The **Restaurant** Group plc

Interim Report 2018 for the 26 weeks ended 1 July 2018

The Restaurant Group operates over 500 restaurants and pub restaurants.

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Our brands

Strategic highlights

- Continued improvements to the customer proposition in the Leisure business:
  - further progress to increase competitiveness of our brands;
  - optimising digital channels; and
  - developing new ‘off-trade’ channels.
- Pubs business outperforming the market and accelerated growth on track:
  - organic pipeline further strengthened; and
  - expansion accelerated through complementary acquisitions.
- Concessions sales outpacing growth in passengers. Further success in winning new space as well as renewing existing space.
- Progressing well on cost efficiencies.

Financial highlights

- Like-for-like sales down 3.7%, with total sales down 2.1% to £326.1m (2017: £333.1m).
- Adjusted[1] profit before tax of £20.1m (2017: £25.5m). Statutory profit before tax of £11.7m (2017[2]: £12.6m).
- Exceptional pre-tax charge of £8.4m (2017[2]: £12.9m).
- Adjusted[1] EBITDA of £38.1m (2017: £44.3m).
- Adjusted[1] EPS of 7.8p (2017: 10.0p). Statutory EPS of 4.0p (2017[2]: 4.5p).
- Operating cash flow of £25.6m (2017: £46.0m).
- Net bank debt of £22.8m (2017: £19.3m).
- Interim dividend maintained at 6.8p per share, reflecting the Board’s continued confidence in progress against the plan.

Current trading and outlook

- Good momentum post the end of the World Cup with like-for-like sales up 2.4% for the six weeks to 26 August 2018.
- Post period acquisition of Food & Fuel Ltd consisting of 11 premium leasehold pubs in affluent London locations for £14.9m.
- We expect to deliver an adjusted PBT outcome for the full year broadly in-line with current market expectations given the impact of adverse weather and the World Cup.

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

2 As restated, refer to note 14 of the interim financial statements for details.

The Group’s Adjusted performance metrics such as like-for-like sales, Adjusted measures and free cash flow are defined within the glossary at the end of this report.

Chief Executive Officer's statement

Over the last six months we have delivered against our strategy, creating a more competitive and balanced business, more closely aligned to the growth segments of our market.

The turnaround of our Leisure division continues to plan and shows further progress. This was despite the headwinds facing the sector as a whole and the adverse effects of extreme weather and the World Cup.

Meanwhile our Pubs and Concessions businesses have traded strongly, with both businesses expected to deliver significant total sales growth this year. Our recent acquisition of Food & Fuel Ltd will further accelerate our growth at the premium end of the pub market.

We remain focused on developing our offering to meet consumers' evolving demands and behaviours. Over the last six months we have rolled out delivery and 'Click-and-Collect' across most of our Leisure estate and successfully trialled two delivery-only brands, 'Burger Burger' and 'Kick-Ass Burrito', both of which have been well received.

Following a positive like-for-like sales performance in recent weeks, we remain on track to deliver an adjusted PBT outcome broadly in line with current market expectations for the full year.

Andy McCue
Chief Executive Officer

Business review

Introduction

The balance of the Group continues to evolve with our Pubs and Concessions businesses now contributing 51% of Group outlet EBITDA in the period.

Our Pub restaurants benefit from being in strong locations with attractive market dynamics, coupled with a market leading proposition and operational capability. Our healthy organic pipeline is now being supplemented with bolt-on acquisitions in the premium end of the market.

Concessions continues to benefit from passenger growth and we are exploiting opportunities for new space as airports further invest in terminals, capacity and food and beverage offer. Furthermore, given our strength in capability to develop and operate a broad range of formats, we see potential over the medium term for growth into international airports, as well as UK concessions outside of airports.

Over the last two years we have made significant progress in our Leisure brands with clearly defined and improved brand propositions. However, we are exposed to the well documented retail structural decline (with 57% of our Leisure sites directly neighbouring retail), whilst also competing in saturated local markets, and bearing property costs which are out of kilter with market conditions.

Given this context, we recognise that differentiated propositions are critical to success. We are also focused on increasing our propositions' exposure to healthy and convenient choices. We expect the delivery market to continue to grow quickly, and, while a disruptive force to physical formats, it also creates strategic opportunities for the Group.

Against this backdrop we continue to make good progress on the four key elements of our strategy that we set out at the beginning of 2017, 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.

1. Re-establish competitiveness of our Leisure brands

Frankie & Benny's

The brand has undergone considerable change over the last two years, to re-establish its competitiveness. We have focused on improving our value, product, brand and service proposition and the overall restaurant environment.

In value, we invested significantly in price reductions in 2017 and remain cheaper than our peers. We also continue to extend our affiliate presence with, for example, Meerkat Meals, available through the brand.

We have upgraded every menu in the brand, amplifying our core offering such as the kids menu which continues to be rated best in class in the market, as well as introducing a much improved range of healthier, vegan and vegetarian options via our 'Feel Good' range.

Our people are core to our brand proposition and we have re-energised and retrained the team. Alongside this we have a new brand look and feel which is being delivered consistently through the business.

That new brand appeal is best illustrated via our environment. In 2018, we have been trialling a capital refresh programme in 10 sites.

