The
Restaurant
Group plc



Interim Report 2016
for the 27 weeks ended 3 July 2016

Summary

- Trading in line; full year guidance for 52 weeks maintained
- Challenging trading period across Leisure brands; good performance from Pubs and Concessions
- Total revenue up 3.4%* to £358.7m with like-for-like sales down 3.9%*
- Operating profit down 4.4%* to £37.5m
- Strong free cash flow of £35.8m
- 33 underperforming sites identified for closure/sale
- Exceptional charge of £59.1m reflecting prospective site closures and 29 site asset value impairments
- EPS down 3.0%* to 14.3p on a trading basis and down to -11.2p on a statutory basis**
- Interim dividend maintained at 6.8p per share, reflecting confidence in our current trading forecast
- First phase of operating strategy review completed
- Appointment of new executive team; strengthening of Board with appointment of two new NEDs

* Reflects the trading performance vs. the comparable 27 week period in 2015. In 2015, the first half comprised 26 weeks.

** Includes the impact of the exceptional charge of £59.1m.

Review of operating strategy

- Good progress has been made since May
- Key findings to date:
  - TRG's Leisure brands remain relevant and operate in a growing market place
  - Frankie & Benny's performance has suffered due to insufficient focus on value, unsuccessful menu development and poor operational execution
  - Increased competition has had some impact but is not the major factor behind the weak performance
- Taking action at Frankie & Benny's on pricing, proposition and customer service:
  - Refining the proposition with greater focus on families (our core customers)
  - Testing and trialling new value offers
  - Adding back popular dishes to the menu

Site development

- 33 underperforming sites across the business identified for closure or sale with an associated £39.3m charge made in the first half. Asset value of a further 29 sites written down, reflected in £17.8m non-cash impairment charge
- Seven new sites opened in the first half (2015: 12)
- 24 to 28 new sites expected to open in 2016 (2015: 44)

Current trading and outlook

- Trading has improved slightly in recent weeks with like-for-like sales for the first 34 weeks of 2016 down 3.7%
- Despite the continued challenging trading environment we are confident that a strong focus on execution and careful cost control will result in an outcome for the full year in line with our previous guidance (adjusted PBT of £74m to £80m for the 52 week year)

Chairman's statement

Introduction

The first half of 2016 was a challenging period for the Company with a disappointing trading performance exposing issues across our Leisure business. Our Pubs and Concessions businesses have continued to trade well.

We have taken decisive action to begin to address the issues facing us.

In April we commenced a detailed review of our operating strategy, led by the Board and with the input of external consultants. This review began with an extensive analysis of the drivers of underperformance at Frankie & Benny's which is now complete. We have a detailed action plan to improve trading at Frankie & Benny's and a number of initiatives are already underway. The review is now focused on our other Leisure brands.

In the first half, the Board was restructured with Debbie Hewitt becoming Chairman and the recruitment of two new NEDs; Mike Tye, to Chair the Remuneration Committee, and Graham Clemett, to Chair the Audit Committee. Alan Jackson and Tony Hughes stepped down from the Board at the AGM in May.

Action has also been taken to ensure that the Company has an executive leadership team in place with the right skillset to drive the business forward. Barry Nightingale was appointed as CFO in June and we look forward to Andy McCue joining as CEO in mid-September.

The Board believes that the new leadership team have appropriate credentials to prioritise and implement the actions from the operating strategy review, having a strong customer focus, being data-driven and with proven turnaround skills.

The Board has taken measures to ensure that we now have a more rigorous and disciplined approach to the allocation of capital. With the review of operating strategy continuing, the Board has decided to slow down our site roll out plans until we can be sure that the Group's brand and location strategy is sufficiently robust.

We have taken action to exit 33 underperforming sites immediately, as we do not believe that these sites are capable of generating adequate returns. We have also decided to impair the asset value of a further 29 sites.

Whilst the performance in the first half of 2016 was disappointing, the Company is profitable, highly cash generative and retains a strong balance sheet. The Board has confidence that it has identified the issues impacting performance and is taking the correct actions to improve performance and create value for shareholders.

