15 May 2018

Ei Group plc

Unaudited Interim Results for the six months ended 31 March 2018

Maintaining growth momentum

Ei Group plc (EIG or Group), the largest owner and operator of pubs in the UK, today announces its interim results for the six months ended 31 March 2018.

Financial highlights

- Further growth in net asset value to £3.26 per share (H1 2017: £3.01 per share)
- Underlying EBITDA# of £139 million (H1 2017: £140 million), in line with expectations and reflecting the impact of planned disposals
- Underlying profit before tax# of £57 million (H1 2017: £57 million) as interest savings from reduced debt offset the reduction in EBITDA
- Statutory profit after tax of £37 million (H1 2017: £10 million), stated after charging non-underlying finance costs of £1 million (H1 2017: £30 million)
- Basic earnings per share of 7.9p (H1 2017: 2.1p) which, adjusting for non-underlying items, delivers underlying earnings per share# of 9.8p (H1 2017: 9.6p)
- Completion of £20 million share buyback programme with purchase and cancellation of 15 million EIG shares at an average price of £1.32

Operational progress

- **Evolving our operating divisions**
  - *Publican Partnerships*
    - Like-for-like net income# up 0.6% (H1 2017: up 1.6%)
    - Average annualised net income per pub# up 4.3% to £80,900 (H1 2017: £77,600)
  - *Commercial Properties*
    - Growing portfolio of 351 (H1 2017: 279) properties generating net annualised rental income of £25 million on assets valued at £289 million, representing a yield on the freehold assets of 7.7%
    - Average annualised net income per property# up 8.2% to £68,600 (H1 2017: £63,400)
  - *Managed Pubs*
    - Like-for-like sales growth of 6.6% (H1 2017: 3.8%) across managed house businesses
    - Managed Operations - performance on track with 276 (H1 2017: 136) pubs trading within our 100% owned managed operations business; 223 (H1 2017: 100) in our drinks-led Craft Union format; and 53 (H1 2017: 36) in our Bermondsey format
    - Managed Investments - continued progress with 43 (H1 2017: 22) pubs trading within our managed investments business with 10 specialist partners

- **Strong operating cash flows and robust balance sheet**
  - Strong operating cash flows of £125 million (H1 2017: £117 million).
  - Disposal proceeds of £34 million (H1 2017: £65 million) largely funded capital investment of £42 million (H1 2017: £35 million)
  - Sufficient available bank facilities to repay at par the £100.5 million corporate bonds due in December 2018
  - Repaid £44 million (H1 2017: £38 million) of securitised notes, through scheduled amortisation of £40 million and market purchases of £4 million

Commenting on the results, Simon Townsend, Chief Executive Officer said:

"We set out our strategic plan in 2015, and we have made strong progress. As we look to 2020 and beyond, our strategy continues to evolve, reflecting our successes to date, changes in the marketplace and our continuing drive to unlock embedded value within our estate. However, the core tenets of our strategy remain unchanged in that we aim to optimise the returns delivered from each of our assets by ensuring they trade in their optimal format and operating model.

We are pleased to have maintained the growth momentum in our leased and tenanted estate during the first half of the year. This is despite challenging trading conditions for the sector as a whole, with inflationary pressures and some fragility in consumer spending compounded by particularly poor weather towards the end of the period. To have achieved overall growth in net income despite these headwinds underlines the benefits of our flexible business model and gives us confidence that we are on track to deliver positive like-for-like net income growth in our leased and tenanted business for the full year.

Our managed operations continue to trade well, with good returns achieved upon conversion and we expect the financial contribution from such conversions to increase in the coming years, delivering long-term incremental value to the Group. Our managed investments and commercial properties businesses are successfully building the value-enhancing characteristics of portfolio quality and scale, consistent with our objective to monetise their value over time.

The continued positive trading momentum and cash generation of the business enabled us to complete a £20 million share buyback programme during the first half of the year, demonstrating our commitment to deliver returns to shareholders when appropriate and to drive long-term growth in shareholder value."

Enquiries: Simon Townsend, Chief Executive Officer 0121 272 5000
Neil Smith, Chief Financial Officer 0121 272 5000
Tulchan Communications, Jonathan Sibun/Peter Hewer 020 7353 4200

The Interim Results presentation will be available on the Group website at www.eigroupplc.com. A live video webcast of the presentation will be available on the investor zone section on the above website from 9.30am. Alternatively, a live conference call of the presentation can be accessed at 9.30am by dialling +44 (0) 20 3003 2666 or 1 866 966 5335 (USA callers). A replay of the conference call will be available for seven days on +44 (0) 20 8196 1998 and 1 866 595 5357 (USA callers) using replay passcode 4135264#.

 # Alternative Performance Measures (APMs)
In the reporting of financial information throughout the Interim Results, the Directors have adopted various APMs. These measures are presented in order to supplement reported results by providing further clarity on the Group's underlying performance and to present additional information that reflects how the Directors monitor and measure the progress of the Group. Further details and definitions of the APMs included in the Interim Results, including reconciliation to reported measures can be found in notes 4, 5, 6 and 13.

Forward-looking statements
This announcement contains certain statements about the future outlook for EIG. Although we believe that our expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

OPERATIONAL & STRATEGIC REVIEW

Overview

We are pleased to report our interim results for the six months ended 31 March 2018, during which period we have delivered underlying EBITDA of £139 million, down just £1 million on the comparative period primarily as a result of planned asset disposals. Underlying profit before taxation was unchanged at £57 million as lower interest costs, resulting from reduced levels of debt, have offset the decline in EBITDA.

The Group has three reportable segments; Publican Partnerships, our leased and tenanted business; Commercial Properties, our free-of-tie pub and non-pub property business; and Managed pubs, which include Managed Operations that are 100% owned and operated by the Group and Managed Investments that are joint ventures with experienced retail partners.

Strategic Execution
It is three years since we set out our 2020 strategy, which seeks to optimise the returns from every asset within our property portfolio. We have reorganised the Group in line with this strategy and built the necessary infrastructure to establish and grow new managed pub and commercial property businesses to complement our existing leased and tenanted business. The business has evolved to be more flexible and better able to respond to the changes in market conditions that we see in the sector. We have made good progress to date and we are confident that this is the most effective means by which to deliver returns for our shareholders.

As we look forward to 2020 and beyond, we now have the flexibility to evolve our strategy and adapt to changes in the marketplace. The programme of converting pubs from their existing leased and tenanted agreements to our new managed formats or to commercial free-of-tie properties has steadily increased in pace over the last three years as we have developed our skills and capabilities to be able to take advantage of opportunities as they arise.

The extent of conversions to commercial free-of-tie agreements has been lower than was originally anticipated as there have been only limited numbers of publicans taking up the Market Rent Only (“MRO”) option introduced by the Pubs Code legislation. We believe that this reflects our publicans’ recognition of the benefits of their existing tied agreements compared to the free-of-tie alternative. We now expect to have in the region of 500 commercial free-of-tie assets as at 30 September 2020 compared to the original estimate of 1,000.

The current level of managed house conversions reflects the profile of opportunities that arise and represents the most efficient transition pipeline which avoids conversions in busy trading periods. Looking forward we expect the number of managed pubs to be in the region of 365 by the end of this financial year and thereafter we expect to convert in the region of 125 pubs per annum to managed formats. As such, we anticipate operating approximately 600 managed pubs by 30 September 2020 and expect conversions to continue well beyond 2020.

We have always been mindful that the evolution of our business model could bring with it greater operational complexity and potential extra cost. As such, we have challenged ourselves to drive efficiency within our support infrastructure and to rationalise the organisation to avoid unnecessary duplication. Taking this into account, as we move to 2020 and beyond, we will continue to operate and invest in our two primary and complementary businesses, leased and tenanted pubs and our wholly-owned managed operations. We are adding significant operational value to these two businesses by optimising the returns achievable from our asset base. Where we have limited opportunity to add operational value, such as with commercial property ownership, we continue to examine options that may lead to the monetisation of these assets for the benefit of shareholders.