Business review continued

Early results are encouraging and we are currently investing in a further 10 sites. We remain disciplined in selecting sites, testing and learning and measuring progress.

Chiquito

Building on the success of the new simplified core menu rolled out in January, we have continued to evolve our Chiquito offering through further menu developments, exciting value offers and investment in a stronger operational team.

Our new core menu is delivering better value to our customers, supported by the latest external market data showing an improvement in value for money ratings against a competitor peer set. We rolled out a substantially improved kids menu this summer, a range of fresh and healthy summer specials, and introduced £1 Taco Tuesdays which have proven so popular, that we have replicated them on Thursdays!

All of this has been underpinned by a focus on operational excellence, leveraging insights from our new at table feedback app. Our customers are recognising these improvements with the latest external market data showing improvement in quality of service scores against a competitor peer set.

Other Leisure brands

The focus here remains on further developing our new proposition, Firejacks, which offers high quality flame-grilled steaks and burgers at highly competitive prices. Encouraged by the performance of the pilot site in Northampton, we have converted a further four Coast-to-Coast sites to Firejacks in recent weeks.

These sites, in Solihull, Stevenage, Chester and Basildon, have all opened very strongly with promising early uplift in covers. Importantly the feedback from guests has been very positive with every one of the new sites delivering strong ratings on social media.

We will continue to monitor the performance of these sites to determine the longer term scale of opportunity for the Firejacks brand.

2. Serve our customers better and more efficiently

We are focused on building a digital platform which enables customers to order, pay and feedback digitally, at home, en route to, or in restaurant, making the customer experience faster, easier and more intuitive.

We launched and rolled out pay with app functionality across our Leisure business in April, allowing customers to pay on their mobile phone using their credit card, debit card, PayPal or Apple Pay. The take-up so far has been very encouraging.

In May we launched and rolled out a new "real-time" guest-feedback app to allow us to better understand and respond to customer needs. This feedback is being used to drive menu innovation, employee training and operational improvements. By the end of the year, this data will feed into our CRM system.

Later this year we will launch mobile functionality to facilitate ordering ahead of visiting the restaurant. Digital ordering will also enable customers to digitally add to their orders during their meal. We are also developing kiosk functionality which will be particularly helpful to our Concessions business.

Our customer communications are increasingly targeted, via media channels as well as CRM. In June we broadcast our first ever TV advert via Sky Adsmart, enabling us to target specific households which align to our target demographic. Having built and launched our CRM platform in the first half, we are now running campaigns to test our effectiveness at converting lapsed customers, driving incremental customer visits and occasions, and more efficiently targeting and testing promotional mechanics.

The delivery market is rapidly growing, fuelled by online and investment by aggregators. We have rolled out our delivery offering extensively across our Leisure brands in every site where we sit in an UberEats, Deliveroo or Just Eat zone, with some individual sites delivering across all three platforms. In addition, we have successfully trialled 'delivery-only' brands, initially with 'Burger Burger', targeting locations where a gourmet burger offering is not represented, and followed by 'Kick-Ass Burrito', targeting more casual delivery occasions.

We also rolled out a 'Click and Collect' functionality across our main Leisure brands in June making it easier for our customers to order takeaway and addressing off-trade demand in regions where there is no delivery coverage.

3. Grow our Pubs and Concessions businesses

Pubs

Our Pubs business continued to outperform the pub restaurant sector in the current year. A combination of a stable and attractive customer base and demographics, defensible and well-invested locations and a localised business model with strong operational execution leads to the business being fundamentally robust.

During the year we broadened further our bespoke events such as our gin and prosecco festivals and optimised existing trading space via private dining rooms, function spaces and improved the amenities in some of our gardens and terraces. We anticipate additional revenue opportunities via accommodation and we are opening our first pub with accommodation in September.

In May we acquired Ribble Valley Inns Ltd which consisted of four leasehold pubs, providing a good opportunity to expand further into the north-west of England, and we see clear scope for investment to enhance their performance.

We have also recently completed the acquisition of Food & Fuel Ltd for £14.9m; consisting of 11 leasehold pubs and café-bars predominately situated in affluent London neighbourhoods and providing a premium offering tailored to local markets. The 11 sites generated EBITDA of £1.9m in their last full financial year. We expect there to be synergies from areas such as purchasing and central costs and an opportunity to continue to grow the business via data driven customer insights and sharing experience and learnings from the existing Brunning and Price operation. We expect to generate a mature company EBITDA run-rate of £2.3m for the 11 sites. With this scale of operation in London, we expect to exploit further expansion opportunities within London, including the possible conversion of some of our existing sites.

Concessions

Our Concessions business primarily operates in UK airports, an attractive market segment supported by strong levels of passenger growth in recent years, and where airport operators have increasingly invested in additional food and beverage capacity providing an increasingly diverse range of propositions.

We are a market leader in this space having built a distinctive capability to develop and operate multiple formats and brands delivering high quality guest experiences while simultaneously managing the complexity of operating at high volumes with peak and seasonal load bursts.

We have a strong track record of retention with 85% of our legacy sites having received a contract extension and the average extension adding 75% of the original concession term.

