The
Restaurant
Group plc

Interim Report 2017 for the 26 weeks ended 2 July 2017

Good progress on strategic initiatives and trading in line with expectations

Strategic highlights

- Early signs of improved volume momentum in our Leisure business
- Fundamentally improved value positioning and food offer in Frankie & Benny's
- Restaurant technology roll-out complete to facilitate serving customers better
- Healthy pipeline of opportunities to advance growth in Pubs and Concessions
- Good progress on cost reduction
- Team strengthened

Financial highlights*

- Like-for-like sales down 2.2%
- Total sales down 1.9% on a 26 week comparable basis; down 7.1% on a statutory basis
- Adjusted[1] profit before tax of £25.5m (2016: £36.6m). Statutory profit before tax of £2.8m (2016: loss of £22.5m)
- Exceptional charge of £22.7m (2016: £59.1m)
- Adjusted[1] EBITDA of £44.3m (2016: £59.6m)
- Adjusted[1] EPS of 10.0p (2016: 14.3p). Statutory EPS of 0.6p (2016: loss per share 11.2p)
- Continued strong free cash flow of £35.1m (2016: £35.8m)
- Net bank debt of £19.3m (2016: £35.6m)
- Interim dividend maintained at 6.8p per share, reflecting the Board's confidence in the plan
- Current trading in line with our expectations; we continue to expect to deliver an adjusted PBT outcome for the full-year in line with current market expectations

* The highlights reflect the statutory 26 week period in 2017 versus the statutory 27 week period in 2016 unless stated otherwise.

[1] Adjusted reflects pre-exceptional costs and is further defined in the glossary at the end of this report.

Chief Executive Officer's statement

Introduction

We have made good progress on the four key elements of our strategy that we set out earlier in the year, to:

- re-establish the competitiveness of our Leisure brands;
- serve our customers better and more efficiently;
- grow our Pubs and Concessions businesses; and
- build a leaner, faster and more focused organisation.

Customers are enjoying better value and improved quality of offer in our Leisure brands. As a result, we are beginning to see some early signs of volume improvement.

As we have highlighted before, 2017 is a transitional year. As we make the necessary investments in price to correct for our previously weak value position, and in quality to ensure consistency of our food offer, like-for-like sales and margins will come under inevitable pressure in the short term.

We are on track to finish the year with a more competitive offering, a strengthened team, and a more efficient business, positioning us well for 2018 and beyond.

We continue to benefit from a strong balance sheet and free cash flow generation and as a sign of confidence in our plan, the Board is proposing to maintain the interim dividend of 6.8 pence per share.

Business review

Re-establish the competitiveness of our Leisure brands

Frankie & Benny's (258 units)

We have focused on restoring our value credentials, deepening the distinctiveness of our offer to families and marketing to attract back lapsed customers.

In January, we trialled and then launched an improved, cheaper fixed price menu (£9.95 for two courses) which continues to perform well. We launched our new core menu in two waves in March and May. The new menu is considerably more competitive than the previous version, with entry prices reduced by 22%, and like-for-like dishes, on average, 7% cheaper. As a consequence, our prices on key value indicator dishes are now significantly lower than our peer set.

We have invested in improved food quality to ensure we can produce dishes consistently well, introduced new sharing dishes which are proving popular among our target family audience, and created new dishes which have shown encouraging early adoption.

In June we launched a new kids' menu taking on board feedback from our younger customers and their parents. The menu is genuinely differentiated in the sector, with a much more engaging food offer and presentation, as well as being better value.

Our marketing is focused on attracting back lapsed customers, in part with discounts, which are increasingly channelled through affiliate partners, as well as seasonal campaigns such as our 'win a holiday every day' promotion during the school summer holidays. Later in the year, we plan a marketing re-launch, enabling us to highlight the distinctive family appeal of the brand, delivered with more relevance and consistency.

While there remains a lot to do, there are early signs of customer awareness of our changes, with recent data showing an uptick in value for money ratings, net promoter scores and the brand rankings for quality of ingredients and freshness of food.

