Registered No. 06250176

BrightHouse Group plc

Half Year Report

for the twenty-six weeks ended 30 September 2017

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TABLE OF CONTENTS

Page

Operational Highlights for the Half Year 2017

BrightHouse Group plc (the "Company"), the leading provider of rent-to-own products in the United Kingdom, today announces interim results of operations for the thirteen weeks and twenty-six weeks ended 30 September 2017.

Key Summary

- Generated EBITDA pre-exceptionals of (£0.2) million for the Half Year 2017;
- Our Contract Portfolio is valued at £401.7 million as of 30 September 2017 compared to £439.3 million as of 1 October 2016;
- As of 30 September 2017, we had 215,500 customers representing a decrease of 14.0% compared to 250,500 customers as of 1 October 2016;
- As announced on 6 April 2017, BrightHouse has received notification from the FCA that they are minded to authorise BrightHouse's business subject to a number of conditions being met;
- The Company announced on 8th December 2017 that it has entered into an agreement to refinance its £220 million senior secured notes with the issuance of c. £111.7 million new senior secured notes and 97% of the ownership of the Group;
- Continued development of our automated affordability processing;
- Our fully transactional website launched on 1 August 2017 for new customers; and
- Late fees were reintroduced on 19 August 2017.

Hamish Paton, Chief Executive Officer, said:

"The second quarter of 2017/18 has been a period of consolidation and a time when we have laid the foundations on which we will build our return to growth. It is pleasing to observe that our loan book has stabilised following a period of decline.

"In August we delivered the launch of our fully transactional website for new customers. Following a period of close supervision and learning, we plan to open the site to our existing customers early in 2018 - making BrightHouse a truly multi-channel business.

"In addition, late fees have been reintroduced within our new regulatory environment and customer refunds have been resolved. We are now well placed to move forwards."

The following table reconciles EBITDA to loss before tax for the period for the Second Quarter 2017 and the Second Quarter 2016, as well as the Half Year 2017 and the Half Year 2016.

(in thousands of £)	For the Second Quarter 2017	For the Second Quarter 2016	For the Half Year 2017	For the Half Year 2016
Loss before tax	(11,786)	(6,993)	(19,911)	(9,017)
Financial income and expense	5,319	5,757	10,853	11,258
Depreciation of fixtures and equipment and amortization of software	3,189	3,234	6,383	6,492
Exceptional items	2,373	792	2,428	1,435
EBITDA	(905)	2,790	(247)	10,168

Certain Definitions

Definitions of certain terms used in this Half Year Report and certain financial and operating data can be found below.

"APR" refers to the annual percentage interest rate.

"Company" refers to BrightHouse Group plc.

"Contract Portfolio" refers to, collectively, all the hire purchase agreements existing on any given date. For a detailed explanation of Contract Portfolio as a non-IFRS operating measure, see "Presentation of Financial and Other Data—Presentation of non-IFRS operating measures".

"EBT" refers to the Employee Benefit Trust.

"FCA" refers to the Financial Conduct Authority

"Half Year 2016" refers to the twenty-six weeks ended 1 October 2016.

"Half Year 2017" refers to the twenty-six weeks ended 30 September 2017.

"Half Year Report" refers to this report as of and for the twenty-six weeks ended 30 September 2017.

"IFRS" refers to International Financial Reporting Standards as adopted by the European Union.

"Indenture" refers to the indenture dated 9 May 2013 relating to the $7^{7}/_{8}$% senior secured notes due 2018 issued by the Company.

"Insurance Subsidiaries" refers to, collectively, Caversham Insurance (Malta) Limited and Caversham Holdings (Malta) Limited.

"Loan Notes" refers to the unsecured loan stock issued by the Company to Haig Luxembourg Holdco S.à r.l. on 9 May 2013 as part of the exchange of the loan stock previously issued by BrightHouse Holdings Ltd to Haig Luxembourg Holdco S.à r.l.; the principal amount outstanding under the Loan Notes on the issue date of the Notes was the balance of amounts owing to Haig Luxembourg Holdco S.à r.l. under the previously issued loan stock instrument less cash paid from the proceeds of the offering of the Notes.