So far in 2018 we have been successful in winning 17 new units and expect to add five new partners in UK travel hubs in FY18. These new openings are a mix of multiple brands and multiple categories showcasing our market-leading capability in introducing new brands alongside existing attractive propositions to our evolving market.

Business review continued

As the new Concessions launched this year reach maturity in 2019 we expect total sales to grow by over 10% next year.

4. Build a leaner, faster, more focused organisation

We continue to focus on opportunities to make the cost base leaner and more efficient given the significant cost headwinds that are impacting the sector.

We have made further progress in leveraging the purchasing power of the Group to ensure we are delivering economies of scale on our food and drink input costs. We continue to achieve improved labour efficiency through the deployment of labour scheduling tools, more flexible staff structures and more responsive deployment. We have further consolidated our supply base on general overhead costs and have made investments in more energy efficient devices. We have also seen success in negotiating with landlords on rent reviews and with local authorities in challenging the business rate increases that have been levied.

We remain focused on cost efficiencies and see some further opportunities to leverage scale economies and consolidate suppliers.

Current trading and outlook

Recent trading has been encouraging, with like-for-like sales up 2.4% for the six week period since the end of the World Cup. Year to date like-for-like sales for the 34 weeks to 26 August are down 2.8% with like-for-like sales for the first eight weeks of the second half flat compared to last year.

We have continued to make good progress on our cost efficiency plans and expect to mitigate around 50% of the gross cost headwinds of £18m. We expect to deliver an adjusted PBT outcome for the full year broadly in-line with current market expectations, given the impact of adverse weather and the World Cup.

Including the acquisitions of Ribble Valley Inns Ltd and Food & Fuel Ltd we now expect to open at least 39 new sites in 2018 with associated capital expenditure of between £45m and £50m. Refurbishment and maintenance capital expenditure in 2018 is expected to be £20m to £25m.

We currently anticipate opening between 10 and 15 units in 2019 which will be predominately within our Pubs and Concessions businesses.

Financial review

Trading results

Like-for-like sales declined by 3.7% in the first half of the year with total turnover down 2.1% to £326.1m (2017: £333.1m). The like-for-like sales decline reflected the investments we made in price and proposition across our Leisure brands in 2017, adverse weather and the World Cup, which were partially offset by a strong like-for-like performance from both our Pubs and Concessions businesses.

With declining like-for-like sales, the well-known sector specific inflationary cost pressures and investments made in price, adjusted[1] operating profit fell by 21.0% to £20.9m (2017: £26.5m) with the adjusted[1] operating margin falling from 7.9% to 6.4%. On a statutory basis, the Group's operating profit was £12.5m (2017[2]: £13.6m).

Adjusted[1] profit before tax for the period was £20.1m (2017: £25.5m), with adjusted[1] profit after tax of £15.6m (2017: £20.0m). Adjusted[1] earnings per share were 7.8p (2017: 10.0p). On a statutory basis, our profit before tax was £11.7m (2017[2]: £12.6m) and statutory earnings per share were 4.0p (2017[2]: 4.5p).

The Group recognises the continued headwinds on food and drink input costs, labour 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 broadly similar level. We will continue to be vigilant on cost and target efficiencies in order to partially mitigate these increases.

The Group remains cash generative with free cash flow of £14.2m in the period (2017: £35.3m); the reduction in free cash flow reflects the lower operating profit in the period and an adverse working capital movement of £12.5m, a portion of which reflects the timing of certain payments to suppliers which is anticipated to reverse in the second half.

On a full year basis it is expected that there will be a working capital outflow in the region of £5.0m due to a reduction in trade creditors and non-cash movements. Net bank debt at the end of the period was £22.8m (2017: £19.3m).

In the period we opened 16 new sites and expect to open at least 39 sites in 2018 (2017: 17 sites).

Restructuring and exceptional charge

An exceptional charge of £8.4m has been recorded in the period (2017[2]: £12.9m), which comprises:

1. An onerous lease provision of £2.3m (2017: £4.3m) recognising the successful exit of 12 sites, the reassessment of the remaining closed sites and a further review of our existing estate;
2. Impairment charge of £6.2m (2017: £4.3m) made against the carrying value of specific restaurant assets due to trading conditions in certain local markets; and
3. Restructuring and strategic review costs of £nil (2017: £4.2m) 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 progress against 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 11 October 2018 to shareholders on the register on 14 September 2018 and shares will be marked ex-dividend on 13 September 2018. The Board will continue to assess the dividend based on progress against the plan.

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

[2] As restated, refer to note 14 of the interim financial statements for details.

Financial review continued

Notes

1. The estate at 1 July 2018 comprised 258 Frankie & Benny's, 85 Chiquito, 16 Coast-to-Coast, 8 Garfunkel's, 7 Filling Station, 4 Joe's Kitchen, 3 Firejacks, 66 Pub restaurants and 62 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 60 of our latest Annual Report and Accounts which can be found on the Group website: 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. The Group's Adjusted performance metrics such as like-for-like sales, Adjusted measures and free cash flow are defined within the glossary at the end of this report.