The pace of change in the business is accelerating and in the second half of the year we will refine our menus, making changes based on insights gathered to date, as well as trialling a series of new product innovations which, if successful, will feature more broadly in 2018. Towards the end of the year, we also plan on piloting a low cost 'capital refresh' of some of our older properties which will focus on improving the look and feel of customer facing areas.

Chiquito (83 units)

In February this year, we re-introduced fixed price value menus to Chiquito offering two courses for £10.95 and three courses for £14.95, generating a significant improvement in the proportion of sales channelled via fixed-price menus and highlighting the value-conscious nature of our customer base.

Consistent with our intention to broaden the appeal of the brand, we have been trialling a fundamentally changed menu in 20 sites, which has received encouraging feedback. This new menu provides the customer with the ability to custom-build tortillas and vary the spiciness of their sauce, all at a highly competitive price point of £9.95. We will make some changes to that menu in the coming weeks, extending the trial to a further 20 sites, with a view to rolling out the proposition across the estate thereafter.

Other Leisure brands (38 units)

Coast to Coast's like-for-like trading performance continues to be challenging, albeit we have managed to improve the trading trajectory in recent months through discounting.

Our focus has been on developing a new proposition, Firejacks, which offers high quality flame-grilled steaks and burgers at highly competitive prices. We have converted the Coast to Coast in Northampton to Firejacks, and re-launched the restaurant earlier this month. This pilot site will enable us to test and refine the concept and determine the potential for roll-out via conversions of further Coast to Coast sites.

Our remaining brands, Garfunkel's, Filling Station and Joe's Kitchen are performing solidly. We don't consider these brands to be strategic priorities that justify significant focus or resource at this time.

Chief Executive Officer's statement
continued

Serve our customers better and more efficiently

In the first half of the year we completed the upgrade of our technology in restaurants in our Leisure and Concessions businesses, enabling:

- improved labour forecasting and scheduling via a new labour management software solution;
- increased frequency and accuracy of bookings via an integrated system of online, telephone and in-restaurant reservations;
- quicker ordering and payment processing via use of hand-held terminals; and
- increased attachment rates of, for example, side dishes, via automated prompts to servers.

We are investing in training our team to use the technology optimally and will be introducing simplified service training to ensure our service standards are consistently delivered. Where possible, we are stripping out unnecessary back-of-house processes and, in turn, increasing the proportion of time deployed which is customer-facing.

New technologies may also help us to remove customer pain points and/or improve the experience. Later this year we will trial mobile order-and-pay and click-and-collect applications in a small sample of test sites. Following that, we anticipate upgrading our customer-facing digital assets in 2018.

Grow our Pubs and Concessions businesses

Our Pubs have performed well in the period, helped in part by favourable weather but also driven by strong operational delivery.

We have focused on improving the consistency of our execution, which has contributed to an increase in our customer ratings to an all-time high. We have also deepened our links with the communities in which we operate by hosting popular beer and gin festivals.

We have committed increased resources to identifying sites to enable us to increase the rate of openings, and consequently, the pipeline of prospective sites is steadily growing.

Our Concessions business continues to perform strongly, driven by both solid growth in passenger numbers and by strong execution in maximising the throughput of customers. Our pipeline of new opportunities has strengthened in recent months and we expect to secure several new contract wins in the second half of the year.

Build a leaner, faster and more focused organisation

We have made good progress reducing the cost base. We have restructured head office roles and streamlined our field operations team. We have also invested in strengthening the senior team, as well as building our analytical capabilities, and will make additional investments in our marketing team in the second half.

We are looking forward to Kirk Davis joining next February as Chief Financial Officer from Greene King where he holds the same position, and Michael Healy joining in November as Chief Marketing Officer from Paddy Power Betfair. We will end the year with a high capability team at an overall lower cost.

We have centralised purchasing within the Group, reducing the number of suppliers and, in turn, leveraging scale economies. Similarly, our logistics is now channelled through fewer partners, generating savings.

We have made reductions in overheads, both in better managing demand and striking improved terms with suppliers.

Overall, we expect to save c.£10m in 2017 versus a 2016 baseline, which is ahead of plan, all of which is supporting our reinvestment in price, product and marketing.