Publican Partnerships
Publican Partnerships is the trading name for our tied leased and tenanted business which is the largest part of our Group. Publican Partnerships contributed £151 million (H1 2017: £162 million) to the underlying EBITDA of the Group reported in the first half of the year.

As at 31 March 2018, we had 3,856 pubs trading within the leased and tenanted estate and have grown like-for-like net income by 0.6% (H1 2017: 1.6%) through the first six months of the financial year. The improvement in trading performance has been achieved by a strong performance in the South of our estate. In the North and Midlands the impact of significant weather-related disruption to the business in March meant that like-for-like net income was marginally down in the first half of the year. We estimate that the snow in March reduced our like-for-like net income growth in the first half by approximately 0.3 percentage points. Despite the Easter holiday period falling at the turn of the half year, a week earlier than last year, poor weather during that period meant it did not materially aid the first half like-for-like net income performance.

Location	No. of trading pubs at 31 March 2018	Net income H1 FY18 £m	% of total net income FY18	Net income H1 FY17 £m	Net income change H1 FY18 %
North	1,059	38.5	26	38.7	(0.5)
Midlands	773	27.0	18	27.1	(0.4)
South	2,024	85.0	56	83.8	1.4
Total	**3,856**	**150.5**	**100**	**149.6**	**0.6**

Like-for-like net income growth in the leased and tenanted business has been maintained through the great work of our publicans supplemented by our business enhancing support. We believe that our continued willingness to invest capital alongside the best publicans; the provision of a broad range of business-building services; and the proactive intervention of our regional managers provide the core pillars for continued improvement in the net income performance of our leased and tenanted pubs.

We provide our tied leased and tenanted publicans with a broad range of services to help them increase sales and reduce costs, and to operate their pubs efficiently and effectively. Our growing managed businesses are now providing us with additional insight, experience and best practice with which to further enhance the support we can provide to tied publicans in the Publican Partnerships business. We have now published a total of 28 Pub Principle Guides, including such business areas as product range, pricing, social media and GDPR-readiness, and our highly successful "eilive" roadshows attracted a record number of publican attendees. In the period we launched a new on-line ordering platform, and approximately 40% of publicans now order their weekly drinks requirements using this service.

The ability to mitigate the financial risks faced by publicans during periods of economic challenge is a unique attribute of the business model operated by our Publican Partnerships business. The proactive intervention of our regional managers to identify and then avoid potential business failures is particularly important when our publicans are likely to be facing increased inflationary pressures. Despite such increasing external pressures there was no material change in the number of unexpected business failures with 30, or 1.3% of the estate, (H1 2017: 33, or 1.4% of the estate) suffering such failure in the period. Where appropriate we continue to provide direct financial assistance to tied publicans and this cost remains stable at £2 million in the first six months of the year (H1 2017: £2 million).

We have fulfilled the requirements of the Pubs Code, which came into effect on 21 July 2016, and we have not seen a material impact on our financial results from its implementation. From the date of its introduction to 31 March 2018, there were 990 rent review or agreement renewal events which could potentially have triggered an MRO request. As required under the Pubs Code, we issued 256 MRO offers in response to requests by publicans of which 141 have been concluded by way of mutually agreed tied deals and 15 have resulted in new mutually agreed free-of-tie terms. In addition, 2 pubs have been sold, 11 leases have been repurchased from the occupational tenant and 3 claims have been cancelled by the tenant, with the balance of 84 not yet concluded. Of these, 49 have been referred to the Pubs Code Adjudicator for determination. It remains our working assumption that the majority of those cases which have been referred to the Adjudicator will ultimately lead to new, free-of-tie agreements being granted.

For the 990 pubs referred to above there are 781 which are still operated by the same publican on either tied or new free-of-tie agreements and in the six months to 31 March 2018 these pubs delivered like-for-like net income decline of 0.8% compared to the prior period. The movement in our income for this group of pubs has not been as strong as the like-for-like net income growth of 0.6% achieved for the total estate reflecting, in part, the stronger negotiating position for publicans which the Pubs Code set out to achieve.

We have reduced the number of longer-term leases and increased the proportion of our tied business operating under shorter-term tenancy agreements of up to five years in length. Since the concept of MRO agreements was first announced in November 2014 we have reduced the number of long-term agreements from 3,035 at that time to 1,942 as at 31 March 2018.

Managed Pubs
Our managed pubs contributed £11 million (H1 2017: £5 million) to the underlying EBITDA of the Group reported in the first half of the year, with those sites that traded as managed pubs throughout both this period and the comparable period delivering like-for-like sales growth of 6.6% (H1 2017: 3.8%). We are now operating a significant managed house business and we are pleased with the progress made to date.

The quality and efficiency of the asset conversion process has a significant impact on the optimisation of returns and as such we have evolved our approach to asset transitions. Whilst these revisions will have minimal impact on our financial expectations in the current year we expect longer-term benefits as we simplify and standardise the speed and quality of conversions.

Profile of pubs under management:	Actual as at 31 March 2017	Actual as at 31 March 2018	Forecast as at 30 September 2018	Indicative as at 30 September 2020
Managed Operations	136	276	310	500
Managed Investments	22	43	55	100
Total Managed Pubs	**158**	**319**	**365**	**600**

Managed Operations:
Our Managed Operations business represents our 100% owned and operated managed pubs which are traded in two unbranded formats. The Craft Union format now has national coverage as a leading scale operator of community pubs, with one clear retail offer that is drinks-led with quality beers, at affordable prices, served in local, well-invested facilities. The Bermondsey format also operates nationally but has a more flexible retail offering, which can incorporate an element of food, and is increasingly tailored to reflect the pre-existing retail offer and consumer occasion.

We continue to grow our Managed Operations by converting, and investing in, assets previously operated within our leased and tenanted business. As at 31 March 2018 we operated 276 pubs within Managed Operations (H1 2017: 136) and we expect to be operating around 310 pubs by 30 September 2018.

As at 31 March 2018, we had 165 pubs operating within Managed Operations that had been invested in and traded for more than six months. To that date, these pubs generated average annualised site EBITDA of £99,000, from an average capital investment of £157,000, which delivered a ROI of 21%. As the estate matures and we further develop the consumer offer we would expect our Managed Operations sites to generate average site EBITDA in the range of £100,000 to £110,000. After an average capital investment in the region of £150,000, we expect to deliver a ROI in excess of 20%.

Managed Investments:
In our Managed Investments business, we have developed a partnership model whereby we can work with carefully selected managed house operators to share in the benefits of trading in certain high quality and specialist retail segments. While we expect to selectively grow the number of partners with whom we are operating, our primary focus is to grow the scale of our existing partners, and enhance the quality of trading operations with the strategic intention of monetising their value at the appropriate time.

As at 31 March 2018 we had 43 pubs (H1 2017: 22) trading with a total of ten partners and we expect to be operating in the region of 55 pubs in this model by 30 September 2018.

As at 31 March 2018 we had 21 pubs operating within our Managed Investments business that had been invested in and traded for more than six months and these pubs to that date generated average annualised site EBITDA of £198,000, from an average site capital investment of £431,000, which delivered a ROI, excluding the relevant partner's minority interest, of 16%. As we evolve and grow the Managed Investments business we would expect the average capital investment to be in the region of £400,000 to £500,000 with average site EBITDA to be in the range of £175,000 to £225,000, which we expect to deliver a ROI in excess of 20%.

Commercial Properties
The Commercial Properties business contributed £13 million (H1 2017: £9 million) to the underlying EBITDA of the Group reported in the period, with the average annualised net income per property growing by 8.2% to £68,600 (H1 2017: £63,400). Properties that traded as commercial properties throughout both the current period and the prior period delivered like-for-like net income growth of 7.1% (H1 2017: 1.1%).