Trading results (vs. comparable 27 week period in 2015)

2016 is a 53 week year and the first half contained 27 weeks (H1 2015: 26 weeks). For comparability, the growth figures and 2015 comparatives set out in this section reflect the performance vs. the comparable 27 week period in 2015 unless otherwise stated.

While overall turnover grew slightly by 3.4% to £358.7m (2015: £346.9m) due to the increased number of sites, like-for-like sales were down by 3.9%. The like-for-like sales performance reflected a challenging performance across our Leisure brands, partially offset by a good performance from our Pubs and Concessions businesses.

The Pubs business continues to build on the strength of its food offer, providing good value, high quality food in attractive locations. We continue to be selective about new sites and maintain a high level of individuality in the fit out to ensure that venues offer strong local relevance.

Chairman's statement
continued

The Concessions business continues to benefit from strong airport passenger numbers and a team who create innovative new brands that stand out in their location.

Against the backdrop of declining like-for-like sales, adjusted operating profit (EBIT) fell by 4.4% to £37.5m (2015: £39.2m) with the adjusted operating margin 0.8%pts down at 10.5% due to the impact of operational leverage.

Adjusted profit before tax for the period was down 3.7% to £36.6m (2015: £38.0m) with adjusted profit after tax down 3.3% to £28.5m (2015: £29.5m). Adjusted earnings per share were 14.3p, down 3.0% (2015: 14.7p).

The Group remains highly cash generative, generating free cash flow of £35.8m in the period (2015: £44.3m). This was down on 2015 due to a higher maintenance capital expenditure charge, reflecting the cost of bar conversions undertaken to enable us to add extra covers at a number of Frankie & Benny's sites.

During the first six months of the year we opened seven new restaurants and pubs. We now expect to open 24 to 28 sites for 2016 as a whole (2015: 44 sites).

The Board recognises that we are facing increasing head winds on wages, food and drink input costs, fuel inflation and a growing 'fixed' cost base with rent, rates and service charges under pressure. We will continue to be vigilant on cost and to drive efficiencies. This will be an area of focus for the new executive team.

Restructuring and exceptional charge
A total exceptional charge of £59.1m has been made in the first half, of which £19.0m will be a cash cost. On a statutory basis, our loss before tax was £22.5m (2015: profit before tax of £38.0m).

We intend to exit 33 underperforming sites immediately as we do not believe that these sites are capable of generating adequate returns. These include 14 Frankie & Benny's sites, 11 Chiquito sites and eight other sites. We have made an exceptional charge of £39.3m in the period including an impairment of fixed assets, provision for onerous leases and other associated costs as a result of this decision.

We have decided to write down the asset value of a further 29 sites and have taken an additional £17.8m non-cash impairment charge in respect of these.

The exceptional charge also includes some costs incurred in the first half related to the Board and management restructuring.

The benefit to the 2017 operating profit from the changes that we have made is anticipated to be between £6m and £8m. This relates to lower depreciation following the impairment charge, onerous leases having been provided for and other efficiencies.

Interim dividend
Given our confidence in the current trading forecast and the strength of our balance sheet, we are declaring an interim dividend of 6.8 pence per share, unchanged from last year. The interim dividend will be paid on 13 October 2016 to shareholders on the register on 16 September 2016 and shares will be marked ex-dividend on 15 September 2016.

Review of operating strategy

We are in the process of undertaking an extensive review of the Company's operating strategy. The review is being led by the Board, and the wider executive team, and is being facilitated by external strategy consultants OC&C, ensuring rigour and independence.

Market data has been used to understand and benchmark the external environment and to review our own performance over time and by location. Customer research and analysis of targeted competitor performance has also been used to assess brand relevance and customer loyalty.

We have to date focused primarily on Frankie & Benny's, being our largest brand and the biggest driver of our performance.

Frankie & Benny's

Whilst competition has been growing in the market, the review indicates that this has not been the major factor behind the brand's weak performance.

