6	30%
Statutory result	16.6	(5.0)	30%	13.3	(4.1)	31%

# REVENUE TREND

Year ended 31 March	2010		2011		2012
£m	H1	H2	H1	H2	H1
Revenue					
Corporate Travel Management					
Europe	109.1	120.5	115.1	129.5	125.1
North America	32.2	37.1	38.0	39.5	39.0
Asia Pacific	8.3	8.4	10.1	13.3	15.6
Spendvision	5.7	5.5	6.0	6.5	7.1
<b>Total</b>	<b>155.3</b>	<b>171.5</b>	<b>169.2</b>	<b>188.8</b>	<b>186.8</b>

# EARNINGS TREND

Years ended 31 March £m	2010		2011		2012
	H1	H2	H1	H2	H1
Underlying operating profit <sup>(1)</sup>					
Corporate Travel Mgmt					
Europe	8.9	19.2	13.6	17.2	15.0
North America	2.3	4.5	5.6	4.3	6.8
Asia Pacific	(0.5)	(0.6)	(0.1)	0.5	0.7
Spendvision	0.6	0.8	0.4	0.4	0.9
<b>Total</b>	<b>11.3</b>	<b>23.9</b>	<b>19.5</b>	<b>22.4</b>	<b>23.4</b>
Associates and joint ventures	-	0.2	0.1	(0.1)	0.4
Finance costs (net)	(3.8)	(3.2)	(4.3)	(4.7)	(5.1)
<b>Underlying profit before tax</b>	<b>7.5</b>	<b>20.9</b>	<b>15.3</b>	<b>17.6</b>	<b>18.7</b>
Amortisation of acquired intangibles	(1.9)	(2.0)	(2.0)	(2.0)	(2.1)
Exceptional items	(2.3)	(1.0)	-	-	-
<b>Profit before tax</b>	<b>3.3</b>	<b>17.9</b>	<b>13.3</b>	<b>15.6</b>	<b>16.6</b>
Tax	(1.1)	(5.8)	(4.1)	(5.0)	(5.0)
<b>Net earnings</b>	<b>2.2</b>	<b>12.1</b>	<b>9.2</b>	<b>10.6</b>	<b>11.6</b>
<b>Underlying operating profit margin</b>	<b>7.3%</b>	<b>13.9%</b>	<b>11.5%</b>	<b>11.9%</b>	<b>12.5%</b>

(1) Operating profit before amortisation of acquired intangibles and exceptional items

# FINANCE COSTS

Years ended 31 March	2010		2011		2012
£m	H1	H2	H1	H2	H1
External interest (net)	(1.9)	(1.3)	(1.6)	(3.0)	(3.5)
IAS19 pension costs	(1.6)	(1.6)	(1.9)	(1.4)	(1.2)
Amortised fees	(0.3)	(0.3)	(0.8)	(0.3)	(0.4)
<b>Net finance costs</b>	<b>(3.8)</b>	<b>(3.2)</b>	<b>(4.3)</b>	<b>(4.7)</b>	<b>(5.1)</b>

# CASH FLOW TREND

Years ended 31 March	2010		2011		2012
£m	H1	H2	H1	H2	H1
EBITDA <sup>(1)</sup>	15.8	28.7	24.3	27.3	28.7
Cash flow from exceptional items	(4.6)	(2.4)	(0.9)	-	-
Working capital movements					
- Normal trading	(18.8)	3.2	(10.3)	12.3	(3.6)
- Active management	11.4	9.9	(9.1)	5.3	(12.5)
Interest paid	(2.0)	(0.8)	(1.4)	(1.8)	(3.4)
Refinancing costs	-	-	-	(3.6)	-
Tax paid	(2.2)	(2.9)	(2.3)	(7.0)	(2.3)
Capital expenditure	(4.9)	(6.2)	(3.9)	(4.8)	(5.3)
Pension funding in excess of EBITDA charge	(3.7)	(3.9)	(3.0)	(3.1)	(3.1)
Other movements	0.3	(0.7)	0.5	2.9	0.8
<b>Free cash (outflow) / inflow</b>	<b>(8.7)</b>	<b>24.9</b>	<b>(6.1)</b>	<b>27.5</b>	<b>(0.7)</b>
Acquisitions and disposals	-	(0.3)	(0.3)	(0.5)	(1.4)
Dividends paid to external shareholders	-	(1.2)	(2.4)	(1.5)	(2.8)
Currency translation and other	(2.0)	(4.9)	0.5	(0.8)	(2.9)
<b>(Increase) / decrease in net debt</b>	<b>(10.7)</b>	<b>18.5</b>	<b>(8.3)</b>	<b>24.7</b>	<b>(7.8)</b>

(1) Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) is before exceptional items

## BALANCE SHEET TREND

Years ended 31 March	2010		2011		2012
£m	H1	H2	H1	H2	H1
PPE & intangibles	269.1	271.0	265.5	265.2	264.7
Working capital					
- Normal trading	(61.5)	(66.3)	(54.4)	(68.7)	(65.0)
- Active management	(25.0)	(34.9)	(25.8)	(31.1)	(18.6)
Net debt	(96.0)	(77.5)	(85.8)	(61.1)	(68.9)
Taxation	41.4	38.8	43.4	34.2	38.4
Pension liabilities	(127.5)	(126.4)	(155.1)	(114.7)	(144.8)
Provisions & other	(7.6)	(4.0)	(4.0)	(2.8)	(1.9)
<b>Net assets / (liabilities)</b>	<b>(7.1)</b>	<b>0.7</b>	<b>(16.2)</b>	<b>21.0</b>	<b>3.9</b>

# PRINCIPAL FOREIGN CURRENCY RATES



		Mar 10	Sep 10	Mar 11	Sep 11
<b>Income statement</b>					
Euro	EUR	1.13	1.19	1.18	1.13
Swiss Franc	CHF	1.69	1.61	1.56	1.37
Swedish Crowns	SEK	11.66	11.23	10.85	10.29
Norwegian Krone	NOK	9.60	9.43	9.33	8.83
US Dollar	USD	1.60	1.53	1.56	1.63
Canadian Dollar	CAD	1.73	1.59	1.59	1.58
<b>Balance sheet</b>					
Euro	EUR	1.12	1.15	1.13	1.16
Swiss Franc	CHF	1.60	1.54	1.47	1.41
Swedish Crowns	SEK	10.92	10.60	10.11	10.70
Norwegian Krone	NOK	9.00	9.23	8.87	9.15
US Dollar	USD	1.52	1.57	1.60	1.56
Canadian Dollar	CAD	1.54	1.62	1.56	1.62

# 15-YEAR CORPORATE BOND YIELDS



Source: Markit iBoxx 15-year corporate bond yields

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