Current trading and outlook

Current trading is in line with our expectations, with year to date like-for-like sales for the 34 weeks to 27 August down 2.5%.

2017 is a transitional year as we continue to address the competitiveness of our Leisure businesses and focus on achieving a sustainable volume-led turnaround. Where opportunities to accelerate our progress present themselves, we will invest appropriately. As a result of the investments we have made in our new menus and promotional activity in the year, our full year 2017 cost of goods sold margin is expected to be between 1.5 and 1.8 percentage points higher than 2016.

Accordingly, we continue to expect to deliver an adjusted profit before tax outcome for the full year in-line with current market expectations.

We expect to open between 18 and 20 units in 2017 with associated capital expenditure of between £18m and £20m. Refurbishment and maintenance capital expenditure, including technology investment, in 2017 is expected to be c.£20m.

We anticipate opening between 10 and 20 units in 2018.

Financial review

Trading results

2017 is a 52 week year and the first half contained 26 weeks (H1 2016: 27 weeks). The growth figures and comparatives set out in this section reflect the performance versus the statutory 27 week period in 2016 unless otherwise stated.

Like-for-like sales declined by 2.2% versus the comparable 26 week period with total turnover down 1.9%. On a statutory basis, turnover declined by 7.1% to £333.1m (2016: £358.7m). The like-for-like sales decline reflected the investments we have made in price and proposition across our Leisure brands, partially offset by a good performance from our Pubs and Concessions businesses.

With declining like-for-like sales, the well-known sector specific inflationary cost pressures and investments made in price, product and marketing, adjusted operating profit (EBIT) fell by 29.5% to £26.5m (2016: £37.5m) with the adjusted operating margin falling by 2.6 percentage points to 7.9%. On a statutory basis operating profit was £3.8m (2016: operating loss of £21.6m).

Adjusted profit before tax for the period was £25.5m (2016: £36.6m), with adjusted profit after tax of £20.0m (2016: £28.5m). Adjusted earnings per share was 10.0p (2016: 14.3p). On a statutory basis, our profit before tax was £2.8m (2016: loss before tax of £22.5m) and statutory earnings per share was 0.6p (2016: loss per share of 11.2p).

The Group recognises that we are facing continued headwinds on labour costs, food and drink input costs, utilities and occupancy costs. These inflationary cost pressures are anticipated to continue through the second half of the year and into next year at a similar level. We will continue to be vigilant on cost and to drive efficiencies in order to mitigate these increases.

The Group remains highly cash generative with free cash flow of £35.1m in the period (2016: £35.8m); reflecting lower operating profit offset by lower maintenance capital expenditure and tax payments in the period, the latter as a result of the statutory loss for the year ended 2016. Net bank debt at the end of the period was £19.3m (2016: £35.6m).

In the period we opened 12 new restaurants and pubs and expect to open 18 to 20 sites for 2017 as a whole (2016: 24 sites).

Restructuring and exceptional charge

An exceptional charge of £22.7m has been recorded in the period (2016: £59.1m), which comprises:

- property provisions of £4.4m (2016: £16.8m) recognising the successful exit of 12 sites, the reassessment of the remaining disposal sites and further review of our existing estate;
- a charge of £9.8m (2016: £nil) relating to a change in the discount rate applied to the onerous lease provisions;
- impairment charge of £4.3m (2016: £40.3m) made against the carrying value of some restaurant assets given recent changes in certain markets; and
- £4.2m (2016: £2.0m) relating to costs incurred in the restructuring projects that were initiated in 2017 to implement the new strategy and cost saving initiatives.

Interim dividend

Given the Board's confidence in the plan 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 12 October 2017 to shareholders on the register on 15 September 2017 and shares will be marked ex-dividend on 14 September 2017. During this transitional period the Board will continue to assess the dividend based on progress against the plan.