We have identified three main internal drivers of our underperformance:

- We have lost value-conscious customers, a result of significant price increases and the removal of popular value offers. Above market increases in food and beverage pricing in 2013 and 2014 were compounded in 2015 by a reduction in value offers and the removal of a fixed price menu, actions which significantly reduced covers.
- In 2015, we began to introduce more 'authentic' menus without sufficient testing of the concept. This led to the removal of many popular dishes from the menus and led to a further decline in covers.
- The absence of leadership for this key brand in the past two years resulted in weaker operating discipline and therefore an inconsistent and unsatisfactory service experience for many of our customers.

Reassuringly, the research confirms that the Frankie & Benny's brand and concept remain well loved by our customers. We have, however, overpriced the offer, removed some of their favourite dishes from the menu and lost focus on operational execution.

The review has helped us to achieve a much better understanding of our target customer: families who are 'out and about', who are celebrating a specific family occasion or simply having a treat. Although it is clear that we also have wider appeal, the target market of families is very distinct and is the primary focus of our efforts as we rejuvenate the brand.

We are now clear about where we want to focus, who we want to measure ourselves against and how we will deliver. We have a detailed action plan, with many actions already underway.

- We have taken decisive action on those sites that don't meet the Frankie & Benny's positioning or returns criteria, with a number now set for closure, as set out earlier in this statement.
- We will look at the pricing architecture of the menu, reinvigorate the value offer and seek to understand how we can use our supply chain relationships to price engineer more effectively. We have already launched a series of pricing tests and menu trials, supported by local marketing initiatives in order to re-price for growth.
- We have appointed a new leader for the Frankie & Benny's brand, who started in June, and we are investing in our systems to improve the consistency of our operational execution.

Although we have slowed down the current restaurant roll out programme, the review indicates that once we have resolved these internal issues, there will be scope for further roll out of the Frankie & Benny's estate. This will be done in conjunction with a more disciplined framework for assessing each investment case.

Chairman's statement
continued

Ongoing review
The next phase of our operating strategic review will focus on our remaining Leisure brands: Chiquito, Coast to Coast, Joe's Kitchen and Garfunkel's.

From some initial diagnostic work undertaken, it is evident that some of the issues identified in Frankie & Benny's are also apparent in these brands. We will therefore be undertaking a thorough review of their propositions, pricing structure and menu architecture.

While our Pubs and Concessions are performing well, we also intend to examine these businesses and evaluate what we can do better.

Current trading and outlook
Trading has improved slightly in recent weeks, with like-for-like sales for the 34 weeks to 21 August down 3.7%.

Despite the continued challenging trading environment, we are confident that a strong focus on execution and careful cost control will result in an outcome for the full year in line with our previous guidance (adjusted PBT of £74m to £80m for 52 week year).

Our 2016 financial year will contain 53 weeks and we shall be reporting our preliminary results for the full year on this basis.

The marketplace in which we operate is growing. Our priority must be and is to improve our main propositions in terms of price, menu and service.

We now expect to open 24 to 28 new sites for 2016 as a whole (2015: 44). With the review of operating strategy continuing, the opening programme for 2017 remains under consideration but at this stage and subject to the ongoing review, we currently expect to open around 30 restaurants next year.

On behalf of the Board, I'd like to thank all of the Group's employees for their hard work and dedication during this challenging trading period. The conclusion of this first phase of our review of operating strategy and the appointment of a new Chief Executive Officer will enable the Board to complete and implement the review and return the Group to long-term, sustainable and profitable growth.

Debbie Hewitt
Chairman
26 August 2016

Notes to the Chairman's statement

1. The estate at 3 July 2016 comprised 263 Frankie & Benny's, 85 Chiquito, 29 Coast to Coast, 10 Garfunkel's, 5 Joe's Kitchen, 56 Pub restaurants and 59 Concessions.

2. There are a number of potential risks and uncertainties which could have an impact on the Group's performance over the remaining six months of the financial year and which could cause actual results to differ materially from expected and historical results. These have not materially changed from those set out on page 24 of our latest Annual Report and Accounts which can be found on the Group website: http://www.trgplc.com/investors/regulatory-announcements.