"LTM" refers to any twelve month period as required by the context.

"Notes" refers to the $7^{7}/_{8}$% senior secured notes due 2018 issued by the Company on 9 May 2013.

"OFT" refers to the Office of Fair Trading

"SEC" refers to the U.S. Securities and Exchange Commission.

"Second Quarter 2016" refers to the thirteen weeks ended 1 October 2016.

"Second Quarter 2017" refers to the thirteen weeks ended 30 September 2017.

"sterling", "pound sterling" and "£" refer to the lawful currency of the United Kingdom.

"the period" and "this period" refer to the Second Quarter 2017 unless the context otherwise requires;

"we", "us", "our", "Group" and other similar terms refer to the Company and its consolidated subsidiaries unless the context otherwise requires or is clear from context.

Presentation of Financial and Other Data

For purposes of this Half Year Report we refer to the twenty-six weeks ended 30 September 2017 as “Half Year 2017”, and the twenty-six weeks ended 1 October 2016 as “Half Year 2016”. We refer to our fiscal year started 1 April 2017 and ending 31 March 2018 as “Fiscal 2018”.

Consolidated financial statements

The consolidated financial statements of the Company and its subsidiaries for the twenty-six weeks ended 30 September 2017 presented in this Half Year Report have been prepared in accordance with IFRS and in accordance with the accounting policies presented in the offering memorandum relating to the Notes. The consolidated financial statements are unaudited and have been derived from the internal management reporting of the Company. The results of operations for prior periods or interim periods are not necessarily indicative of the results to be expected for the full financial reporting periods or any future reporting periods.

Presentation of non-IFRS financial measures

In this Half Year Report, we present certain non-IFRS financial measures, including EBITDA and certain related ratios. As used in this Half Year Report, the following terms have the following meanings:

We define “EBITDA” as profit for the period before financial charges, tax, depreciation of fixtures, equipment and vehicles (but not depreciation of hire purchase assets), amortisation of software and exceptional items.

We believe that EBITDA is a useful indicator of our overall financial performance and EBITDA is a useful indicator of our liquidity and our ability to incur and service our indebtedness, and can assist certain investors, securities analysts and other interested parties in evaluating us.

EBITDA and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. You should exercise caution in comparing EBITDA as reported by us to that reported by other companies. EBITDA as presented herein differs from the definition of “Consolidated EBITDA” contained in the Indenture or for purposes of any of our other indebtedness. The information presented as EBITDA is unaudited and has not been prepared in accordance with IFRS or any other accounting standards. In addition, the presentation of these measures is not intended to and does not comply with the reporting requirements of the SEC and will not be subject to review by the SEC; compliance with its requirements would require us to make changes to the presentation of this information.

EBITDA is not a measurement of performance under IFRS and you should not consider EBITDA as an alternative to net income or operating profit or other performance measures determined in accordance with IFRS, or to cash flows from operations, investing activities or financing activities. EBITDA has limitations as an analytical tool, and you should not consider it in isolation.

Presentation of non-IFRS operating measures

This Half Year Report includes information on our “Contract Portfolio” and other related data. Our Contract Portfolio consists of all of the hire purchase agreements we enter into with our customers. The value of our Contract Portfolio refers to the aggregate amount of remaining payments due under our hire purchase agreements on a given date through the term of the relevant contracts in effect on such date, assuming that all contracts are paid in full and not terminated prior to maturity. These payments include, in addition to the expected instalment payments towards the retail price of the product, interest and indirect taxes and payments from the purchase of our optional insurance and warranty products. This Half Year Report also presents information on the performance of our Contract Portfolio. Information relating to the value of our Contract Portfolio and performance of our Contract Portfolio has been produced by Euristix, a specialist analytics and risk management firm, based on the data we provide them. We cannot assure you of the accuracy and completeness of such information, and Euristix does not assume liability for such information.

We present the value of our Contract Portfolio because it represents our best estimate of the undiscounted cash value of the aggregate payments that will come due under our existing hire purchase agreements at certain points in time. The value of our Contract Portfolio is an important supplemental measure by which our board of directors and management assess our performance, as they highlight the cash generation capacity of the assets underlying our business. However, these numbers are not derived from our internal financial systems or management accounts, but are derived from our non-financial operating systems and they have not been audited, reviewed or verified by independent auditors.