As at 31 March 2018 we had 351 commercial properties (H1 2017: 279), the vast majority of which trade as pubs on a free-of-tie basis. The underlying quality of the commercial property estate continues to improve, evidenced by the average annualised rental income per property increasing to £70,000 (H1 2017: £66,000). These assets have a net annualised rental income of £25 million and were valued at 30 September 2017 at £289 million, resulting in a gross yield of 8.5%. Excluding 46 sites which are held under leases, the gross yield on commercial property freehold sites was 7.7%.

We intend to continue the expansion of our high quality commercial property portfolio through open market negotiations with exceptional operators who offer good covenant strength, running highly profitable businesses in well-located properties. We remain open to the potential of small package disposals from this portfolio although we believe optimal value may be better achieved for shareholders through growing the scale and quality of the portfolio to a level where greater economic benefits could potentially be secured.

Reflecting our value-led approach, and the lower than expected number of conversions to free-of-tie agreements from tied publicans exercising the MRO option, we now expect to be operating in the region of 375 commercial properties by 30 September 2018 at an average annualised rental income per property in excess of £70,000. We do not expect the future rate of growth of this estate to materially change from the current growth rate and our focus is to ensure that we are in a position to take advantage of any possible monetisation opportunities that may arise. Should no material monetisation occur beforehand, then we would expect our commercial property business to grow to be in the region of 500 assets by September 2020.

OUTLOOK

Last year the Easter holiday period was in the first week of the second half of our financial year and as such presented a more challenging comparative period for the beginning of our current trading period. Despite this we are pleased with the trading in the first six weeks of the second half of the year which has been in line with our expectations.

We aim to continue our growth momentum and to deliver positive like-for-like net income growth in our leased, tenanted and commercial estates for the full year, which will, in part, benefit from enhanced trading expected in June and July during the FIFA World Cup finals.

We remain encouraged by the trading performance of our expanding portfolio of managed pubs and we expect the financial contribution from these pubs to increase and deliver long-term sustainable value to the Group.

FINANCIAL REVIEW

Income statement

	Underlying 31 March 2018 £m	Underlying 31 March 2017 £m
Revenue	**330**	310
Operating costs before depreciation and amortisation	**(191)**	(170)
EBITDA	**139**	140
Profit before tax	**57**	57
Earnings per share	**9.8p**	9.6p

We delivered underlying EBITDA of £139 million (H1 2017: £140 million), down just £1 million compared to the prior half year primarily due to our disposal programme. Leased and tenanted estate like-for-like net income, the primary component of our underlying EBITDA, is derived from our rental income and our net income from the sale of beer and other products to our publicans. Adjusted for the effect of disposals we saw our like-for-like leased and tenanted net income grow to £150 million (H1 2017: £149 million). In the first six months of the year our like-for-like net income from rents has been in line with last year, whilst our net income from beer supply has grown by £1 million as pricing and mix benefits, net of discounts, have offset volume decline.

Underlying administrative costs in the first half were £21 million (H1 2017: £21 million). We are continuing to invest in the recruitment of additional capability to assist in the delivery of our strategic objectives but have offset these cost increases through efficiency savings in our core operations. We expect current year underlying administrative costs to be in the region of £43 million.

Underlying net finance costs of £73 million (H1 2017: £75 million) were £2 million lower than the comparative period as a result of our planned debt reduction.

Total pre-tax non-underlying charges were £12 million (H1 2017: £44 million) comprising £1 million in respect of debt repurchases (H1 2017: £30 million in respect of debt refinancing costs); £8 million (H1 2017: £9 million) in respect of property charges; and £3 million (H1 2017: £5 million) in respect of other charges. The property charges were made up of £6 million (H1 2017: £8 million) arising from the revaluation of assets on transfer to non-current assets held for sale, a profit on the disposal of property (before goodwill allocation) of £2 million (H1 2017: £6 million) and a £4 million (H1 2017: £7 million) charge relating to goodwill allocated to those disposals. The £3 million of other charges in the period related to surrender premiums paid to publicans (H1 2017: £3 million of surrender premiums and £2 million of reorganisation costs). The reduction in pre-tax non-underlying charges significantly contributed to the increase in statutory profit before tax from £13 million in the first half of last year to £45 million for the current period.

Total tax in the period was a charge of £8 million (H1 2017: £3 million), representing a charge of £10 million (H1 2017: £11 million) on the underlying trading profit and a credit of £2 million (H1 2017: £8 million) relating to the tax on non-underlying items. The effective tax rate on the underlying trading profits arising in the period was 18.0% (H1 2017: 18.5%), being our estimated effective tax rate for the full financial year.

Underlying earnings per share (EPS) of 9.8p, was up 0.2p on the comparative period. Basic EPS was 7.9p compared to 2.1p in the prior half year, primarily due to lower non-underlying charges incurred in respect of debt refinancing.

Cash flow

Net cash flow from operating activities at £125 million (H1 2017: £117 million), was higher than the comparative period primarily as a result of tax payments in the period being offset by repayments from HMRC in respect of prior year overpayments and capital allowance claims.

Net cash flows from investing activities created an outflow of £8 million compared to an inflow of £30 million in the prior half year, primarily due to lower disposal activity. We reinvest our net disposal proceeds into capital investment in the estate, with the net proceeds received from disposals of £34 million (H1 2017: £65 million) largely funding the £42 million (H1 2017: £35 million) invested in the period. Capital investment is a value-enhancing use of cash generated by the business as it makes an important contribution to maintaining and improving like-for-like net income within our leased and tenanted business. It is also an essential element of the strategic evolution of the business as we invest in the conversion of pubs to our managed businesses.

Total capital investment in the first half of the year was £42 million (H1 2017: £35 million), of which 52% (H1 2017: 57%) was directed toward income growth opportunities. We target a ROI in excess of 15% on our growth-oriented capital expenditure and have achieved an average ROI of 17% (H1 2017: 21%) on all such schemes delivered over the last twelve months.

Financing cash flows of £118 million (H1 2017: £138 million), primarily reflect interest paid of £72 million (H1 2017: £78 million), net loan repayments of £20 million (H1 2017: £13 million), net share repurchases of £21 million (H1 2017: £15 million) and £5 million (H1 2017: £32 million) relating to bond buybacks and refinancing costs.

Capital allocation

We generate significant cash flows from trading activities supplemented by the proceeds of disposals, predominantly of under-performing assets. We have established a returns-based approach to the utilisation of our future cash flows which seeks to continue to reduce the level of our outstanding debt but also to provide a balance between additional value enhancing investment opportunities and more immediate returns to shareholders.

Our capital allocation framework ensures that all priority calls upon cash flows are satisfied, including corporation tax, interest, scheduled debt amortisation and other debt refinancing objectives, followed by on-going investment in our business. We are committed to gradually reducing our leverage over the medium-term and, assuming we are on track to satisfy this objective, then any "excess" cash flow can be assessed for alternative use, including in particular, further investment in the estate or the return of capital to shareholders.

The Board continually reviews the optimal use of excess cash flow and in November 2017 it determined that the best use of £20 million of excess cash flow expected to be generated in the current financial year was to fund a share buyback programme. This programme commenced on 21 November 2017 and was completed on 22 March 2018 with 15 million shares in EIG having been purchased and cancelled at an average price of £1.32.

Balance sheet

Our balance sheet remains strong with a total net asset value of £1.52 billion (H1 2017: £1.45 billion), primarily represented by £3.62 billion (H1 2017: £3.62 billion) of property assets offset by net debt of £2.09 billion (H1 2017: £2.17 billion). The property asset valuation is based upon the independent valuation undertaken as at 30 September 2017. We have been advised by our external valuers that there is no market evidence to suggest that these property valuations would be materially different as at 31 March 2018. A revaluation of the property assets will be completed for the year end accounts as at 30 September 2018.