3. Statements contained in this Interim Report are based on the knowledge and information available to the Company's Directors at the date it was prepared and therefore the facts stated and views expressed may change after that date. By their nature, the statements concerning the risks and uncertainties facing the Company in this Interim Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. To the extent that this Interim Report contains any statement dealing with any time after the date of its preparation such statement is merely predictive and speculative as it relates to events and circumstances which are yet to occur. The Company undertakes no obligation to update these forward looking statements.

4. Summary trading income statement (27 weeks vs. 27 weeks*):

	27 weeks ended 3 July 2016 £m	27 weeks ended 5 July 2015 £m	% change
Revenue	**358.7**	346.9	+3.4%
EBITDA**	**59.6**	59.3	+0.5%
Operating profit**	**37.5**	39.2	(4.4%)
Operating margin**	**10.5%**	11.3%	
Profit before tax**	**36.6**	38.0	(3.7%)
Tax**	**(8.1)**	(8.5)	
Profit after tax**	**28.5**	29.5	(3.3%)
EPS (pence)**	**14.26**	14.71	(3.0%)

* Reflects the trading performance vs. the comparable 27 week period in 2015. In 2015, the first half comprised 26 weeks.

** Excludes the impact of the exceptional charge of £59.1m.

Chairman's statement
continued

Notes to the Chairman's statement continued

5. Summary cash flow statement:

	27 weeks ended 3 July 2016 £m	26 weeks ended 28 June 2015 £m
Operating profit	**37.5**	38.1
Working capital and non-cash adjustments	**1.3**	2.6
Depreciation	**22.1**	19.3
Net cash flow from operations	**60.9**	60.0
Net interest paid	**(0.4)**	(0.7)
Tax paid	**(9.0)**	(8.2)
Maintenance capital expenditure	**(15.7)**	(6.8)
Free cash flow	**35.8**	44.3
Development capital expenditure	**(12.8)**	(14.4)
Movement in capital creditors	**(10.5)**	(8.7)
Purchase of shares	**–**	(1.7)
Other items	**1.6**	1.1
Change in net debt	**14.1**	20.6
Net bank debt at start of period	**(28.4)**	(38.6)
Comparable net bank debt at end of period	**(14.3)**	(18.0)
Dividend paid	**(21.3)**	–
Net bank debt at end of period	**(35.6)**	(18.0)

Condensed financial statements
Consolidated income statement

	Note	27 weeks ended 3 July 2016 Trading business (unaudited) £'000	Exceptional (unaudited) £'000	**Total (unaudited) £'000**
Revenue		358,667	–	**358,667**
Cost of sales:				
Excluding pre-opening costs	2	(301,672)	(57,131)	**(358,803)**
Pre-opening costs		(1,090)	–	**(1,090)**
		(302,762)	(57,131)	**(359,893)**
Gross profit / (loss)		55,905	(57,131)	**(1,226)**
Administration costs	2	(18,381)	(2,009)	**(20,390)**
Trading profit / (loss)		37,524	(59,140)	**(21,616)**
Earnings before interest, tax, depreciation and amortisation		59,595	(18,860)	**40,735**
Depreciation and impairment		(22,071)	(40,280)	**(62,351)**
Operating profit / (loss)		37,524	(59,140)	**(21,616)**
Interest payable		(923)	–	**(923)**
Interest receivable		40	–	**40**
Profit / (loss) on ordinary activities before tax		36,641	(59,140)	**(22,499)**
Tax on profit / (loss) from ordinary activities	3	(8,099)	8,178	**79**
Profit / (loss) for the period		28,542	(50,962)	**(22,420)**
Earnings per share (pence)				
Basic	4	14.26		**(11.20)**
Diluted	4	14.20		**(11.15)**