5. Summary adjusted trading income statement (26 weeks vs 26 weeks):

	26 weeks ended 1 July 2018 £m	26 weeks ended 2 July 2017 £m	% change
Revenue	**326.1**	333.1	(2.1%)
Adjusted[1] EBITDA	**38.1**	44.3	(14.0%)
Adjusted[1] operating profit	**20.9**	26.5	(21.0%)
Adjusted[1] operating margin	**6.4%**	7.9%	
Adjusted[1] profit before tax	**20.1**	25.5	(21.0%)
Adjusted[1] tax	**(4.5)**	(5.5)	
Adjusted[1] profit after tax	**15.6**	20.0	(21.9%)
Adjusted[1] EPS (pence)	**7.80**	9.98	(21.9%)

[1] Adjusted measures are stated before exceptional items and are as defined within the glossary.

6. Summary cash flow statement

	26 weeks ended 1 July 2018 £m	26 weeks ended 2 July 2017 £m
Adjusted[1] operating profit	**20.9**	26.5
Working capital and non-cash adjustments	**(12.5)**	1.7
Depreciation	**17.2**	17.8
Net cash flow from operations	**25.6**	46.0
Net interest paid	**(0.4)**	(0.3)
Tax paid	**(2.1)**	(1.7)
Maintenance capital expenditure	**(8.9)**	(8.7)
Free cash flow	**14.2**	35.3
Development capital expenditure	**(11.3)**	(11.2)
Movement in capital creditors	**1.7**	(2.2)
Utilisation of onerous lease provisions	**(5.7)**	(7.0)
Exceptional restructuring costs	**–**	(5.5)
Other items	**(0.1)**	(0.4)
Change in net bank debt	**(1.2)**	9.0
Net bank debt at start of period	**(21.6)**	(28.3)
Net bank debt at end of period	**(22.8)**	(19.3)

[1] Adjusted measures are stated before exceptional items and are as defined within the glossary.

Consolidated income statement

		26 weeks ended 1 July 2018		
	Note	Trading business (unaudited) £'000	Exceptional items (Note 3) (unaudited) £'000	Total (unaudited) £'000
Revenue		326,078	–	326,078
Cost of sales	2	(291,473)	(8,444)	(299,917)
Gross profit/(loss)		34,605	(8,444)	26,161
Administration costs		(13,708)	–	(13,708)
Operating profit/(loss)		20,897	(8,444)	12,453
Interest payable		(756)	–	(756)
Interest receivable		1	–	1
Profit/(loss) on ordinary activities before tax		20,142	(8,444)	11,698
Tax on profit/(loss) from ordinary activities	4	(4,517)	861	(3,656)
Profit/(loss) for the period		15,625	(7,583)	8,042
Earnings per share (pence)				
Basic	5	7.80		4.01
Diluted	5	7.77		4.00

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

Earnings before interest, tax, depreciation and amortisation (EBITDA)	38,060	(2,266)	35,794
Depreciation and impairment	(17,163)	(6,178)	(23,341)
Operating profit/(loss)	20,897	(8,444)	12,453

	Note	26 weeks ended 2 July 2017		
		Trading business (unaudited) £'000	Exceptional items (Note 3) Restated (Note 14) (unaudited) £'000	Total Restated (Note 14) (unaudited) £'000
Revenue		333,107	–	333,107
Cost of sales	2	(289,505)	(8,625)	(298,130)
Gross profit/(loss)		43,602	(8,625)	34,977
Administration costs		(17,136)	(4,238)	(21,374)
Operating profit/(loss)		26,466	(12,863)	13,603
Interest payable		(968)	–	(968)
Interest receivable		2	–	2
Profit/(loss) on ordinary activities before tax		25,500	(12,863)	12,637
Tax on profit/(loss) from ordinary activities	4	(5,496)	1,945	(3,551)
Profit/(loss) for the period		20,004	(10,918)	9,086
Earnings per share (pence)				
Basic	5	9.98		4.53
Diluted	5	9.94		4.52

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

Earnings before interest, tax, depreciation and amortisation (EBITDA)	44,257	(8,584)	35,673
Depreciation and impairment	(17,791)	(4,279)	(22,070)
Operating profit/(loss)	26,466	(12,863)	13,603

Consolidated income statement continued

	Note	52 weeks ended 31 December 2017 Trading business (audited) £'000	Exceptional items (Note 3) (audited) £'000	Total (audited) £'000
Revenue		679,282	–	679,282
Cost of sales	2	(589,490)	(8,386)	(597,876)
Gross profit/(loss)		89,792	(8,386)	81,406
Administration costs		(31,188)	(4,772)	(35,960)
Operating profit/(loss)		58,604	(13,158)	45,446
Interest payable		(1,911)	–	(1,911)
Interest receivable		51	–	51
Profit/(loss) on ordinary activities before tax		56,744	(13,158)	43,586
Tax on profit/(loss) from ordinary activities	4	(12,076)	1,423	(10,653)
Profit/(loss) for the period		44,668	(11,735)	32,933
Earnings per share (pence)				
Basic	5	22.29		16.44
Diluted	5	22.18		16.36

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

Earnings before interest, tax, depreciation and amortisation (EBITDA)	95,118	(8,973)	86,145
Depreciation and impairment	(36,514)	(4,185)	(40,699)
Operating profit/(loss)	58,604	(13,158)	45,446