The share price at 31 March 2018 of £1.15 (H1 2017: £1.36), which equates to an equity value of £537 million (H1 2017: £653 million), compares to a net asset value per share of £3.26 (H1 2017: £3.01). We believe that the continued execution of our strategy, which will optimise the use and value of our asset portfolio, should lead to a significant reduction of this value differential.

Capital structure

We have a long-term, secure, flexible and tax-efficient financing structure comprising bank borrowings, securitised notes and corporate bonds. We are a cash generative business and have, over the past few years, used excess cash flows to reduce debt. During the first half of the current financial year we have used cash generated by the business to meet the scheduled amortisation of securitised notes leaving total net debt at £2.09 billion (H1 2017: £2.17 billion).

Corporate and convertible bonds

As at 31 March 2018 we had £1,125 million (H1 2017: £1,125 million) of secured corporate bonds outstanding which are non-amortising, secured against ring-fenced portfolios of freehold pubs and attracting fixed interest rates averaging approximately 6.4% (H1 2017: 6.4%).

In the near term, following recent refinancing activity, we have £100.5 million of corporate bonds falling due which we expect to repay on maturity in December 2018 from available resources including our bank facilities. In addition to the corporate bonds, we have unsecured seven year convertible bonds that were issued in September 2013 for gross proceeds of £97 million. The convertible bonds have a coupon rate of 3.5% and are convertible at a share price of £1.91 into 50.8 million ordinary shares at any time up to 2020.

Bank borrowings
At 31 March 2018 our drawn bank borrowings net of Company cash were £48 million (H1 2017: £46 million). The bank revolving credit facilities total £140 million, are available until August 2020 and attract a coupon rate of 3% above LIBOR applicable to any drawn portion of the facilities. In addition to the revolving credit facilities we have a £50 million term loan facility, which is undrawn as at 31 March 2018, available for drawing until December 2018 with repayment of the amount drawn due by July 2020.

Securitised notes
During the period we used operational cash generated from the business to repay, in accordance with scheduled amortisation, £40 million (H1 2017: £38 million) of the Unique A3 and A4 securitised notes, and purchased and cancelled £4 million (H1 2017: £nil) A4 securitised notes which left £945 million (H1 2017: £1,028 million) outstanding at 31 March 2018. The notes amortise over a period to 2032 and attract interest rates of between 5.7% and 7.4%. As at 31 March 2018 the Group was £78 million (H1 2017: £78 million) ahead of the amortisation schedule of the “class A” securitised notes through early repayment and market purchases.

W S Townsend
14 May 2018

Group income statement

	Notes	**Unaudited Six months ended 31 March 2018**	Unaudited Six months ended 31 March 2017	Audited Year ended 30 September 2017
		£m	£m	£m
Revenue		**330**	310	648
Operating costs before depreciation and amortisation		**(194)**	(175)	(370)
EBITDA *		**136**	135	278
Depreciation and amortisation		**(9)**	(8)	(17)
Operating profit		**127**	127	261
Profit on sale of property		**2**	6	10
Goodwill allocated to disposals		**(4)**	(7)	(10)
Net loss on sale of property	4	**(2)**	(1)	-
Movements in valuation of the estate and related assets	4	**(6)**	(8)	(24)
Net finance costs		**(74)**	(105)	(179)
Profit before tax		**45**	13	58
Taxation	5	**(8)**	(3)	(4)
Profit after tax attributable to members of the Parent Company		**37**	10	54
Earnings per share	6			
Basic		**7.9p**	2.1p	11.2p
Basic diluted		**7.6p**	2.1p	11.1p

* Earnings before finance costs, taxation, depreciation and amortisation

Group statement of comprehensive income

	Unaudited Six months ended 31 March 2018 £m	Unaudited Six months ended 31 March 2017 £m	Audited Year ended 30 September 2017 £m
Profit for the period	**37**	10	54
Items that will not be reclassified to the income statement:			
Unrealised surplus on revaluation of pub estate	**-**	-	11
Revaluation of assets on transfer to investment property	**-**	-	1
Revaluation of assets on transfer to non-current assets held for sale	**(1)**	(2)	(6)
Movement in deferred tax liability related to revaluation of the estate	**2**	3	3
Other comprehensive income for the period net of tax	**1**	1	9
Total comprehensive income for the period attributable to members of the Parent Company	**38**	11	63

Group balance sheet

	Unaudited 31 March 2018 £m	Unaudited 31 March 2017 £m	Audited 30 September 2017 £m
Non-current assets			
Goodwill	**308**	314	312
Intangible assets: operating lease premiums	**9**	10	9
Property, plant and equipment	**3,292**	3,376	3,322
Investment property	**288**	205	270
Trade receivables	**2**	3	2
	3,899	3,908	3,915
Current assets			
Inventories	**3**	2	2
Trade and other receivables	**57**	52	53
Cash	**150**	154	151
	210	208	206
Non-current assets held for sale	**26**	30	25
Total assets	**4,135**	4,146	4,146
Current liabilities			
Trade and other payables	**(185)**	(178)	(197)
Current tax payable	**(11)**	(3)	(2)
Financial liabilities	**(183)**	(79)	(81)
Pension	**(2)**	(2)	(2)
Provisions	**(1)**	(1)	(1)
	(382)	(263)	(283)
Non-current liabilities			
Financial liabilities	**(2,055)**	(2,245)	(2,180)
Provisions	**(4)**	(4)	(4)
Deferred tax	**(173)**	(182)	(176)
Pension	**-**	(2)	-
	(2,232)	(2,433)	(2,360)
Total liabilities	**(2,614)**	(2,696)	(2,643)
Net assets	**1,521**	1,450	1,503
Equity			
Called up share capital	**13**	13	13
Share premium account	**486**	486	486
Revaluation reserve	**747**	739	747
Capital redemption reserve	**12**	12	12
Merger reserve	**77**	77	77
Treasury share reserve	**(227)**	(227)	(227)
Other reserve	**19**	19	18
Profit and loss account	**393**	330	376
Equity attributable to members of the Parent Company	**1,520**	1,449	1,502
Non-controlling interests	**1**	1	1
Total equity	**1,521**	1,450	1,503

Group statement of changes in equity

	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Treasury share reserve £m	Other reserve £m	Profit and loss account £m	Equity attributable to members of the Parent Company £m	Non-controlling interests £m	Total £m
At 1 October 2017	**13**	**486**	**747**	**12**	**77**	**(227)**	**18**	**376**	**1,502**	**1**	**1,503**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37**	**37**	**-**	**37**
Other comprehensive income	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Total comprehensive income	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**37**	**38**	**-**	**38**
Transfer of realised revaluation surplus	**-**	**-**	**(2)**	**-**	**-**	**-**	**-**	**2**	**-**	**-**	**-**
Transfer of deferred tax	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**	**-**
Share option entitlements exercised in the period	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**(2)**	**-**	**-**	**-**
Purchase of own shares into Employee Benefit Trust	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**	**-**	**(1)**
Share-based expense recognised in operating profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**	**-**	**1**
Share buybacks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(20)**	**(20)**	**-**	**(20)**
At 31 March 2018	**13**	**486**	**747**	**12**	**77**	**(227)**	**19**	**393**	**1,520**	**1**	**1,521**
At 1 October 2016	14	486	748	11	77	(227)	10	328	1,447	1	1,448
Profit for the period	-	-	-	-	-	-	-	10	10	-	10
Other comprehensive income	-	-	1	-	-	-	-	-	1	-	1
Total comprehensive income	-	-	1	-	-	-	-	10	11	-	11
Transfer of realised revaluation surplus	-	-	(12)	-	-	-	-	12	-	-	-
Transfer of deferred tax	-	-	2	-	-	-	-	(2)	-	-	-
Share option entitlements exercised in the period	-	-	-	-	-	-	10	(9)	1	-	1
Purchase of own shares into Employee Benefit Trust	-	-	-	-	-	-	(1)	-	(1)	-	(1)
Share-based expense recognised in operating profit	-	-	-	-	-	-	-	1	1	-	1
Share buyback commitments	-	-	-	-	-	-	-	5	5	-	5
Share buybacks	(1)	-	-	1	-	-	-	(15)	(15)	-	(15)
At 31 March 2017	13	486	739	12	77	(227)	19	330	1,449	1	1,450