The value of the Contract Portfolio and other Contract Portfolio related performance data, as computed by us, may not be comparable to similar metrics used by other companies in our industry. In addition, our computations could differ in the future from the figures included in this Half Year Report. Furthermore, levels of actual recoveries are uncertain and may vary materially due to several factors. Therefore, none of the value of our Contract Portfolio or any other Contract Portfolio related data included herein should be relied on as indicators of future revenue or performance.

Rounding adjustments

Certain numerical figures contained in this Half Year Report, including financial information and certain operating data, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or within a table may not conform exactly to the total figure given for that column or row or the sum of certain numbers presented as a percentage may not conform exactly to the total percentage given.

Consolidated Financial Statements

Group income statement

for the thirteen weeks and twenty-six weeks ended 30 September 2017

	Notes	*13 weeks ended 30 September 2017 (Unaudited) £000*	*13 weeks ended 01 October 2016 (Unaudited) £000*	*26 weeks ended 30 September 2017 (Unaudited) £000*	*26 weeks ended 01 October 2016 (Unaudited) £000*
Revenue	3	69,971	80,810	142,131	172,529
Cost of sales		(35,016)	(40,870)	(70,606)	(85,599)
Gross Profit		34,955	39,940	71,525	86,930
Operating expenses		(41,422)	(41,176)	(80,583)	(84,689)
Operating (loss) / profit		(6,467)	(1,236)	(9,058)	2,241
Analysed by					
Depreciation of fixtures, fittings and equipment and amortisation of intangible assets		3,189	3,234	6,383	6,492
Exceptional items	2	2,373	792	2,428	1,435
Earnings before interest, tax, depreciation amortisation and exceptional items		(905)	2,790	(247)	10,168
Other finance income	4	4	34	7	147
Other finance expense	4	(5,323)	(5,791)	(10,860)	(11,405)
Loss before taxation		(11,786)	(6,993)	(19,911)	(9,017)
Tax credit	5	1,548	441	2,414	574
Loss for the period		(10,238)	(6,552)	(17,497)	(8,443)

The results shown above all relate to continuing activities.

Group statement of comprehensive income

for the thirteen weeks and twenty-six weeks ended 30 September 2017

	13 weeks ended 30 September 2017 (Unaudited) £000	*13 weeks ended 01 October 2016 (Unaudited) £000*	*26 weeks ended 30 September 2017 (Unaudited) £000*	*26 weeks ended 01 October 2016 (Unaudited) £000*
Loss for the period	(10,238)	(6,552)	(17,497)	(8,443)
Other comprehensive income for the period net of tax	-	-	-	-
Total comprehensive income for the period net of tax	(10,238)	(6,552)	(17,497)	(8,443)

Group statement of financial position

as of 30 September 2017

	Notes	*30 September 2017 (Unaudited) £000*	*01 October 2016 (Unaudited) £000*
Non-current assets			
Property, plant and equipment	6	112,904	129,217
Intangible assets	7	22,806	90,879
Trade and other receivables	10	12,201	13,417
Deferred tax assets	8	13,053	6,456
		160,964	239,969
Current assets			
Inventories	9	18,648	18,791
Trade and other receivables	10	43,587	44,843
Cash and cash equivalents	11	56,722	75,287
		118,957	138,921
Total assets		279,921	378,890
Current liabilities			
Trade and other payables	12	53,638	52,820
Financial liabilities	13	219,040	-
Other provisions	14	14,791	3,878
Current tax payable		91	1,022
		287,560	57,720
Non-current liabilities			
Financial liabilities	13	38,362	253,158
Total Liabilities		325,922	310,878
		(46,001)	68,012
Equity attributable to equity holders of the parent			
Share capital	15	50	50
Share premium		552	552
Capital redemption reserve		57	57
Own shares reserve		(296)	(296)
Retained earnings		(46,364)	67,649
Total equity		(46,001)	68,012