Notes

1. The estate at 2 July 2017 comprised 258 Frankie & Benny's, 83 Chiquito, 19 Coast to Coast, 8 Garfunkel's, 7 Filling Station, 4 Joe's Kitchen, 59 Pub restaurants and 56 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 11 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 adjusted trading income statement (26 weeks vs 27 weeks*):

	26 weeks ended 2 July 2017 (unaudited) £m	27 weeks ended 3 July 2016 (unaudited) £m	% change
Revenue	**333.1**	358.7	(7.1%)
Adjusted EBITDA	**44.3**	59.6	(25.7%)
Adjusted operating profit	**26.5**	37.5	(29.5%)
Adjusted operating margin	**7.9%**	10.5%	
Adjusted profit before tax	**25.5**	36.6	(30.4%)
Tax	**(5.5)**	(8.1)	
Adjusted profit after tax	**20.0**	28.5	(29.9%)
Adjusted EPS (pence)	**9.98**	14.26	(30.0%)

* Reflects the statutory 26 week period in 2017 versus the 27 week 2016 comparatives.

Financial review
continued

5. Summary cash flow statement

	26 weeks ended 2 July 2017 (unaudited) £m	27 weeks ended 3 July 2016 (unaudited) £m
Adjusted operating profit	**26.5**	37.5
Working capital and non-cash adjustments	**1.5**	1.3
Depreciation	**17.8**	22.1
Net cash flow from operations	**45.8**	60.9
Net interest paid	**(0.3)**	(0.4)
Tax paid	**(1.7)**	(9.0)
Maintenance capital expenditure	**(8.7)**	(15.7)
Free cash flow	**35.1**	35.8
Development capital expenditure	**(11.2)**	(12.8)
Movement in capital creditor	**(2.2)**	(10.5)
Utilisation of property provisions	**(7.0)**	–
Restructuring costs	**(5.5)**	–
Other items	**(0.2)**	1.6
Change in net bank debt	**9.0**	14.1
Net bank debt at start of period	**(28.3)**	(28.4)
Comparable net bank debt at end of period	**(19.3)**	(14.3)
Dividend paid	**–**	(21.3)
Net bank debt at end of period	**(19.3)**	(35.6)

Consolidated income statement

	Note	26 weeks ended 2 July 2017 Trading business (unaudited) £'000	Exceptional (see note 3) (unaudited) £'000	**Total (unaudited) £'000**
Revenue		333,107	–	**333,107**
Cost of sales	2	(289,505)	(18,439)	**(307,944)**
Gross profit/(loss)		43,602	(18,439)	**25,163**
Administration costs		(17,136)	(4,238)	**(21,374)**
Operating profit/(loss)		26,466	(22,677)	**3,789**
Interest payable		(968)	–	**(968)**
Interest receivable		2	–	**2**
Profit/(loss) on ordinary activities before tax		25,500	(22,677)	**2,823**
Tax on profit/(loss) from ordinary activities	4	(5,496)	3,908	**(1,588)**
Profit/(loss) for the period		20,004	(18,769)	**1,235**
Earnings/(loss) per share (pence)				
Basic	5	9.98		**0.62**
Diluted	5	9.94		**0.61**

The table below is provided to give additional information to shareholders on a key performance indicator:

Earnings before interest, tax, depreciation and amortisation:	44,257	(18,398)	**25,859**
Depreciation and impairment	(17,791)	(4,279)	**(22,070)**
Operating profit	26,466	(22,677)	**3,789**

Consolidated income statement
continued

		27 weeks ended 3 July 2016		
	Note	Trading business (unaudited) £'000	Exceptional (see note 3) (unaudited) £'000	**Total (unaudited) £'000**
Revenue		358,667	–	**358,667**
Cost of sales	2	(302,762)	(57,131)	**(359,893)**
Gross profit/(loss)		55,905	(57,131)	**(1,226)**
Administration costs		(18,381)	(2,009)	**(20,390)**
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	4	(8,099)	8,178	**79**
Profit/(loss) for the period		28,542	(50,962)	**(22,420)**
Earnings/(loss) per share (pence)				
Basic	5	14.26		**(11.20)**
Diluted	5	14.20		**(11.15)**

The table below is provided to give additional information to shareholders on a key performance indicator:

Earnings before interest, tax, depreciation and amortisation:	59,595	(18,860)	**40,735**
Depreciation and impairment	(22,071)	(40,280)	**(62,351)**
Operating profit	37,524	(59,140)	**(21,616)**

	Note	53 weeks ended 1 January 2017 Trading business (audited) £'000	Exceptional (see note 3) (audited) £'000	**Total (audited) £'000**
Revenue		710,712	–	**710,712**
Cost of sales	2	(598,136)	(109,732)	**(707,868)**
Gross profit/(loss)		112,576	(109,732)	**2,844**
Administration costs		(33,420)	(6,944)	**(40,364)**
Operating profit/(loss)		79,156	(116,676)	**(37,520)**
Interest payable		(2,073)	–	**(2,073)**
Interest receivable		66	–	**66**
Profit/(loss) on ordinary activities before tax		77,149	(116,676)	**(39,527)**
Tax on profit/(loss) from ordinary activities	4	(17,043)	16,405	**(638)**
Profit/(loss) for the period		60,106	(100,271)	**(40,165)**
Earnings/(loss) per share (pence)				
Basic	5	30.02		**(20.06)**
Diluted	5	29.84		**(20.06)**

The table below is provided to give additional information to shareholders on a key performance indicator:

Earnings before interest, tax, depreciation and amortisation:	120,965	(48,626)	**72,339**
Depreciation and impairment	(41,809)	(68,050)	**(109,859)**
Operating profit	79,156	(116,676)	**(37,520)**

Consolidated balance sheet

	At 2 July 2017 (unaudited) £'000	At 3 July 2016 (unaudited) £'000	At 1 January 2017 (audited) £'000
Non-current assets			
Intangible assets	**26,433**	26,433	26,433
Property, plant and equipment	**343,304**	368,377	345,952
	369,737	394,810	372,385
Current assets			
Stock	**5,750**	5,329	5,632
Trade and other receivables	**12,719**	9,601	18,782
Prepayments	**17,064**	14,327	15,824
Cash and cash equivalents	**8,734**	6,132	9,568
	44,267	35,389	49,806
Total assets	**414,004**	430,199	422,191
Current liabilities			
Corporation tax liabilities	**(2,015)**	(3,647)	(1,275)
Trade and other payables	**(136,810)**	(110,938)	(121,850)
Other payables – finance lease obligations	**(330)**	(343)	(393)
Provisions	**(13,252)**	(6,313)	(16,391)
	(152,407)	(121,241)	(139,909)
Net current liabilities	**(108,140)**	(85,852)	(90,103)
Non-current liabilities			
Long-term borrowings	**(28,039)**	(41,697)	(37,882)
Other payables – finance lease obligations	**(3,013)**	(2,984)	(2,950)
Deferred tax liabilities	**(3,490)**	(8,519)	(4,434)
Provisions	**(36,574)**	(16,498)	(27,579)
	(71,116)	(69,698)	(72,845)
Total liabilities	**(223,523)**	(190,939)	(212,754)
Net assets	**190,481**	239,260	209,437
Equity			
Share capital	**56,550**	56,550	56,550
Share premium	**25,542**	25,542	25,542
Other reserves	**(8,938)**	(11,562)	(9,987)
Retained earnings	**117,327**	168,730	137,332
Total equity	**190,481**	239,260	209,437

Consolidated statement of changes in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	**Total £'000**
Balance at 27 December 2015 (audited)	56,518	25,255	(11,080)	212,867	**283,560**
Loss for the year	–	–	–	(40,165)	**(40,165)**
Issue of new shares	32	287	–	–	**319**
Dividends	–	–	–	(34,862)	**(34,862)**
Share-based payments	–	–	1,323	–	**1,323**
Other reserve movements	–	–	(230)	–	**(230)**
Current tax on share-based payments taken directly to equity	–	–	–	73	**73**
Deferred tax on share-based payments taken directly to equity	–	–	–	(581)	**(581)**
Balance at 1 January 2017 (audited)	56,550	25,542	(9,987)	137,332	**209,437**
Balance at 2 January 2017 (audited)	56,550	25,542	(9,987)	137,332	**209,437**
Profit for the period	–	–	–	1,235	**1,235**
Dividends	–	–	–	(21,240)	**(21,240)**
Share-based payments	–	–	980	–	**980**
Deferred tax on share-based payments taken directly to equity	–	–	69	–	**69**
Balance at 2 July 2017 (unaudited)	56,550	25,542	(8,938)	117,327	**190,481**