Group statement of changes in equity (continued)

	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Treasury share reserve £m	Other reserve £m	Profit and loss account £m	Equity attributable to members of the Parent Company £m	Non-controlling interests £m	Total £m
At 1 October 2016	14	486	748	11	77	(227)	10	328	1,447	1	1,448
Profit for the year	-	-	-	-	-	-	-	54	54	-	54
Other comprehensive income	-	-	9	-	-	-	-	-	9	-	9
Total comprehensive income	-	-	9	-	-	-	-	54	63	-	63
Transfer of realised revaluation surplus	-	-	(14)	-	-	-	-	14	-	-	-
Transfer of deferred tax	-	-	4	-	-	-	-	(4)	-	-	-
Share option entitlements exercised in the year	-	-	-	-	-	-	10	(9)	1	-	1
Share-based expense recognised in operating profit	-	-	-	-	-	-	-	3	3	-	3
Purchase of own shares into Employee Benefit Trust	-	-	-	-	-	-	(2)	-	(2)	-	(2)
Share buybacks	(1)	-	-	1	-	-	-	(15)	(15)	-	(15)
Share buyback commitments	-	-	-	-	-	-	-	5	5	-	5
At 30 September 2017	13	486	747	12	77	(227)	18	376	1,502	1	1,503

Group cash flow statement

	Unaudited Six months ended 31 March 2018 £m	Unaudited Six months ended 31 March 2017 £m	Audited Year ended 30 September 2017 £m
Cash flows from operating activities			
Operating profit	**127**	127	261
Depreciation and amortisation	**9**	8	17
Share-based expense recognised in profit	**1**	1	3
Increase in receivables	**(5)**	(7)	(7)
(Decrease)/increase in payables	**(6)**	(3)	3
Increase in inventories	**(1)**	(1)	(1)
Increase in provisions	**-**	1	1
	125	126	277
Tax paid	**-**	(9)	(16)
Net cash flows from operating activities	**125**	117	261
Cash flows from investing activities			
Payments made on improvements to public houses	**(40)**	(32)	(72)
Payments to acquire other property, plant and equipment	**(2)**	(2)	(7)
Receipts from sale of property	**34**	65	100
Acquisition of subsidiary undertaking	**-**	(1)	(1)
Net cash flows from investing activities	**(8)**	30	20
Cash flows from financing activities			
Interest paid	**(72)**	(78)	(149)
Debt extinguishment costs	**-**	(30)	(30)
Debt restructuring costs	**-**	(2)	(3)
Payments to acquire own debt	**(5)**	-	-
Payments to acquire own shares	**(21)**	(16)	(17)
Receipts from exercise of share options	**-**	1	1
New loans	**80**	475	520
Repayment of loans	**(100)**	(488)	(597)
Net cash flows from financing activities	**(118)**	(138)	(275)
Net (decrease)/increase in cash	**(1)**	9	6
Cash at start of period	**151**	145	145
Cash at end of period	**150**	154	151

Notes

1. Publication of non-statutory accounts

The financial information contained in this half-yearly financial report, which is unaudited, does not constitute statutory accounts in accordance with the Companies Act 2006. The financial information for the year ended 30 September 2017 is extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies, on which the auditors issued an unqualified opinion that did not include an emphasis of matter reference or statements under section 498(2) or (3) of the Companies Act 2006.

2. Accounting policies

This interim report has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim Financial Reporting' and reflects the accounting policies set out in the notes to the 30 September 2017 Annual Report and Accounts which have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The Group is continuing the process of concluding on the full impact of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' and expects to provide an update at the year end.

The Directors have considered the Group's financial resources including a review of the medium-term financial plan, which includes a review of the Group's cash flow forecasts for the period of at least 12 months from the date of approval of this statement and the principal risks facing the Group.

Based on the outcome of the above considerations the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the period of the review. For this reason the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

3. Segmental analysis

The Group has five distinguishable operating segments being Publican Partnerships, Commercial Properties, Bermondsey Pub Company, Craft Union Pub Company and Managed Investments which reflect the different nature of income earned, types of property and profile of customers. The five segments have been identified because the Chief Operating Decision Maker (CODM) regularly reviews discrete financial information relating to them.

Operating segments are aggregated when they have similar economic characteristics and therefore Bermondsey Pub Company, Craft Union Pub Company and Managed Investments have been combined as they represent income earned from the direct operation of pubs albeit through differing trading styles. This results in three reportable segments being Publican Partnerships, Commercial Properties and Managed.

The CODM reviews the financial results by segment to underlying EBITDA and this therefore provides the basis for the disclosures below.

All of the Group's revenue is generated in the United Kingdom and is not further segmented based on location, therefore no geographical segmental analysis has been provided. The balance sheet is not reviewed by the CODM on a segmented basis and therefore no disclosure has been made in relation to segmental assets and liabilities.

3. Segmental analysis (continued)

Six months ended 31 March 2018	**Publican Partnerships £m**	**Commercial Properties £m**	**Managed £m**	**Central £m**	**Total £m**
Revenue	**251**	**13**	**66**	**-**	**330**
Operating costs before depreciation and amortisation	**(100)**	**-**	**(55)**	**(36)**	**(191)**
Underlying EBITDA	**151**	**13**	**11**	**(36)**	**139**
Non-underlying operating costs before depreciation and amortisation					**(3)**
Depreciation and amortisation					**(9)**
Net loss on sale of property					**(2)**
Movements in valuation of the estate and related assets					**(6)**
Net finance costs					**(74)**
Profit before tax					**45**
Taxation					**(8)**
Profit after tax					**37**

Six months ended 31 March 2017	Publican Partnerships £m	Commercial Properties £m	Managed £m	Central £m	Total £m
Revenue	270	9	31	-	310
Operating costs before depreciation and amortisation	(108)	-	(26)	(36)	(170)
Underlying EBITDA	162	9	5	(36)	140
Non-underlying operating costs before depreciation and amortisation					(5)
Depreciation and amortisation					(8)
Net loss on sale of property					(1)
Movements in valuation of the estate and related assets					(8)
Net finance costs					(105)
Profit before tax					13
Taxation					(3)
Profit after tax					10

3. Segmental analysis (continued)

Year ended 30 September 2017	Publican Partnerships £m	Commercial Properties £m	Managed £m	Central £m	Total £m
Revenue	547	21	80	-	648
Operating costs before depreciation and amortisation	(222)	-	(67)	(72)	(361)
Underlying EBITDA	325	21	13	(72)	287
Non-underlying operating costs before depreciation and amortisation					(9)
Depreciation and amortisation					(17)
Movements in valuation of the estate and related assets					(24)
Net finance costs					(179)
Profit before tax					58
Taxation					(4)
Profit after tax					54

4. Non-underlying items

The Group uses adjusted figures as key performance measures in addition to those reported under IFRS as management believe these measures better reflect the ongoing trading transactions and enable better comparability and accountability for performance for them and other stakeholders. Adjusted figures exclude non-underlying items which comprise exceptional items, non-recurring items and other adjusting items.

Non-underlying items include reorganisation costs, assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our strategic review, the profit/loss on sale of property, the movement in valuation of the estate and related assets, costs incurred in respect of refinancing and the gain/loss on purchase of own debt.