Group statement of changes in equity

as of and for the twenty-six weeks ended 30 September 2017

	Share capital	*Share premium*	*Own shares*	*Retained earnings*	*Capital redemption reserve*	*Total Equity*
	(unaudited) £000	*(unaudited) £000*	*(unaudited) £000*	*(unaudited) £000*	*(unaudited) £000*	*(unaudited) £000*
As of 1 April 2016	50	552	(296)	76,092	57	76,455
Loss for the period	–	–	–	(8,443)	–	(8,443)
As of 1 October 2016	50	552	(296)	67,649	57	68,012
As of 1 April 2017	50	552	(296)	(28,867)	57	(28,504)
Loss for the period	–	–	–	(17,497)	–	(17,497)
As of 30 September 2017	50	552	(296)	(46,364)	57	(46,001)

Group statement of cash flows

for the thirteen weeks and twenty-six weeks ended 30 September 2017

	Notes	*13 weeks ended 30 September 2017 (Unaudited) £000*	*13 weeks ended 01 October 2016 (Unaudited) £000*	*26 weeks ended 30 September 2017 (Unaudited) £000*	*26 weeks ended 01 October 2016 (Unaudited) £000*
Cash flows from operating activities					
Loss for the period		(10,238)	(6,552)	(17,497)	(8,443)
Adjustments for:					
Sales proceeds from sales of rental assets		586	597	1,200	1,277
Depreciation		23,379	26,076	47,180	59,220
Amortisation of intangible assets		2,250	1,748	4,436	3,486
Financial income		(4)	(34)	(7)	(147)
Financial expense		5,323	5,791	10,860	11,405
(Profit)/Loss on rental assets sold to customers		(911)	59	(1,594)	(178)
Rental assets written off as obsolete or not recoverable from defaulting customers		5,867	6,221	11,460	12,887
Purchase of rental assets		(27,988)	(15,920)	(53,747)	(40,068)
Taxation		(1,548)	(441)	(2,414)	(574)
Operating cash inflow before changes in working capital		(3,284)	17,545	(123)	38,865
(Increase) / Decrease in trade and other receivables		(1,729)	7,951	(7,054)	9,045
Decrease / (Increase) in inventories		1,270	1,697	(5,358)	292
(Decrease) / Increase in trade and other payables		(153)	(2,911)	11,481	1,436
(Decrease) / Increase in provisions		(217)	529	(1,581)	778
Cash generated from operations		(4,113)	24,811	(2,635)	50,416
Tax paid		(755)	(561)	(755)	(817)
Net cash flow from operating activities		(4,868)	24,250	(3,390)	49,599
Cash flows from investing activities					
Interest received		4	18	7	43
Purchase of property, plant and equipment		(157)	(722)	(375)	(1,286)
Payments to acquire intangible assets		(5,043)	(3,358)	(8,653)	(5,599)
Net cash from investing activities		(5,196)	(4,062)	(9,021)	(6,842)
Cash flows from financing activities					
Interest paid		(1)	(92)	(8,663)	(8,839)
Net cash flow from financing activities		(1)	(92)	(8,663)	(8,839)
Net (Decrease) / Increase in cash and cash equivalents		(10,065)	20,096	(21,074)	33,918
Cash and cash equivalents at the beginning of the period		66,787	55,191	77,796	41,369
Cash and cash equivalents at the end of the period	11	56,722	75,287	56,722	75,287

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 30 September 2017

1. Accounting policies and basis of preparation

This Half Year report contains condensed consolidated financial information of BrightHouse Group plc for the thirteen weeks ended 30 September 2017 and the twenty-six weeks ended 30 September 2017. The unaudited Half Year financial information has been prepared using consistent accounting policies, presentation, and method of computation to those applied in the latest annual financial statements of BrightHouse Group plc for the year ended 31 March 2017. This financial information should be read in conjunction with the consolidated financial statements of BrightHouse Group plc for the year ended 31 March 2017.

Basis of preparation

The consolidated financial statements of BrightHouse Group plc and its subsidiaries (the "Group") are approved by the directors and prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ("EU") ("Adopted IFRS"). The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated. The financial information contained in this interim statement does not constitute statutory accounts as defined by Section 435 of the Companies Act 2006.