Balance at 27 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	32	287	–	–	**319**
Dividends	–	–	–	(21,237)	**(21,237)**
Share-based payments	–	–	(265)	–	**(265)**
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)	56,550	25,542	(11,562)	168,730	**239,260**

Consolidated cash flow statement

	Note	26 weeks ended 2 July 2017 (unaudited) £'000	27 weeks ended 3 July 2016 (unaudited) £'000	53 weeks ended 1 January 2017 (audited) £'000
Operating activities				
Cash generated from operations	7	**45,843**	60,890	122,148
Interest received		**3**	40	41
Interest paid		**(320)**	(454)	(865)
Tax paid		**(1,724)**	(9,023)	(16,223)
Net cash flows from operating activities		**43,802**	51,453	105,101
Investing activities				
Purchase of property, plant and equipment		**(22,095)**	(38,972)	(65,280)
Disposal of fixed assets		**–**	1,424	2,219
Utilisation of property provisions		**(6,970)**	–	(3,315)
Cash outflows from exceptional restructuring costs		**(5,571)**	–	(3,759)
Net cash flows used in investing activities		**(34,636)**	(37,548)	(70,135)
Financing activities				
Net proceeds from issue of ordinary share capital		**–**	319	319
Net (repayments of)/proceeds from loan	8	**(10,000)**	11,000	7,000
Dividends paid to shareholders		**–**	(21,237)	(34,862)
Net cash flows used in financing activities		**(10,000)**	(9,918)	(27,543)
Net (decrease)/increase in cash and cash equivalents		**(834)**	3,987	7,423
Cash and cash equivalents at the beginning of the period/year		**9,568**	2,145	2,145
Cash and cash equivalents at the end of the period/year		**8,734**	6,132	9,568

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 26 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
31 August 2017

Andrew McCue
Chief Executive Officer
31 August 2017

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 1 January 2017 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. The Group has a debt facility of £140m which was renewed on 8 June 2015 and now matures in June 2020. As at 2 July 2017 the Group had drawn down £29m of this facility and had net bank debt of £19.3m. 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.

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 Cost of sales
Cost of sales consists of the following:

	26 weeks ended 2 July 2017 (unaudited) £'000	27 weeks ended 3 July 2016 (unaudited) £'000	53 weeks ended 1 January 2017 (audited) £'000
Continuing business excluding pre-opening costs	**(287,936)**	(301,672)	(594,756)
Pre-opening costs	**(1,569)**	(1,090)	(3,380)
Trading cost of sales	**(289,505)**	(302,762)	(598,136)
Exceptional charge	**(18,439)**	(57,131)	(109,732)
Cost of sales for the period/year	**(307,944)**	(359,893)	(707,868)

3 Exceptional items

	26 weeks ended 2 July 2017 (unaudited) £'000	27 weeks ended 3 July 2016 (unaudited) £'000	53 weeks ended 1 January 2017 (audited) £'000
Provision for onerous leases and other costs	**(4,346)**	(16,851)	(41,682)
Change in assumption of discount rate	**(9,814)**	–	–
Impairment of fixed assets	**(4,279)**	(40,280)	(68,050)
Restructuring and strategic review costs	**(4,238)**	(2,009)	(6,944)
Exceptional cost before tax	**(22,677)**	(59,140)	(116,676)
Tax	**3,908**	8,178	16,405
Net exceptional cost for the period/year	**(18,769)**	(50,962)	(100,271)

Notes to the condensed financial statements
continued

3 Exceptional items continued

An exceptional charge of £22.7m has been recorded in the period (2016: £59.1m), which comprises:

- Property provisions of £4.4m (2016: £16.8m) recognising the successful exit of 12 sites, the reassessment of the remaining disposal sites and further review of our existing estate;
- A charge of £9.8m (2016: £nil) relating to a change in the discount rate applied to the onerous lease provisions;
- Impairment charge of £4.3m (2016: £40.3m) made against the carrying value of some restaurant assets given recent changes in certain local markets;
- £4.2m (2016: £2.0m) relating to costs incurred in the restructuring projects that were initiated in 2017 to implement the new strategy and cost saving initiatives; and
- A £3.9m tax credit in relation to exceptional items (27 weeks ended 3 July 2016: £8.2m, 53 weeks ended 1 January 2017: £16.4m).