4. Non-underlying items (continued)

The adjusted figures are derived from the reported figures under IFRS as follows:

	Unaudited Six months ended 31 March 2018			Unaudited Six months ended 31 March 2017			Audited Year ended 30 September 2017		
	Underlying items £m	**Non-underlying items £m**	**Total £m**	Underlying items £m	Non-underlying items £m	Total £m	Underlying items £m	Non-underlying items £m	Total £m
Revenue	**330**	**-**	**330**	310	-	310	648	-	648
Operating costs before depreciation and amortisation	**(191)**	**(3)**	**(194)**	(170)	(5)	(175)	(361)	(9)	(370)
EBITDA	**139**	**(3)**	**136**	140	(5)	135	287	(9)	278
Depreciation and amortisation	**(9)**	**-**	**(9)**	(8)	-	(8)	(17)	-	(17)
Operating profit/(loss)	**130**	**(3)**	**127**	132	(5)	127	270	(9)	261
Profit on sale of property	**-**	**2**	**2**	-	6	6	-	10	10
Goodwill allocated to disposals	**-**	**(4)**	**(4)**	-	(7)	(7)	-	(10)	(10)
Net loss on sale of property	**-**	**(2)**	**(2)**	-	(1)	(1)	-	-	-
Movements in valuation of the estate and related assets	**-**	**(6)**	**(6)**	-	(8)	(8)	-	(24)	(24)
Net finance costs	**(73)**	**(1)**	**(74)**	(75)	(30)	(105)	(149)	(30)	(179)
Profit/(loss) before tax	**57**	**(12)**	**45**	57	(44)	13	121	(63)	58
Taxation	**(10)**	**2**	**(8)**	(11)	8	(3)	(22)	18	(4)
Profit/(loss) after tax attributable to members of the Parent Company	**47**	**(10)**	**37**	46	(36)	10	99	(45)	54
Earnings per share									
Underlying	**9.8p**			9.6p			20.5p		
Underlying diluted	**9.4p**			9.5p			19.5p		

4. Non-underlying items (continued)

Those items identified as non-underlying are explained further below:

a) Operating costs

A charge of £3 million (31 March 2017: £5 million, 30 September 2017: £9 million) has been incurred in respect of assignment premiums paid and reorganisation costs.

During the period of our strategic change, assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal would be treated as non-underlying. These costs have been incurred following the strategic review and are not considered to be part of the underlying business as they are not expected to recur once the strategic realignment of properties has been completed. This period will allow a full cycle of rent reviews over which time the Group will assess the optimal strategic location for each asset which may include the payment of an assignment premium to allow the Group access to the property. This resulted in a non-underlying charge for the period ended 31 March 2018 of £3 million (31 March 2017: £3 million, 30 September 2017: £6 million).

In the prior period to 31 March 2017 restructuring costs of £2 million (30 September 2017: £3 million) were incurred as we reorganised the business to meet our future needs and these charges were allocated to non-underlying as they are one-off in nature.

b) Net loss on sale of property

	Unaudited Six months ended 31 March 2018 £m	Unaudited Six months ended 31 March 2017 £m	Audited Year ended 30 September 2017 £m
Profit on sale of property, plant and equipment	**5**	4	13
Loss on sale of property, plant and equipment	**(3)**	-	(5)
Net profit on sale of property, plant and equipment	**2**	4	8
Profit on sale of investment property	**-**	2	3
Loss on sale of investment property	**-**	-	(1)
Net profit on sale of investment property	**-**	2	2
Net profit on sale of property before goodwill allocation	**2**	6	10
Goodwill allocated to disposals	**(4)**	(7)	(10)
Net loss on sale of property	**(2)**	(1)	-

During the period, 91 properties (31 March 2017: 139 properties, 30 September 2017: 224 properties) and various other plots of land with a book value of £32 million (31 March 2017: £59 million, 30 September 2017: £86 million) were sold generating gross proceeds of £38 million (31 March 2017: £69 million, 30 September 2017: £109 million) which, after taking account of disposal costs, resulted in an overall profit of £2 million (31 March 2017: £6 million, 30 September 2017: £10 million).

In accordance with IAS 36, purchased goodwill is allocated to pubs disposed of, based on the relative value of the disposal to pubs retained. Accordingly, goodwill of £4 million (31 March 2017: £7 million, 30 September 2017: £10 million) has been allocated to the 91 properties (31 March 2017: 139 properties, 30 September 2017: 224 properties) disposed of during the period.

4. Non-underlying items (continued)

c) Movements in valuation of the estate and related assets

	Unaudited Six months ended 31 March 2018 £m	Unaudited Six months ended 31 March 2017 £m	Audited Year ended 30 September 2017 £m
Movements in property, plant and equipment from revaluation of the estate	**-**	-	(11)
Movement in investment property from revaluation of the estate	**-**	-	7
Revaluation of non-current assets held for sale	**(6)**	(8)	(20)
	(6)	(8)	(24)

In respect of assets revalued on transfer to non-current assets held for sale, a total net write-down of £7 million (31 March 2017: £10 million, 30 September 2017: £26 million) has been recorded. Of this net write-down, £1 million (31 March 2017: £2 million, 30 September 2017: £6 million) has been debited to other comprehensive income and £6 million (31 March 2017: £8 million, 30 September 2017: £20 million) has been charged to the income statement as a non-underlying item. At 31 March 2018, there are 83 properties (31 March 2017: 88 properties, 30 September 2017: 85 properties) included within non-current assets held for sale which have been recorded at the lower of carrying value on transfer to non-current assets held for sale, as assessed at the time of transfer, and fair value less costs to sell.

Following discussions with our external valuers there is no indication that values recorded in property, plant and equipment and investment property in respect of the estate would be materially different as at 31 March 2018. A full valuation of the total pub estate is undertaken at the end of each financial year.

d) Net finance costs

During the period ended 31 March 2018, Unique securitised bonds with a nominal and book value of £4 million (31 March 2017: £nil, 30 September 2017: £nil) were purchased and cancelled for the equivalent price of £1.14 (31 March 2017: £nil, 30 September 2017: £nil) for each £1 of outstanding nominal value, generating a loss of £1 million (31 March 2017: £nil, 30 September 2017: £nil).

During the prior period the Group replaced its banking facility and completed a partial refinancing of the 2018 corporate bonds, repurchasing £250 million of these bonds and issuing new £250 million secured bonds due 2022. This resulted in fees (including the repurchase premium on the extinguished bonds) of £30 million being recognised as a non-underlying item in the income statement.

5. Taxation

The total tax charge of £8 million (31 March 2017: £3 million, 30 September 2017: £4 million) represents an underlying charge of £10 million (31 March 2017: £11 million, 30 September 2017: £22 million) and a non-underlying credit of £2 million (31 March 2017: £8 million, 30 September 2017: £18 million).

a) Underlying tax

The underlying tax charge of £10 million (31 March 2017: £11 million, 30 September 2017: £22 million) equates to an effective tax rate of 18% (31 March 2017: 18.5%, 30 September 2017: 18.2%). The effective tax rate does not include the effect of non-underlying items.

b) Non-underlying tax

The items below are classified as non-underlying due to their size and either because they do not relate to any income or expense recognised in the income statement in the same period or because they relate to non-underlying items.

A deferred tax liability has been recognised on the balance sheet relating to the estate. On transition to IFRS, the Group elected to apply IFRS 3 retrospectively to acquisitions from 1 January 1999 which led to an increase in goodwill in respect of this deferred tax of £330 million. As this pre-acquisition liability changes due to capital gains indexation relief and changes in the rate of UK tax, the movement is recognised in the income statement. The impact of capital gains indexation relief is calculated based on the movement in the Retail Price Index (RPI). A credit of £1 million (31 March 2017: £1 million, 30 September 2017: £4 million) has been recognised in the income statement as non-underlying due to its size and because it does not relate to any income or expense recognised in the income statement in the same period.