2. Exceptional items

Recognised as part of operating profit

	13 weeks ended 30 September 2017 (Unaudited) £000	*13 weeks ended 01 October 2016 (Unaudited) £000*	*26 weeks ended 30 September 2017 (Unaudited) £000*	*26 weeks ended 01 October 2016 (Unaudited) £000*
Affordability action plan	1,290	592	1,290	1,235
Vacant and onerous lease provision	636	-	683	-
Restructuring provision	447	200	455	200
	2,373	792	2,428	1,435

Vacant and onerous lease provision

During the Half Year 2017 £683,000 was incurred as additional incremental costs in relation to the store closure programme and onerous leases.

Restructuring provision

A business-wide cost reduction programme was undertaken during the year ended 31 March 2017 which led to store and head office redundancy costs.

There was an additional £455,000 of incremental redundancy costs to conclude the programme during the Half Year 2017. This has been explained in detail in note 14 of these financial statements.

Affordability action plan

During the Half Year 2017 the provision was increased by £1,290,000 as a result of further estimated cost increases in relation to the customer redress programme which was announced by the FCA on 24 October 2017.

3. Revenue

Revenue comprises revenue from the provision of home electronic and domestic appliances, technology products, household furniture and other related products to domestic customers through hire purchase agreements and related service insurance and warranty agreements.

Customers entering into our hire purchase agreements from 2 September 2013 are entitled to return assets at any time with no further payments falling due and with no penalties incurred. With effect from 26 February 2017, when we unbundled warranty cover, the automatic right of return remains included within the hire purchase agreement. The Group accounts for

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 30 September 2017

3. Revenue (continued)

its revenue on an accruals basis for all domestic hire-purchase, insurance and warranty agreements taking credit for all weekly or monthly instalments that have fallen due, but not for instalments which will fall due in the future under contracts in existence at the balance sheet date.

On this basis the transactions are treated as being operating leases in nature and the directors believe that at the inception of the lease there are no minimum future lease payments as the goods can be returned at any time.

4. Finance income and expense

Recognised in the income statement

	13 weeks ended 30 September 2017 (Unaudited) £000	*13 weeks ended 01 October 2016 (Unaudited) £000*	*26 weeks ended 30 September 2017 (Unaudited) £000*	*26 weeks ended 01 October 2016 (Unaudited) £000*
Interest income	4	18	7	43
Unwinding of discount on VAT incurred in advance (note 10)	-	16	-	104
Finance income	4	34	7	147

	13 weeks ended 30 September 2017 (Unaudited) £000	*13 weeks ended 01 October 2016 (Unaudited) £000*	*26 weeks ended 30 September 2017 (Unaudited) £000*	*26 weeks ended 01 October 2016 (Unaudited) £000*
Interest expense	5,320	5,791	10,747	11,405
Unwinding of discount on VAT incurred in advance (note 10)	24	-	48	-
Unwinding of discount on provision (note 14)	(21)	-	65	-
Finance expense	5,323	5,791	10,860	11,405

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 30 September 2017

5. Taxation

Tax on loss on ordinary activities

Recognised in the income statement

	13 weeks ended 30 September 2017 (Unaudited) £000	*13 weeks ended 01 October 2016 (Unaudited) £000*	*26 weeks ended 30 September 2017 (Unaudited) £000*	*26 weeks ended 01 October 2016 (Unaudited) £000*
Current tax:				
Corporation tax charge UK	-	-	-	-
Corporation tax charge overseas	(24)	109	(11)	230
Total current tax	(24)	109	(11)	230
Deferred tax:				
Deferred tax credit	(1,524)	(550)	(2,403)	(804)
Total taxation in income statement	(1,548)	(441)	(2,414)	(574)