4 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 31 December 2017 applied against the trading profit before tax for the period ended 2 July 2017.

The full year effective tax rate on the underlying profit (before exceptional items) is estimated to be 21.6% (2016: 22.1%).

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.

The Finance Act 2016 introduced a further reduction in the main rate of corporation tax to 17% from April 2020. This was substantively enacted on 6 September 2016. The deferred tax provision at the balance sheet date has been calculated at this rate.

5 Earnings/(loss) per share

	26 weeks ended 2 July 2017			27 weeks ended 3 July 2016			53 weeks ended 1 January 2017		
	Earnings (unaudited) £'000	Weighted average number of shares (unaudited) millions	Per-share amount (unaudited) pence	Earnings/ (loss) (unaudited) £'000	Weighted average number of shares (unaudited) millions	Per-share amount (unaudited) pence	Earnings/ (loss) (audited) £'000	Weighted average number of shares (audited) millions	Per-share amount (audited) pence
Basic earnings per share	**1,235**	**200.4**	**0.62**	(22,420)	200.1	(11.20)	(40,165)	200.2	(20.06)
Effect of dilutive options	**–**	**0.1**	**–**	–	–	–	–	0.4	0.04
Shares held by employee benefit trust	**–**	**0.7**	**–**	–	0.9	0.05	–	0.8	0.08
Diluted earnings per share	**1,235**	**201.2**	**0.61**	(22,420)	201.0	(11.15)	(40,165)	201.4	(20.06)
Basic earnings/ (loss) per share	**1,235**	**200.4**	**0.62**	(22,420)	200.1	(11.20)	(40,165)	200.2	(20.06)
Effect of exceptional items	**18,769**	**–**	**9.36**	50,962	–	25.46	100,271	–	50.08
Adjusted earnings per share	**20,004**	**200.4**	**9.98**	28,542	200.1	14.26	60,106	200.2	30.02

6 Dividends

Following approval at the Annual General Meeting on 26 May 2017, the final dividend in respect of 2016 of 10.60p per share, totalling £21.2m, was paid to shareholders on 5 July 2017.

The Directors have declared an interim dividend of 6.8p per share which will be paid on 12 October 2017 to shareholders on the register on 15 September 2017 and shares will be marked ex-dividend on 14 September 2017. In accordance with IAS 10, this will be recognised in the reserves of the Group in the second half of the year.

Notes to the condensed financial statements
continued

7 Reconciliation of profit before tax to cash generated from operations

	26 weeks ended 2 July 2017 (unaudited) £'000	27 weeks ended 3 July 2016 (unaudited) £'000	53 weeks ended 1 January 2017 (audited) £'000
Profit/(loss) before tax	**2,823**	(22,499)	(39,527)
Net finance charges	**966**	883	2,007
Impairment of property, plant and equipment	**4,279**	40,280	68,050
Increase in provision for onerous leases and other costs	**18,397**	18,860	46,860
Share-based payments	**980**	(265)	1,323
Depreciation	**17,790**	22,071	41,809
(Increase)/decrease in stocks	**(118)**	1,060	757
Decrease/(increase) in debtors	**4,824**	4,705	(5,973)
(Decrease)/increase in creditors	**(4,098)**	(4,205)	6,842
Cash generated from operations	**45,843**	60,890	122,148

8 Bank loans
The Group has a committed bank facility of £140m in place until June 2020. During the 26 weeks ended 2 July 2017, the Group reduced the amount drawn down under this facility by £10.0m to £29.0m (27 weeks ended 3 July 2016: increase of £11.0m, 53 weeks ended 1 January 2017: increase of £7.0m).