Consolidated balance sheet

	At 1 July 2018 (unaudited) £'000	At 2 July 2017 (unaudited) £'000	At 31 December 2017 (audited) £'000
Non-current assets			
Intangible assets	**26,998**	26,433	26,433
Property, plant and equipment	**331,337**	343,304	335,029
	358,335	369,737	361,462
Current assets			
Stock	**5,955**	5,750	5,930
Other receivables	**17,257**	12,719	14,949
Prepayments	**19,833**	17,064	17,473
Cash and cash equivalents	**6,575**	8,734	9,611
	49,620	44,267	47,963
Total assets	**407,955**	414,004	409,425
Current liabilities			
Corporation tax liabilities	**(4,342)**	(2,015)	(2,129)
Trade and other payables	**(140,164)**	(136,810)	(124,238)
Other payables – finance lease obligations	**(164)**	(330)	(164)
Provisions	**(8,189)**	(13,252)	(10,408)
	(152,859)	(152,407)	(136,939)
Net current liabilities	**(103,239)**	(108,140)	(88,976)
Non-current liabilities			
Long-term borrowings	**(29,384)**	(28,039)	(31,223)
Other payables – finance lease obligations	**(2,488)**	(3,013)	(2,548)
Deferred tax liabilities	**(4,415)**	(3,490)	(5,127)
Provisions	**(29,874)**	(36,574)	(31,688)
	(66,161)	(71,116)	(70,586)
Total liabilities	**(219,020)**	(223,523)	(207,525)
Net assets	**188,935**	190,481	201,900
Equity			
Share capital	**56,551**	56,550	56,551
Share premium	**25,554**	25,542	25,554
Other reserves	**(7,520)**	(8,938)	(7,753)
Retained earnings	**114,350**	117,327	127,548
Total equity	**188,935**	190,481	201,900

Consolidated statement of changes in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 2 January 2017 – Restated (Note 14) (audited)	56,550	25,542	(9,987)	129,481	201,586
Profit for the period – Restated (Note 14)	–	–	–	9,086	9,086
Dividends	–	–	–	(21,240)	(21,240)
Share-based payments – credited to equity	–	–	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 2 January 2017 – Restated (Note 14) (audited)	56,550	25,542	(9,987)	129,481	201,586
Profit for the year	–	–	–	32,933	32,933
Issue of new shares	1	12	–	–	13
Dividends	–	–	–	(34,866)	(34,866)
Share-based payments – credited to equity	–	–	2,158	–	2,158
Deferred tax on share-based payments taken directly to equity	–	–	76	–	76
Balance at 31 December 2017 (audited)	56,551	25,554	(7,753)	127,548	201,900
Balance at 1 January 2018 (audited)	**56,551**	**25,554**	**(7,753)**	**127,548**	**201,900**
Profit for the period	**–**	**–**	**–**	**8,042**	**8,042**
Dividends	**–**	**–**	**–**	**(21,240)**	**(21,240)**
Share-based payments – credited to equity	**–**	**–**	**190**	**–**	**190**
Deferred tax on share-based payments taken directly to equity	**–**	**–**	**43**	**–**	**43**
Balance at 1 July 2018 (unaudited)	**56,551**	**25,554**	**(7,520)**	**114,350**	**188,935**

Consolidated cash flow statement

	Note	26 weeks ended 1 July 2018 (unaudited) £'000	26 weeks ended 2 July 2017 Restated (Note 14) (unaudited) £'000	52 weeks ended 31 December 2017 (audited) £'000
Operating activities				
Cash generated from operations	7	**25,588**	46,039	108,030
Interest received		**10**	3	55
Interest paid		**(376)**	(320)	(751)
Tax paid		**(2,113)**	(1,724)	(7,068)
Cash outflows from exceptional onerous lease provisions		**(5,650)**	(6,970)	(12,738)
Cash outflows from exceptional restructuring costs		**–**	(5,571)	(6,792)
Net cash flows from operating activities		**17,459**	31,457	80,736
Investing activities				
Purchase of property, plant and equipment		**(17,602)**	(22,095)	(39,275)
Proceeds from disposal of property, plant and equipment		**–**	–	828
Purchase of subsidiary		**(925)**	–	–
Cash acquired on acquisition of subsidiary		**114**	–	–
Net cash flows used in investing activities		**(18,413)**	(22,095)	(38,447)
Financing activities				
Net proceeds from issue of ordinary share capital		**–**	–	13
Net repayments of borrowings	8	**(2,000)**	(10,000)	(7,000)
Dividends paid to shareholders		**–**	–	(34,866)
Decrease in obligations under finance leases		**(82)**	(196)	(393)
Net cash flows used in financing activities		**(2,082)**	(10,196)	(42,246)
Net (decrease)/increase in cash and cash equivalents		**(3,036)**	(834)	43
Cash and cash equivalents at the beginning of the period		**9,611**	9,568	9,568
Cash and cash equivalents at the end of the period		**6,575**	8,734	9,611

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,

Andy McCue
Chief Executive Officer
31 August 2018

Kirk Davis
Chief Financial Officer
31 August 2018

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 31 December 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 challenging trading environment in the first half of the year, the Company is profitable, cash generative and retains a low level of debt. The Group has a debt facility of £140m which matures in June 2020. As at 1 July 2018 the Group had drawn down £30m of this facility and had net debt of £22.8m. 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, with the exception of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' which have been adopted by the Group. The implementation of these accounting standards, with effect from 1 January 2018, has not had a material impact on the Group. There have been no other changes to the accounting standards in the current year that have materially impacted the Group financial statements.