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 30 September 2017

6. Property, plant and equipment

	Rental assets (unaudited) £000 (Restated)	*Fixtures, equipment and vehicles (unaudited) £000*	*Total (unaudited) £000 (Restated)*
Cost:			
As of 1 April 2016	282,158	63,066	345,224
Additions	35,792	1,286	37,078
Disposals	(67,535)	-	(67,535)
As of 1 October 2016	250,415	64,352	314,767
As of 1 April 2017	230,457	62,250	292,707
Additions	52,962	375	53,337
Disposals	(63,374)	-	(63,374)
As of 30 September 2017	220,045	62,625	282,670
Depreciation:			
As of 1 April 2016	136,529	47,627	184,156
Depreciation charge for the period	50,871	3,006	53,877
Disposals	(52,483)	-	(52,483)
As of 1 October 2016	134,917	50,633	185,550
As of 1 April 2017	123,622	52,056	175,678
Depreciation charge for the period	43,710	1,948	45,658
Disposals	(51,570)	-	(51,570)
As of 30 September 2017	115,762	54,004	169,766
Net book value:			
As of 30 September 2017	104,283	8,621	112,904
As of 1 April 2017	106,835	10,194	117,029
As of 1 October 2016	115,498	13,719	129,217
As of 1 April 2016	145,629	15,439	161,068

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 30 September 2017

6. Property, plant and equipment (continued)

The Group has determined that there has been a historical error in the disclosure of rental asset resulting in the netting off of cost and depreciation. The error has no net book value effect.

	Original	*Restated*	*Original*	*Restated*
	As of 1 October 2016	As of 1 October 2016	As of 1 April 2017	As of 1 April 2017
Cost Carried forward	141,902	250,415	112,955	230,457
Depreciation Carried forward	26,404	134,917	6,120	123,622
Net book value	115,498	115,498	106,835	106,835

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 30 September 2017

7. Intangible assets

	Software (unaudited) £000	*Goodwill (unaudited) £000*	*Total (unaudited) £000*
Cost:			
As of 1 April 2016	58,612	74,978	133,590
Additions	5,599	-	5,599
As of 1 October 2016	64,211	74,978	139,189
As of 1 April 2017	70,117	74,978	145,095
Additions	8,653	-	8,653
As of 30 September 2017	78,770	74,978	153,748
Amortisation:			
As of 1 April 2016	44,824	-	44,824
Amortisation charge for the period	3,486	-	3,486
As of 1 October 2016	48,310	-	48,310
As of 1 April 2017	51,528	74,978	126,506
Amortisation charge for the period	4,436	-	4,436
As of 30 September 2017	55,964	74,978	130,942
Net book value:			
As of 30 September 2017	22,806	-	22,806
As of 1 April 2017	18,589	-	18,589
As of 1 October 2016	15,901	74,978	90,879
As of 1 April 2016	13,788	74,978	88,766

Impairment testing

Goodwill arose from the acquisition of BrightHouse Limited and has been allocated to the Group’s one cash generating unit (CGU) of retail sales, hire-purchase agreements and associated premiums for insurance and warranty contracts.

The Group performed its annual impairment test as at 31 March 2017. The recoverable amount of the CGU was determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board covering a five year period. An impairment loss of £74,978,000 was recognised in the prior year as a result of the decline in the trading performance.

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 30 September 2017

8. Deferred tax assets

	30 September 2017 (Unaudited) £000	*01 October 2016 (Unaudited) £000*
Assets:		
Tax losses recognised	6,228	963
Other property, plant and equipment	6,718	5,311
Capital contributions on lease incentives	107	182
Total tax assets	13,053	6,456

9. Inventories

	30 September 2017 (Unaudited) £000	*01 October 2016 (Unaudited) £000*
Goods held for resale at cost	18,648	18,791

During the period assets acquired for resale amounting to £52,962,000 (2016 – £35,791,000 restated) were capitalised within property, plant and equipment as rental assets when issued to stores in advance of being hired to customers pursuant to hire and hire purchase agreements.

10. Trade and other receivables

	30 September 2017 (Unaudited) £000	*01 October 2016 (Unaudited) £000*
Current:		
Trade receivables	2,098	899
Other trade receivables and prepayments	19,388	17,140
Other non-trade receivables	610	872
VAT incurred in advance of recovery from customers	20,872	24,303
Other taxes and social security	619	1,629
	43,587	44,843

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 30 September 2017

10. Trade and other receivables (continued)

	30 September 2017 (Unaudited) £000	*01 October 2016 (Unaudited) £000*
Non current:		
VAT incurred in advance of recovery from customers	11,028	12,777
Other trade receivables and prepayments	1,173	640
	12,201	13,417

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. Trade receivables primarily comprise VAT recoverable which is paid on the full value of assets acquired by customers under hire and hire purchase agreements when the contracts commence and are recovered from customers over the full length of these agreements or from HMRC on customer default.