A deferred tax credit of £1 million (31 March 2017: £nil, 30 September 2017: £4 million) relating to the movements in valuation of the estate and related assets and net profit/(loss) on disposal of properties has been recognised in the income statement.

A non-underlying tax credit of £nil (31 March 2017: £7 million, 30 September 2017: £10 million) has been recognised in relation to all other non-underlying items in the income statement. The total non-underlying tax credit is therefore £2 million (31 March 2017: £8 million, 30 September 2017: £18 million).

c) Tax recognised in other comprehensive income

A credit of £2 million (31 March 2017: £3 million, 30 September 2017: £3 million) has been recognised in other comprehensive income related to the tax on the revalued estate.

6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders for the period divided by the weighted average number of equity shares in issue during the period after excluding shares held by trusts relating to employee share options and shares held in treasury.

Underlying earnings per share, which the directors believe reflects the underlying performance of the Group, is based on profit attributable to ordinary shareholders adjusted for the effects of non-underlying items net of tax, divided by the weighted average number of equity shares in issue during the period after excluding shares held by trusts relating to employee share options and shares held in treasury.

The dilution adjustments for share options and the convertible bonds are reviewed independently and where they are dilutive to the calculation of basic diluted earnings per share they are included in the calculation of both basic diluted and underlying diluted earnings per share.

For the period ended 31 March 2018, the adjustment for share options is assessed as being dilutive (31 March 2017: dilutive, 30 September 2017: dilutive) which has resulted in an adjustment to the weighted average number of equity shares in issue during the period of 2.2 million shares (31 March 2017: 2.6 million shares, 30 September 2017: 3.5 million shares).

For the period ended 31 March 2018, the adjustment for the convertible bonds is assessed as being dilutive (31 March 2017: anti-dilutive, 30 September 2017: dilutive) which has resulted in an adjustment to profit in the calculation of diluted earnings per share of £2.9 million (31 March 2017: £nil, 30 September 2017: £5.5 million) for the post tax interest cost associated with the convertible bonds and an adjustment to the weighted average number of equity shares in issue during the period of 50.8 million shares (31 March 2017: nil shares, 30 September 2017: 50.8 million shares).

	Unaudited Six months ended 31 March 2018		Unaudited Six months ended 31 March 2017		Audited Year ended 30 September 2017	
	Earnings £m	**Per share amount p**	Earnings £m	Per share amount p	Earnings £m	Per share amount p
Basic earnings per share	**37.4**	**7.9**	10.2	2.1	53.8	11.2
Basic diluted earnings per share	**40.3**	**7.6**	10.2	2.1	59.3	11.1
Underlying earnings per share	**46.7**	**9.8**	46.2	9.6	98.9	20.5
Underlying diluted earnings per share	**49.6**	**9.4**	46.2	9.5	104.4	19.5

	No. of shares m	No. of shares m	No. of shares m
Weighted average number of shares	**476.1**	483.5	481.9
Dilutive share options	**2.2**	2.6	3.5
Dilutive convertible bonds shares	**50.8**	-	50.8
Diluted weighted average number of shares	**529.1**	486.1	536.2

7. Additional cash flow information

a) Reconciliation of net cash flow to movement in net debt

	Unaudited Six months ended 31 March 2018 £m	Unaudited Six months ended 31 March 2017 £m	Audited Year ended 30 September 2017 £m
(Decrease)/increase in cash in the period	**(1)**	9	6
Cash outflow from change in debt	**25**	13	77
Debt restructuring costs	**-**	2	3
Change in net debt resulting from cash flows	**24**	24	86
Amortisation of issue costs and discounts/premiums on long-term loans	**(1)**	(2)	(4)
Amortisation of the fair value adjustments of securitised bonds	**2**	2	4
Loss on purchase of own debt	**(1)**	-	-
Convertible loan note effective interest	**(2)**	(1)	(3)
Movement in commitment for share buybacks	**-**	5	5
Movement in net debt in the period	**22**	28	88
Net debt at start of period	**(2,110)**	(2,198)	(2,198)
Net debt at end of period	**(2,088)**	(2,170)	(2,110)

b) Analysis of net debt

	Unaudited Six months ended 31 March 2018 £m	Unaudited Six months ended 31 March 2017 £m	Audited Year ended 30 September 2017 £m
Bank borrowings	**(75)**	(80)	(55)
Corporate bonds	**(1,222)**	(1,222)	(1,222)
Securitised bonds	**(945)**	(1,028)	(989)
Gross debt	**(2,242)**	(2,330)	(2,266)
Cash	**150**	154	151
Underlying net debt	**(2,092)**	(2,176)	(2,115)
Capitalised debt issue costs	**14**	16	15
Fair value adjustments on acquisition of bonds	**(15)**	(19)	(17)
Convertible loan note effective interest	**(13)**	(9)	(11)
Convertible bonds reserve	**21**	21	21
Finance lease payables	**(3)**	(3)	(3)
Net debt	**(2,088)**	(2,170)	(2,110)
Balance sheet:			
Current financial liabilities	**(183)**	(79)	(81)
Non-current financial liabilities	**(2,055)**	(2,245)	(2,180)
Cash	**150**	154	151
Net debt	**(2,088)**	(2,170)	(2,110)

Underlying net debt represents amounts repayable to banks and other lenders net of cash retained in the business. Cash includes £114 million held in the securitised Unique sub-group, of which £65 million is held in a securitised reserve account.

8. Financial instruments

All financial assets and liabilities are carried at amortised cost. The fair values of all financial instruments are either equal to, or not materially different from their book values, with the exception of corporate bonds and securitised bonds. The book values and fair values of these financial instruments are summarised below:

	Unaudited Six months ended 31 March 2018		Unaudited Six months ended 31 March 2017		Audited Year ended 30 September 2017	
	Book value	**Fair value**	Book value	Fair value	Book value	Fair value
	£m	**£m**	£m	£m	£m	£m
Corporate bonds	**1,208**	**1,312**	1,204	1,304	1,205	1,334
Securitised bonds	**953**	**1,014**	1,038	1,119	998	1,087

9. Related party transactions

There have been no related party transactions requiring disclosure during the period or prior periods.

10. Commitments for the purchase of property, plant and equipment

At 31 March 2018, the Group had entered into contractual commitments to purchase £9 million (31 March 2017: £7 million, 30 September 2017: £6 million) of property, plant and equipment.

11. Seasonality of operations

The business is subject to seasonal fluctuations dependant on public holidays and the weather.

12. Share buybacks

During the period to 31 March 2018 the Group purchased 15.1 million shares at an average price of £1.32 (31 March 2017: 13.0 million shares at an average price of £1.14, 30 September 2017: 13.0 million shares at an average price of £1.14).

This completed the share buyback programme initiated in November 2017.

These shares were immediately cancelled.

13. Alternative Performance Measures (APMs)

Like-for-like Publican Partnerships net income

Publican Partnerships like-for-like net income of £150 million (31 March 2017: £149 million) represents underlying EBITDA for the Publican Partnerships business of £151 million (31 March 2017: £162 million) excluding £1 million (31 March 2017: £5 million) of income in respect of disposals and £nil (31 March 2017: £8 million) of net income relating to other non-like-for-like net income.

Like-for-like Commercial Properties net income

Commercial Properties like-for-like net income of £8 million (31 March 2017: £7 million) represents underlying EBITDA for the Commercial Properties business of £13 million (31 March 2017: £9 million) excluding £nil (31 March 2017: £1 million) of income in respect of disposals and £5 million (31 March 2017: £1 million) of net income relating to other non-like-for-like net income.