As noted in the Group's latest audited financial statements the Group expects IFRS 16 'Leases', which will replace IAS 17 'Leases', to have a material impact on the reported assets, liabilities and income statement of the Group. The Group will be required to adopt the new standard for its financial year commencing 30 December 2019.

Under IFRS 16, the majority of the Group's operating leases will be 'on balance sheet' as reflected by a right-of-use asset and corresponding lease liability. As a result, earnings before interest, tax, amortisation and depreciation (EBITDA) will increase as the current operating lease charge will be substituted for an increased depreciation charge, arising from the right-of-use asset, and an increased interest charge, arising from the unwinding of discount on the lease liability, both which are presented below EBITDA. IFRS 16 will impact other financial measures, including debt, debt covenants, gearing and earnings per share.

Management are currently assessing the impact of adopting IFRS 16 and accordingly it is not yet practicable to quantify the effects or the option which the Group may select upon transition.

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

	26 weeks ended 1 July 2018 (unaudited) £'000	26 weeks ended 2 July 2017 Restated (Note 14) (unaudited) £'000	52 weeks ended 31 December 2017 (audited) £'000
Continuing business excluding pre-opening costs	**290,828**	287,936	587,347
Pre-opening costs	**645**	1,569	2,143
Trading cost of sales	**291,473**	289,505	589,490
Exceptional charge	**8,444**	8,625	8,386
Cost of sales for the period/year	**299,917**	298,130	597,876

3 Exceptional items

	26 weeks ended 1 July 2018 (unaudited) £'000	26 weeks ended 2 July 2017 Restated (Note 14) (unaudited) £'000	52 weeks ended 31 December 2017 (audited) £'000
Onerous lease provision in respect of closed and other sites	**2,266**	4,346	4,201
Impairment of property, plant and equipment	**6,178**	4,279	4,185
Restructuring and strategic review costs	**–**	4,238	4,772
Exceptional items before tax	**8,444**	12,863	13,158
Tax effect of exceptional items	**(861)**	(1,945)	(1,423)
Net exceptional items for the period/year	**7,583**	10,918	11,735

An exceptional pre-tax charge of £8.4m has been recorded in the period (2017 restated: £12.9m), which includes the following:

- Onerous lease provisions of £2.3m (2017: £4.3m) recognising the successful exit of 12 sites (£3.5m credit), the reassessment of the remaining closed sites (£1.6m charge) and a further review of our existing estate giving rise to a net £4.2m charge where we have reassessed individual leases and the expected timescale to either exit or sublet the location (£5.4m charge offset by a £1.2m credit);
- Impairment charge of £6.2m (2017: £4.3m) made against the carrying value of specific restaurant assets due to trading conditions in certain local markets; and
- Restructuring and strategic review costs of £nil (2017: £4.2m) relating to costs incurred in the restructuring projects that were initiated in 2017 to implement the new strategy and cost saving initiatives.

The tax credit relating to these exceptional charges was £0.9m (2017 restated: £1.9m).

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 30 December 2018 applied against the trading profit before tax for the period ended 1 July 2018.

The full year effective tax rate on the adjusted profit (before exceptional items) is estimated to be 22.4% (2017: 21.3%).

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.

Notes to the condensed financial statements
continued

5 Earnings per share

	26 weeks ended 1 July 2018			26 weeks ended 2 July 2017			52 weeks ended 31 December 2017		
	Earnings (unaudited) £'000	Weighted average number of shares (unaudited) millions	Per share amount (unaudited) pence	Earnings Restated (Note 14) (unaudited) £'000	Weighted average number of shares (unaudited) millions	Per share amount Restated (Note 14) (unaudited) pence	Earnings (audited) £'000	Weighted average number of shares (audited) millions	Per share amount (audited) pence
Basic earnings per share	8,042	200.4	4.01	9,086	200.4	4.53	32,933	200.4	16.44
Effect of dilutive options	–	0.1	0.00	–	0.1	(0.00)	–	0.3	(0.02)
Shares held by employee benefit trust	–	0.7	(0.01)	–	0.7	(0.01)	–	0.7	(0.06)
Diluted earnings per share	8,042	201.2	4.00	9,086	201.2	4.52	32,933	201.3	16.36
Basic earnings per share	8,042	200.4	4.01	9,086	200.4	4.53	32,933	200.4	16.44
Effect of exceptional items	7,583	–	3.79	10,918	–	5.45	11,735	–	5.85
Earnings per share – trading business	15,625	200.4	7.80	20,004	200.4	9.98	44,668	200.4	22.29
Effect of dilutive options	–	0.1	(0.00)	–	0.1	(0.01)	–	0.3	(0.03)
Shares held by employee benefit trust	–	0.7	(0.03)	–	0.7	(0.03)	–	0.7	(0.08)
Dilutive earnings per share – trading business	15,625	201.2	7.77	20,004	201.2	9.94	44,668	201.3	22.18

6 Dividends

Following approval at the Annual General Meeting on 23 May 2018, the final dividend in respect of 2017 of 10.6p per share, totalling £21.2m, was paid to shareholders on 5 July 2018.