9 Share capital
Share capital at 2 July 2017 amounted to £56.5m. The number of shares authorised, issued and fully paid increased from 201,063,045 to 201,063,167 in the period following the exercise of share options by employees, amounting to 122 shares.

10 Related party transactions
There were no related party transactions in the 26 weeks ended 2 July 2017.

11 Contingent liabilities
There were no significant changes in the nature and size of contingent liabilities at 2 July 2017 to those reported in the Annual Report and Accounts for the 53 weeks ended 1 January 2017.

12 Events occurring after the reporting date
No material events have arisen since the end of the period which have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

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 26 weeks ended 2 July 2017 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 12. 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.

Independent review report
to The Restaurant Group plc
continued

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 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 26 weeks ended 2 July 2017 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
Statutory Auditor
London, UK

31 August 2017

Glossary

The directors believe the alternative performance metrics used within this report, and defined below, provide additional useful information for shareholders to evaluate and compare the performance of the business from period to period. The adjusted metrics are reconciled to the statutory results for the period within the income statement and the supporting notes.

Trading business	Represents the performance of the business before exceptional costs and is considered as the key metrics for shareholders to evaluate and compare the performance of the business from period to period.
Like-for-like ("LFL") sales	This measure provides an indicator of the underlying performance of our existing restaurants. There is no accounting standard or consistent definition of 'like-for-like sales' across the industry. Group like-for-like sales are calculated by comparing the performance of all mature sites in the current period vs. the comparable period in the prior year.
Adjusted EBITDA	Earnings before interest, tax, depreciation, amortisation and exceptional items. Calculated by taking the Trading business operating profit and adding back depreciation.
Net bank debt	Net bank debt is calculated as the net of the long-term borrowings less cash and cash equivalents.
Free cash flow	EBITDA less working capital and non-cash movements (excluding exceptional items), tax payments, interest payments and maintenance capital expenditure.
Adjusted operating profit	Profit before interest, tax and exceptional items.
Adjusted EPS	Calculated by taking the earnings per share of the business pre-exceptional items.
Adjusted profit before tax	Calculated by taking the profit before tax of the business pre-exceptional items.

Company information

Directors
Debbie Hewitt
Non-executive Chairman

Andy McCue
Chief Executive Officer

Simon Cloke
Senior Independent non-executive Director

Graham Clemett
Independent non-executive Director

Paul May (from 3 July 2017)
Independent non-executive Director

Mike Tye
Independent non-executive Director

Company Secretary
James Adams

Head office (and address for all correspondence)
5-7 Marshalsea Road
London SE1 1EP

Telephone number
020 3117 5001

Company number
SC030343

Registered office
1 George Square
Glasgow G2 1AL

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
0371 384 2426
+44 (0)121 415 7047

Auditor
Deloitte LLP
2 New Street Square
London EC4A 3BZ

Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Goodman Derrick LLP
10 St Bride Street
London EC4A 4AD

Brokers
JPMorganCazenove
25 Bank Street
London E14 5JP

Numis Securities Limited
The London Stock Exchange Building
One Paternoster Square
London EC4M 7LT

Interim dividend

Ex-dividend	14 September 2017
Record date	15 September 2017
Payment date	12 October 2017

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C008198

The paper used in this report is source from well-managed forests and is FSC accredited.

The printer is ISO 14001 accredited and Forest Stewardship Council (FSC) chain of custody certified. Under the framework of ISO 14001 a structured approach is taken by the company to measure, improve and audit their environmental status on an ongoing basis. FSC ensures there is an audited chain of custody from the tree in the well-managed forest through to the finished document in the printing factory.

If you have finished reading this report and no longer wish to retain it please pass it to interested readers, return it to The Restaurant Group plc or dispose of it in your recycled paper waste. Thank you.

Designed and produced by Instinctif Partners **creative.instinctif.com**

The Restaurant Group plc
5-7 Marshalsea Road
London SE1 1EP
Tel: 020 3117 5001
www.trgplc.com