Condensed financial statements
Consolidated income statement
continued

	Note	26 weeks ended 28 June 2015 Trading business (unaudited) £'000	Exceptional (unaudited) £'000	Total (unaudited) £'000
Revenue		333,780	–	**333,780**
Cost of sales:				
Excluding pre-opening costs	2	(274,325)	–	**(274,325)**
Pre-opening costs		(1,602)	–	**(1,602)**
		(275,927)	–	**(275,927)**
Gross profit / (loss)		57,853	–	**57,853**
Administration costs	2	(19,767)	–	**(19,767)**
Trading profit / (loss)		38,086	–	**38,086**
Earnings before interest, tax, depreciation and amortisation		57,417	–	**57,417**
Depreciation and impairment		(19,331)	–	**(19,331)**
Operating profit / (loss)		38,086	–	**38,086**
Interest payable		(1,173)	–	**(1,173)**
Interest receivable		34	–	**34**
Profit / (loss) on ordinary activities before tax		36,947	–	**36,947**
Tax on profit / (loss) from ordinary activities	3	(8,276)	–	**(8,276)**
Profit / (loss) for the period		28,671	–	**28,671**
Earnings per share (pence)				
Basic	4	14.29		**14.29**
Diluted	4	14.25		**14.25**

Condensed financial statements
Consolidated income statement
continued

	Note	52 weeks ended 27 December 2015 Trading business (audited) £'000	Exceptional (audited) £'000	Total (audited) £'000
Revenue		685,381	–	**685,381**
Cost of sales:				
Excluding pre-opening costs	2	(553,106)	–	**(553,106)**
Pre-opening costs		(5,385)	–	**(5,385)**
		(558,491)	–	**(558,491)**
Gross profit / (loss)		126,890	–	**126,890**
Administration costs	2	(37,999)	–	**(37,999)**
Trading profit / (loss)		88,891	–	**88,891**
Earnings before interest, tax, depreciation and amortisation		127,991	–	**127,991**
Depreciation and impairment		(39,100)	–	**(39,100)**
Operating profit / (loss)		88,891	–	**88,891**
Interest payable		(2,128)	–	**(2,128)**
Interest receivable		82	–	**82**
Profit / (loss) on ordinary activities before tax		86,845	–	**86,845**
Tax on profit / (loss) from ordinary activities	3	(19,447)	1,488	**(17,959)**
Profit / (loss) for the period		67,398	1,488	**68,886**
Earnings per share (pence)				
Basic	4	33.80		**34.55**
Diluted	4	33.50		**34.24**

Condensed financial statements
Consolidated statement of changes in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	**Total £'000**
Balance at 28 December 2015 (audited)	56,518	25,255	(11,080)	212,867	**283,560**
Loss for the period	–	–	–	(22,420)	**(22,420)**
Issue of new shares	31	288	–	–	**319**
Dividends	–	–	–	(21,237)	**(21,237)**
Share-based payments – credit to equity	–	–	(265)	–	**(265)**
Employee benefit trust – purchase of shares	–	–	–	–	**–**
Other reserve movements	–	–	(217)	–	**(217)**
Current tax on share-based payments taken directly to equity	–	–	–	105	**105**
Deferred tax on share-based payments taken directly to equity	–	–	–	(585)	**(585)**
Balance at 3 July 2016 (unaudited)	56,549	25,543	(11,562)	168,730	**239,260**
Balance at 29 December 2014 (audited)	56,433	24,495	(11,971)	175,567	**244,524**
Profit for the period	–	–	–	28,671	**28,671**
Issue of new shares	1	8	–	–	**9**
Dividends	–	–	–	–	**–**
Share-based payments – credit to equity	–	–	1,310	–	**1,310**
Employee benefit trust – purchase of shares	–	–	(1,746)	–	**(1,746)**
Other reserve movements	–	–	(261)	–	**(261)**
Current tax on share-based payments taken directly to equity	–	–	–	674	**674**
Deferred tax on share-based payments taken directly to equity	–	–	–	(219)	**(219)**
Balance at 28 June 2015 (unaudited)	56,434	24,503	(12,668)	204,693	**272,962**
Balance at 29 December 2014 (audited)	56,433	24,495	(11,971)	175,567	**244,524**
Profit for the year	–	–	–	68,886	**68,886**
Issue of new shares	85	760	–	–	**845**
Dividends	–	–	–	(32,115)	**(32,115)**
Share-based payments – credit to equity	–	–	2,900	–	**2,900**
Employee benefit trust – purchase of shares	–	–	(1,746)	–	**(1,746)**
Other reserve movements	–	–	(263)	–	**(263)**
Current tax on share-based payments taken directly to equity	–	–	–	818	**818**
Deferred tax on share-based payments taken directly to equity	–	–	–	(289)	**(289)**
Balance at 27 December 2015 (audited)	56,518	25,255	(11,080)	212,867	**283,560**