The Directors have declared an interim dividend of 6.8p per share which will be paid on 11 October 2018 to ordinary shareholders on the register on 14 September 2018 and shares will be marked ex-dividend on 13 September 2018. In accordance with IAS 10, this will be recognised in the reserves of the Group in the second half of the year.

7 Reconciliation of profit before tax to cash generated from operations

	26 weeks ended 1 July 2018 (unaudited) £'000	26 weeks ended 2 July 2017 Restated (Note 14) (unaudited) £'000	52 weeks ended 31 December 2017 (audited) £'000
Profit before tax	**11,698**	12,637	43,586
Net interest charges	**755**	966	1,860
Onerous lease provision in respect of closed and other sites	**2,266**	4,346	4,201
Impairment of property, plant and equipment	**6,178**	4,279	4,185
Restructuring and strategic review costs	**–**	4,238	4,772
Depreciation	**17,163**	17,791	36,514
Share-based payments	**190**	980	2,158
Loss on disposal of property, plant and equipment	**27**	–	–
Decrease/(increase) in stocks	**20**	(118)	(298)
(Increase)/decrease in other receivables	**(4,619)**	4,824	2,185
(Decrease)/increase in payables	**(8,090)**	(3,904)	8,867
Cash generated from operations	**25,588**	46,039	108,030

The repayment of finance leases in the 2017 comparatives (26 weeks ended 2 July 2017 restated: £0.2m, 52 weeks ended 31 December 2017: £0.4m) have been reclassified, within both this note and the consolidated cash flow statement, from a cash outflow arising from a decrease in creditors to a cash outflow in relation to financing activities, in accordance with IAS 7 'Statement of cash flows'.

8 Bank loans

The Group has a committed bank facility of £140m in place until June 2020. During the 26 weeks ended 1 July 2018, the Group reduced its draw down under this facility by £2.0m to £30.0m (26 weeks ended 2 July 2017: decrease of £10.0m, 52 weeks ended 31 December 2017: decrease of £7.0m).

Notes to the condensed financial statements
continued

9 Financial Instruments
The treasury strategy, treasury risk management, capital risk management and financial risk management remain consistent with those used in the Group's latest annual audited financial statements.

Financial assets
The financial assets of the Group, all of which are classified as loans and receivables at amortised cost, comprise:

	At 1 July 2018 (unaudited) £'000	At 2 July 2017 (unaudited) £'000	At 31 December 2017 (audited) £'000
Cash and cash equivalents	**6,575**	8,734	9,611
Other receivables	**17,257**	12,719	14,949
Total financial assets	**23,832**	21,453	24,560

Cash and cash equivalents include £0.5m (2 July 2017 and 31 December 2017: £0.5m) held on account in respect of deposits paid by tenants under the terms of their rental agreement.

Financial liabilities
The financial liabilities of the Group, all of which are classified as other financial liabilities at amortised cost, comprise:

	At 1 July 2018 (unaudited) £'000	At 2 July 2017 (unaudited) £'000	At 31 December 2017 (audited) £'000
Trade and other payables	**120,552**	115,868	102,621
Finance lease payable	**164**	330	164
Short-term financial liabilities	**120,716**	116,198	102,785
Long-term borrowings – at floating interest rates	**30,000**	29,000	32,000
Bank fees	**(616)**	(961)	(777)
Finance lease payable	**2,488**	3,013	2,548
Long-term financial liabilities	**31,872**	31,052	33,771
Total financial liabilities	**152,588**	147,250	136,556

Fair value of financial assets and liabilities
All financial assets and liabilities are accounted for at amortised cost and the Directors consider the carrying value to approximate to their fair values.

10 Share capital

Share capital at 1 July 2018 amounted to £56.6m. The number of shares authorised, issued and fully paid as at 1 July 2018 was 201,067,400.

11 Related party transactions

There were no related party transactions in the 26 weeks ended 1 July 2018.

12 Contingent liabilities

There were no significant changes in the nature and size of contingent liabilities at 1 July 2018 to those reported in the Annual Report for the 52 weeks ended 31 December 2017.

13 Acquisition of subsidiary

On 21 May 2018, the Group acquired 100% of issued shares in Ribble Valley Inns Limited, a pubs business, for consideration of £0.9m.

Details of the purchase consideration, the net identifiable assets acquired and goodwill are as follows:

	£'000
Purchase consideration	
Cash paid	925
Cash due	14
Total purchase consideration	939

The provisional fair value of the assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value £'000
Cash and cash equivalents	114
Property, plant and equipment	835
Stock	45
Receivables	50
Payables	(670)
Net identifiable assets acquired	374
Add: goodwill	565
	939

Acquisition related costs of £0.2m are included in administration costs in the consolidated income statement.