Managed like-for-like sales

Managed like-for-like sales represents underlying revenue from the Managed estate of £66 million (31 March 2017: £31 million) excluding underlying revenue from those pubs that have not traded during both the six month period ended 31 March 2018 and the six month period ended 31 March 2017 post investment in their managed format of £42 million (31 March 2017: £9 million).

Average annualised net income per pub

Average annualised net income per pub represents the annualised net income for Publican Partnerships assets trading at 31 March 2018 of £312 million (31 March 2017: £332 million) divided by the total Publican Partnerships assets trading at 31 March 2018 of 3,856 properties (31 March 2017: 4,283 properties).

Publican Partnerships annualised net income of £312 million (31 March 2017: £332 million) represents the net income for the six months to 31 March 2018 of £150 million (31 March 2017: £162 million) and the net income for the six months to 30 September 2017 of £162 million (30 September 2016: £170 million).

The Publican Partnerships net income for the six months to 31 March 2018 of £150 million (31 March 2017: £162 million) represents underlying EBITDA for the Publican Partnerships business of £151 million (31 March 2017: £162 million) stated before £1 million (31 March 2017: £1 million) of income in respect of disposals and £nil (31 March 2017: £1 million) of net costs relating to other non-like-for-like costs.

Average annualised net income per property

Average annualised net income per property represents the annualised net income for Commercial Properties assets trading at 31 March 2018 of £24 million (31 March 2017: £18 million) divided by the total Commercial Properties assets trading at 31 March 2018 of 351 properties (31 March 2017: 279 properties).

Commercial Properties annualised net income of £24 million (31 March 2017: £18 million) represents the net income for the six months to 31 March 2018 of £12 million (31 March 2017: £9 million) and the net income for the six months to 30 September 2017 of £12 million (30 September 2016: £9 million).

The Commercial Properties net income for the six months to 31 March 2018 of £12 million (31 March 2017: £9 million) represents underlying EBITDA for the Commercial Properties business of £13 million (31 March 2017: £9 million) excluding £1 million (31 March 2017: £1 million) of other non like-for-like income and including £nil (31 March 2017: £1 million) of net income relating to the pubs before they were transferred to the Commercial Property segment offset by unlicensed property income.

13. Alternative Performance Measures (APMs) (continued)

Excess cash flow

Excess cash flow in the period was £nil (31 March 2017: £30 million) and is derived from net cash flows from operating activities of £125 million (31 March 2017: £117 million) less net cash flows from investing activities of £8 million (31 March 2017: inflow of £30 million) less net interest paid of £72 million (31 March 2017: £78 million) less debt restructuring costs of £nil (31 March 2017: £2 million) less scheduled debt amortisation of £40 million (31 March 2017: £38 million) less payments to buy back debt of £5 million (31 March 2017: £nil) plus receipts from exercise of share options of £nil (31 March 2017: £1 million).

EBITDA

EBITDA represents earnings before finance costs, taxation, depreciation and amortisation.

Underlying EBITDA

Underlying EBITDA represents earnings before finance costs, taxation, depreciation and amortisation excluding non-underlying items. Non-underlying items that are excluded from underlying EBITDA include reorganisation costs and assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our strategic review.

Underlying profit before tax

Underlying profit before tax excludes non-underlying items. Non-underlying items excluded from profit before tax include reorganisation costs, assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our strategic review, the profit/loss on sale of property, the movement in valuation of the estate and related assets, costs incurred in respect of refinancing and the gain/loss on purchase of own debt.

Underlying earnings per share (EPS)

Underlying EPS is based on profits after tax excluding non-underlying items as explained above.

Growth driving capital investment

Growth driving capital investment is discretionary capital cash spend on the Group's assets which is intended to generate incremental income at returns ahead of our target return on investment.

Maintenance and letting capital investment

Maintenance and letting capital investment is all capital cash spend that is not growth driving capital investment, typically focused on maintaining the quality of our assets and supporting the letting programme.

Return on investment

Return on investment is measured as the incremental income delivered as a result of the investment divided by the value of the capital investment.

Unplanned business failures

Unplanned business failures are all lease and tenancy agreements that do not reach their full term, where failure is not through the mutual agreement of ourselves and the departing publican. For example, through publican abandonment or via legal proceedings.

Statement of Directors' responsibilities

The Directors confirm to the best of their knowledge that this condensed set of financial statements has been prepared in accordance with IAS 34, as adopted by the EU, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8.

The Directors of EIG are as listed in the Ei Group plc Annual Report and Accounts for the year ended 30 September 2017.

By order of the Board

W S Townsend	**N R Smith**
Chief Executive Officer	Chief Financial Officer
14 May 2018	14 May 2018

ADDITIONAL INFORMATION

Principal risks and uncertainties

The Board retains ultimate responsibility for the Group's risk management framework, including the on-going monitoring and review of its effectiveness, and continues to formally review these material risks to ensure that they are being appropriately managed by the executive management team.

The principal risks and uncertainties facing the Group during the period under review, and going forward for the remainder of this year, have not materially changed from those set out on pages 35 to 39 of the 2017 Annual Report and Accounts. However as we are now three years into our 2020 strategy, and have made good progress reorganising the Group and building the necessary infrastructure, the Board believes that the risk previously posed by implementation of strategy is no longer considered a principal risk.

We have summarised the principal risks and uncertainties below, including any additional information where relevant:

General economic conditions

There is risk to the Group's business operations as they are sensitive to economic conditions and the general economic outlook remains uncertain. This could impact publican profitability, through reduced consumer spending or increased costs, and our profitability or the carrying value of assets. The Group continues to monitor the impact of these factors and carefully considers the requirement for operational and financial support as well as the investment decisions relating to the development of our pubs.

Regulatory changes, including the regulation of the tied pub model

The Pubs Code came into effect on 21 July 2016 and is overseen by an independent Adjudicator. This includes a tenant's right, under certain circumstances, to seek a new MRO compliant contract that will enable some occupational tenants to elect to opt-out of the supply tie and therefore occupy the premises on a standard commercial property lease, paying rent only. While this has been in place now for over 18 months, there remains a lack of clarity around some areas of the Code, leaving elements open to interpretation. As a consequence of MRO it is possible that our total income from our properties would be adversely affected, although to mitigate any potential impact on our income, the Group has adopted the necessary operational flexibility and capabilities to enable it to apply alternative operating models to the pubs in the estate that could potentially be affected by MRO.

The General Data Protection Regulation (GDPR) is European legislation planned for implementation in May 2018. It has similar principles to the Data Protection Act (1998), but with added detail and additional compliance and accountability requirements. We are implementing a detailed plan to ensure we will be able to comply with the new GDPR requirements and we believe that the risk of non-compliance can be effectively mitigated.

Liquidity risk

Whilst the Group continues to have a flexible financing structure, comprising of bonds and bank borrowings, the primary liquidity risks are the requirements to meet all on-going finance costs, repay the principal amounts as they fall due, fund the cash flow requirements of the business and comply with financial covenants. This includes the risk that amounts may not be able to be refinanced, if required, due to adverse market conditions. The next scheduled maturity at 31 March 2018 is £100.5 million of corporate bonds due in December 2018 and there is sufficient headroom on the bank facilities currently available to the Group to enable repayment.

Property valuations

There is a risk that future changes in the UK property market and general economic conditions could impact the value of our portfolio or the realisations from property disposals. Our external valuers have confirmed that there is no indication of any material change to values as at 31 March 2018.

Other principal risks and uncertainties

- Health and safety
- Litigation
- People
- Supply chain management
- Systems failure
- Cyber risk

Independent Review Report to Ei Group plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2018 which comprises the Group income statement, Group statement of comprehensive income, Group balance sheet, Group statement of changes in equity, Group cash flow statement and the related notes 1-13. 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 guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our 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 Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

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

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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 six months ended 31 March 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Birmingham
14 May 2018