Condensed financial statements
Consolidated balance sheet

	At 3 July 2016 (unaudited) £'000	At 28 June 2015 (unaudited) £'000	At 27 December 2015 (audited) £'000
Non-current assets			
Intangible assets	**26,433**	26,433	26,433
Property, plant and equipment	**368,377**	370,211	403,640
	394,810	396,644	430,073
Current assets			
Stock	**5,329**	4,846	6,389
Trade and other receivables	**9,601**	9,181	13,366
Prepayments	**14,327**	13,719	15,267
Cash and cash equivalents	**6,132**	5,426	2,983
	35,389	33,172	38,005
Total assets	**430,199**	429,816	468,078
Current liabilities			
Overdraft	**–**	–	(838)
Corporation tax liabilities	**(3,647)**	(7,725)	(8,692)
Trade and other payables	**(110,938)**	(105,093)	(125,388)
Other payables - finance lease obligations	**(343)**	(343)	(355)
Provisions	**(6,313)**	(1,330)	(1,130)
	(121,241)	(114,491)	(136,403)
Net current liabilities	**(85,852)**	(81,319)	(98,398)
Non-current liabilities			
Long-term borrowings	**(41,697)**	(23,382)	(30,527)
Other payables - finance lease obligations	**(2,984)**	(2,943)	(2,956)
Deferred tax liabilities	**(8,519)**	(12,954)	(12,096)
Provisions	**(16,498)**	(3,084)	(2,536)
	(69,698)	(42,363)	(48,115)
Total liabilities	**(190,939)**	(156,854)	(184,518)
Net assets	**239,260**	272,962	283,560
Equity			
Share capital	**56,549**	56,434	56,518
Share premium	**25,543**	24,503	25,255
Other reserves	**(11,562)**	(12,668)	(11,080)
Retained earnings	**168,730**	204,693	212,867
Total equity	**239,260**	272,962	283,560

Condensed financial statements
Consolidated cash flow statement

	Note	27 weeks ended 3 July 2016 (unaudited) £'000	26 weeks ended 28 June 2015 (unaudited) £'000*	52 weeks ended 27 December 2015 (audited) £'000*
Operating activities				
Cash generated from operations	6	**60,890**	59,975	133,632
Interest received		**40**	34	82
Interest paid		**(454)**	(684)	(1,125)
Tax paid		**(9,023)**	(8,144)	(17,644)
Net cash flows from operating activities		**51,453**	51,181	114,945
Investing activities				
Purchase of property, plant and equipment		**(38,972)**	(29,898)	(72,914)
Disposal of fixed assets		**1,424**	–	250
Net cash flows used in investing activities		**(37,548)**	(29,898)	(72,664)
Financing activities				
Net proceeds from issue of ordinary share capital		**319**	9	845
Employee benefit trust – purchase of shares		**–**	(1,746)	(1,746)
Net proceeds from / (repayments of) loan draw downs	7	**11,000**	(15,000)	(8,000)
Dividends paid to shareholders		**(21,237)**	–	(32,115)
Net cash flows used in financing activities		**(9,918)**	(16,737)	(41,016)
Net increase in cash and cash equivalents		**3,987**	4,546	1,265
Cash and cash equivalents at the beginning of the period		**2,145**	880	880
Cash and cash equivalents at the end of the period		**6,132**	5,426	2,145

* The cash flow statements for the comparative 26 weeks and 52 weeks have been adjusted from the previously reported figures in order to reclassify creditors on capital purchases out of working capital movements and into purchase of property, plant and equipment. The net impact is to increase cash from operating activities and decrease cash used in investing activities by £8.7m in the 26 weeks ended 28 June 2015 and to decrease cash from operating activities and increase cash used in investing activities by £1.9m in the 52 weeks ended 27 December 2015

Responsibility statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting';

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first 27 weeks and description of principal risks and uncertainties for the remaining 26 weeks of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board,

Debbie Hewitt
Non-executive Chairman
26 August 2016

Barry Nightingale ACA
Chief Financial Officer
26 August 2016

Condensed financial statements
Accounting policies

Basis of preparation

The annual financial statements of The Restaurant Group plc are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union. The accounting policies and methods of computation used are consistent with those used in the Group's latest annual audited financial statements.