Within trade receivables £11,028,000 (2016 – £12,777,000) is receivable after more than one year and has been discounted to determine its fair value. All trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a bad debt provision of £1,434,000 (2016 – £1,437,000) has been recorded accordingly. In addition, some of the unprovided trade receivables are past due as of the reporting date. The age of financial assets past due but not provided for is as follows:

	30 September 2017 (Unaudited) £000	*01 October 2016 (Unaudited) £000*
1-7 days	66	86
8-14 days	79	87
15-45 days	388	350
45-90 days	10	10
	543	533

Movements in bad debt provision

	30 September 2017 (Unaudited) £000	*01 October 2016 (Unaudited) £000*
At beginning of period	1,335	1,437
Amounts written off as uncollectable	(8,415)	(8,977)
Increase in bad debt provision	8,514	8,977
At end of period	1,434	1,437

The movement in the bad debt provision consists of individually insignificant balances.

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 30 September 2017

11. Cash and cash equivalents

	30 September 2017 (Unaudited) £000	*01 October 2016 (Unaudited) £000*
Cash and cash equivalents per balance sheet and cash flow statement	56,722	75,287

Cash and cash equivalents comprise cash at bank and in hand. Included within cash and cash equivalents is restricted cash of £5,833,000 (2016 – £9,197,000). This includes restricted cash of £5,504,000 (2016 - £8,506,000) which represents cash at bank held by entities who supply insurance related services within the Group which is restricted due to certain regulatory and solvency requirements. This also includes restricted cash of £329,000 (2016 – £691,000) which represents cash held by the Group on behalf of customers.

The directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

12. Trade and other payables

	30 September 2017 (Unaudited) £000	*01 October 2016 (Unaudited) £000*
Trade payables	17,762	13,468
Other taxes and social security	2,433	2,311
Other non-trade payables	342	433
Accrued expenses	26,546	30,017
Accrued interest	6,555	6,591
	53,638	52,820

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade and other payables approximates to their fair value.

13. Financial liabilities

	30 September 2017 (Unaudited) £000	*01 October 2016 (Unaudited) £000*
Current liabilities:		
Senior secured notes	219,040	-
	219,040	-

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 30 September 2017

13. Financial liabilities (continued)

	30 September 2017 (Unaudited) £000	*01 October 2016 (Unaudited) £000*
Non-current liabilities:		
Unsecured 10% loan stock issued to related parties	38,362	35,705
Senior secured notes	-	217,453
	38,362	253,158

The senior secured notes include an issue of £220 million (2016 - £220 million) less fees incurred on the debt facility of £960,000 (2016 - £2,547,000). These fees are amortised over the term of the facilities.

Terms and debt repayment schedule

On 9 May 2013 the Group issued £220 million senior secured notes due 15 May 2018. Interest is fixed at 7.875% and payable on 15 May and 15 November every year to the date of expiry. As the senior secured notes are now due within 12 months, they are presented as current liabilities (2016 – non-current liabilities).

The unsecured 10% loan stock is redeemable on 9 May 2040 and forms part of the investment made in the Group by funds advised by Vision Capital LLP. The unsecured 10% loan stock is subordinated and junior in right of payment to the senior secured notes. The terms of the unsecured loan stock are such that the maturity date cannot be prior to the maturity date of the senior secured notes. The amount above includes £11,722,000 (2016: £9,065,000) of accrued interest.

14. Other provisions

	Dilapidation Provision (unaudited) £000	*Affordability Action Plan (unaudited) £000*	*Restructuring (unaudited) £000*	*Onerous lease provision (unaudited) £000*	*Total (unaudited) £000*
As of 1 April 2016	-	3,100	-	-	3,100
Charged to the income statement	-	783	200	-	983
Utilised during the period	-	(181)	(24)	-	(205)
As of 1 October 2016	-	3,702	176	-	3,878
As of 1 April 2017	3,807	8,246	154	4,100	16,307
Unwind of discount	-	-	-	65	65
Charged to the income statement	-	1,290	455	683	2,428
Utilised during the period	(237)	(1,198)	(609)	(1,965)	(4,009)
As of 30 September 2017	3,570	8,338	-	2,883	14,791

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 30 September 2017

14. Other provisions (continued)

Dilapidation provision

The brought forward dilapidation provision was reclassified from trade and other payables at 31 March 2017. The business-wide cost reduction programme announced in the Fourth Quarter 2016 triggered the reassessment of the dilapidation provision across the whole of the retail and supply chain estate.