Notes to the condensed financial statements
continued

14 Restatement of comparatives

During the year ended 31 December 2017, management identified two historical elements of the mechanical calculations of the onerous lease provisions that were either not in line with industry practice or using incorrect data. This resulted in a net movement in the opening provision of £9.8m, as detailed below:

- £19.1m charge to the income statement as a result of changing the discount rate applied to the provisions from the Group's WACC of 10.6% to a risk free rate; and
- £9.3m credit to the income statement as a result of correcting certain lease end dates used in the calculation of the provision to the break clause date.

These were initially accounted for as exceptional items within the 2017 half year results. Following the publication of the Group's Interim Report the Financial Reporting Council (FRC) wrote to the Company to ask for reconsideration of whether this should be accounted for within the prior year as the correction of a prior year error. As a result of this request, the Company reviewed the accounting treatment again and took the decision to restate the 2017 financial statements and record these two elements as corrections of prior year errors. The 2017 interim financial statements have also been restated to reflect this.

This has decreased the exceptional charge within the income statement for the 26 week period ended 2 July 2017 from £22.7m to £12.9m. This has also decreased the tax credit on exceptional items from £3.9m to £1.9m, resulting in a net impact on statutory profit after tax of £7.8m and a corresponding decrease in opening retained earnings at 2 January 2017. There is no impact on the balance sheet position at 2 July 2017.

The amount of correction for each financial line item affected and for basic and diluted earnings per share is disclosed below. Further information can be obtained from the 2017 Annual Report.

	As originally disclosed 2 July 2017 £'000	Restatement £'000	As restated £'000
Consolidated income statement			
Exceptional cost of sales	(18,439)	9,814	(8,625)
Cost of sales	(307,944)	9,814	(298,130)
Exceptional tax credit	3,908	(1,963)	1,945
Tax on profit from ordinary activities	(1,588)	(1,963)	(3,551)
Profit for the year	1,235	7,851	9,086
Consolidated statement of changes in equity			
Retained earnings as at 2 January 2017	137,332	(7,851)	129,481
Basic and diluted earnings per share			
Basic earnings per share (pence)	0.62	3.91	4.53
Diluted earnings per share (pence)	0.61	3.91	4.52

The FRC also asked the Company to review the classification of the net cash flows relating to exceptional items within the cash flow statement of £12.5m in the 26 week period ended 2 July 2017. The Company reconsidered the underlying cash flows and concluded that these would be more appropriately classified as operating cash flows. As a result, the prior year cash flow statement has been restated to reflect this change in presentation.

	As originally disclosed 2 July 2017 £'000	Restatement £'000	As restated £'000
Consolidated cash flow statement			
Cash outflows from exceptional onerous lease provisions	–	(6,970)	(6,970)
Cash outflows from exceptional restructuring costs	–	(5,571)	(5,571)
Net cash flows from operating activities	43,802	(12,345)	31,457
Utilisation of property provisions	(6,970)	6,970	–
Cash outflows from exceptional restructuring costs	(5,571)	5,571	–
Net cash flows used in investing activities	(34,636)	12,541	(22,095)

In addition to the restatement outlined above, the Group has reclassified the presentation of payments in respect of finances leases to be correctly disclosed within net cash flows used in financing activities. The £0.2m difference between net cash flows from operating activities (£12.3m) and that classified as cash outflows from exceptional items (£12.5m, in total), in the table above, relates to this reclassification (see Note 7).

15 Events occurring after the reporting date

On 29 August 2018, the Group acquired 100% of issued shares in Food & Fuel Limited, a premium pubs business, for consideration of £14.9m.

No other 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 1 July 2018 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 15. 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 Financial Reporting Council. 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 Financial Reporting Council 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 1 July 2018 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 2018

Glossary

Trading business	Represents the performance of the business before exceptional items and is considered as the key metrics for shareholders to evaluate and compare the performance of the business from period to period.
Exceptional items	Those items that, by virtue of their unusual nature or size, warrant separate additional disclosure in the financial statements in order to fully understand the performance of the Group.
Like-for-like 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 versus the comparable period in the prior year. Sites that are closed, disposed or disrupted during a financial year are excluded from the like-for-like sales calculation.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Outlet EBITDA	EBITDA directly attributable to individual sites and therefore excluding corporate and central costs.
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	Earnings before interest and tax and exceptional items.
Adjusted EPS	Calculated by taking the profit after tax of the business pre-exceptional items divided by the weighted average number of shares in issue during the year.
Adjusted diluted EPS	Calculated by taking the profit after tax of the business pre-exceptional items divided by the weighted average number of shares in issue during the year, including the effect of dilutive potential ordinary shares.
Adjusted profit before tax	Calculated by taking the profit before tax of the business pre-exceptional items.
Adjusted tax	Calculated by taking the tax of the business pre-exceptional items.

Shareholder information

Directors
Debbie Hewitt
Non-executive Chairman

Andy McCue
Chief Executive Officer

Kirk Davis
Chief Financial Officer

Simon Cloke
Senior independent non-executive Director

Graham Clemett
Independent non-executive Director

Mike Tye
Independent non-executive Director

Paul May
Independent non-executive Director

Company Secretary
Ace Company Services Limited
(from 9 March 2018)

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Interim dividend

Ex-dividend	13 September 2018
Record date	14 September 2018
Payment date	11 October 2018

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