General information

The comparatives for the full year ended 27 December 2015 do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on these accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Going concern

Despite the Group's challenging trading performance in the first half of the year, the Company is profitable, highly cash generative and retains a strong balance sheet. Potential risk factors and uncertainties that could affect the business are discussed in the Chairman's statement. The Group has a debt facility of £140m which was renewed on 8 June 2015 and now matures in June 2020. As at 3 July 2016 the Group had drawn down £43m of this facility and had net debt of £35.6m. Based on the Group's plans for the next 12 months and after making enquiries (including preparation of reasonable trading forecasts, consideration of current financing arrangements and current headroom for liquidity and covenant compliance), the Directors have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the condensed financial statements.

Changes in accounting policies

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

There have been no changes to the accounting standards in the current year that have materially impacted the Group financial statements.

Condensed financial statements
Notes to the condensed financial statements

1 Segmental analysis

The Group trades in one business segment (that of operating restaurants) and one geographical segment (being the United Kingdom). The Group's brands meet the aggregation criteria set out in paragraph 22 of IFRS 8 'Operating Segments' and as such the Group reports the business as one reportable segment.

2 Exceptional items

		27 weeks ended 3 July 2016 (unaudited) £'000	26 weeks ended 28 June 2015 (unaudited) £'000	52 weeks ended 27 December 2015 (audited) £'000
Provision for onerous leases and other costs		**(16,851)**	–	–
Impairment of fixed assets		**(40,280)**	–	–
Gross loss	(i)	**(57,131)**	–	–
Restructuring and strategic review costs	(ii)	**(2,009)**	–	–
Operating loss		**(59,140)**	–	–
Tax	(iii)	**8,178**	–	1,488
Net (loss) / profit		**(50,962)**	–	1,488

(i) In the 27 weeks ended 3 July 2016 the Group has recorded a charge of £57.1m for the exit costs of 33 underperforming sites which do not generate adequate levels of return and the impairment of a further 29 sites. The £57.1m includes £40.3m fixed asset impairment and £16.9m provision for onerous leases and other costs.

(ii) In the 27 weeks ended 3 July 2016 the Group has recorded a charge of £2.0m for the Board and management restructuring and the strategic review costs.

(iii) In the 27 weeks ended 3 July 2016 the Group has recognised a £8.2m tax credit in relation to exceptional items (26 weeks ended 28 June 2015: £nil, 52 weeks ended 27 December 2015: £1.5m tax credit in relation to revaluation of the deferred tax liability).

3 Tax

The underlying tax charge has been calculated by reference to the expected effective current and deferred tax rates for the full financial year to 1 January 2017 applied against the trading profit before tax for the period ended 3 July 2016. The full year effective tax rate on the underlying profit (before exceptional items) is estimated to be 22.1% (2015: 22.4%).

The Finance (No.2) Act 2015 introduced a reduction in the main rate of corporation tax from 20% to 19% from April 2017 and from 19% to 18% from April 2020. These reductions were substantively enacted on 24 October 2015 and therefore the deferred tax provision at the balance sheet date has been calculated using these rates.

Condensed financial statements
Notes to the condensed financial statements
continued

4 Earnings per share

	27 weeks ended 3 July 2016			26 weeks ended 28 June 2015			52 weeks ended 27 December 2015		
	Earnings (unaudited) £'000	**Weighted average number of shares (unaudited) millions**	**Per-share amount (unaudited) pence**	Earnings (unaudited) £'000	Weighted average number of shares (unaudited) millions	Per-share amount (unaudited) pence	Earnings (audited) £'000	Weighted average number of shares (audited) millions	Per-share amount (audited) pence
Basic earnings per share	**(22,420)**	**200.1**	**(11.20)**	28,671	200.7	14.29	68,886	199.4	34.55
Effect of dilutive options	**–**	**–**	**–**	–	0.5	(0.04)	–	0.5	(0.08)
Shares held by employee benefit trust	**–**	**0.9**	**0.05**	–	–	–	–	1.3	(0.23)
Diluted earnings per share	**(22,420)**	**201.0**	**(11.15)**	28,671	201.2	14.25	68,886	201.2	34.24
Basic earnings per share	**(22,420)**	**200.1**	**(11.20)**	28,671	200.7	14.29	68,886	199.4	34.55
Effect of exceptional items	**50,962**	**–**	**25.46**	–	–	–	(1,488)	–	(0.75)
Earnings per share – trading business	**28,542**	**200.1**	**14.26**	28,671	200.7	14.29	67,398	199.4	33.80

5 Dividends

Following approval at the Annual General Meeting on 12 May 2016, the final dividend in respect of 2015 of 10.60p per share, totalling £21.2m, was paid to shareholders on 6 July 2016.

The Directors have declared an interim dividend of 6.8p per share which will be paid on 13 October 2016 to ordinary shareholders on the register at close of business on 16 September 2016. In accordance with IAS 10, this will be recognised in the reserves of the Group in the second half of the year.

6 Reconciliation of profit before tax to cash generated from operations

	27 weeks ended 3 July 2016 (unaudited) £'000	26 weeks ended 28 June 2015 (unaudited) £'000	52 weeks ended 27 December 2015 (audited) £'000
Profit before tax	**(22,499)**	36,947	86,845
Net finance charges	**883**	1,139	2,046
Impairment	**40,280**	–	–
Provision for onerous leases and other costs	**18,860**	–	–
Share-based payments	**(265)**	1,310	2,900
Depreciation	**22,071**	19,331	39,100
Decrease / (increase) in stocks	**1,060**	684	(859)
Decrease / (increase) in debtors	**4,705**	100	(5,633)
(Decrease) / increase in creditors	**(4,205)**	464	9,233
Cash generated from operations	**60,890**	59,975	133,632

7 Bank loans
The Group has a committed bank facility of £140m in place until June 2020. During the 27 weeks ended 3 July 2016, the Group increased its draw down under this facility by £11.0m (26 weeks ended 28 June 2015: reduction of £15.0m, 52 weeks ended 27 December 2015: reduction of £8.0m).

8 Share capital
Share capital at 3 July 2016 amounted to £56.5m. The number of shares authorised, issued and fully paid increased from 200,950,672 to 201,063,645 in the period following the exercise of share options by employees, amounting to 112,373 shares.

9 Related party transactions
There were no related party transactions in the 27 weeks ended 3 July 2016.

10 Contingent liabilities
There were no significant changes in the nature and size of contingent liabilities at 3 July 2016 to those reported in the Annual Report and Accounts for the 52 weeks ended 27 December 2015.

Independent review report
to The Restaurant Group plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 27 weeks ended 3 July 2016 which comprises the consolidated income statement, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 10. 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 condensed set of financial statements.

This report is made solely to the company 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. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities
The half-yearly financial report 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 and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in the accounting policies, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

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 inquiries, 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 Ireland) 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 27 weeks ended 3 July 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

26 August 2016

Company information

Directors
Debbie Hewitt
Non-executive Chairman

Andy McCue (from 19 September 2016)
Chief Executive Officer

Barry Nightingale (from 20 June 2016)
Chief Financial Officer

Simon Cloke
Senior Independent non-executive Director

Graham Clemett (from 1 June 2016)
Independent non-executive Director

Sally Cowdry
Independent non-executive Director

Mike Tye (from 4 April 2016)
Independent non-executive Director

Company Secretary
Alex Small

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10 St Bride Street
London EC4A 4AD

Brokers
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Numis Securities Limited
The London Stock Exchange Building
One Paternoster Square
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Interim dividend

Ex-dividend	15 September 2016
Record date	16 September 2016
Payment date	13 October 2016

Notes

Notes

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