£237,000 has been utilised during the period for work completed on a number of stores.

Affordability action plan

We developed an affordability action plan with the FCA which includes customer redress payments announced by the FCA on 24 October 2017. The estimated costs of implementing this plan were recorded as a provision of £8,246,000 as at 31 March 2017 in the annual financial statements of BrightHouse Group plc.

The provision was increased by £1,290,000 during the period and £1,198,000 of the provision has been utilised. The Group expects the majority of costs to be incurred during 2017/18.

Restructuring

The brought forward provision covers the non-property related costs resulting from the business wide cost reduction programme announced in March 2017. During the Half Year 2017 the provision was increased by £455,000 in relation to further incremental measures implemented in the period. The provision was then fully utilised against costs incurred during the period.

Vacant and Onerous lease provision

This provision covers both leases on unprofitable stores and vacant properties.

On 31 January 2017 the Group announced plans to close 29 stores across the UK, as part of a business-wide cost reduction programme, aligned to a new business strategy. The closures took place throughout March 2017. Stores were selected based on their commercial performance with details of property leases and the ability to transfer customers to nearby stores also taken into account. Customers of the impacted stores were automatically transferred to another local BrightHouse store.

During the period £1,965,000 of the provision was utilised against costs incurred in relation to the vacant and onerous leases. £683,000 was charged to the income statement as a result of our assessment of the provision as at 30 September 2017 and the latest estimate of the future costs of the leases. The provision increased by £65,000 due to the unwinding of the discount on the provision.

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 30 September 2017

15. Share capital

	30 September 2017 (Unaudited)		*01 October 2016 (Unaudited)*	
Allotted, called up and fully paid	*No.*	*£000*	*No.*	*£000*
A Ordinary shares of £0.001 each	4,340,000	4	4,340,000	4
Ordinary shares of £0.001 each	152,500	–	152,500	–
B Ordinary shares of £0.01 each	200,000	2	200,000	2
C Ordinary shares of £0.01 each	75,000	1	75,000	1
D Ordinary shares of £0.01 each	62,500	1	62,500	1
E Ordinary shares of £0.01 each	62,500	1	62,500	1
F Ordinary shares of £500 each	1	1	1	1
G Ordinary shares of £0.001 each	107,499	–	107,499	–
H Ordinary shares of £500 each	1	1	1	1
A Preferred shares of £0.0000001 each	6,725,639	–	6,725,639	–
B Preferred shares of £0.0000001 each	86,583,475	–	86,583,475	–
Deferred shares of £0.0000001 each	6,993,992,053	–	6,993,992,053	–
C Preferred shares of £1.00 each	40,500	41	40,500	41

On 22 November 2012 new Articles of Association were adopted by the Company which resulted in the sub-division and re-designation of the existing share capital into new classes of both Ordinary and Preferred Shares as set out below.

'A Ordinary Shares' are controlled by VCP VI B. 'B Ordinary Shares', 'C Ordinary Shares', 'D Ordinary Shares', 'E Ordinary Shares', 'F Ordinary Shares', 'G Ordinary Shares' and 'Ordinary Shares' are controlled by management ('Management Shares'). 'A Preferred Shares' are controlled by VCP VI B, 'B Preferred Shares' are controlled by VCP VI B and management and 'Deferred Shares' are controlled by the Employee Benefit Trust. Dividends are distributed first to A Preferred Shares until the maximum hurdle rate, described in the Articles of Association, has been met. Remaining dividend amounts are then distributed to B Preferred Shares until the maximum hurdle rate has been met. Deferred Shares receive no dividend distribution. All other classes of share are treated equally for any remaining distribution. For voting, each class of share holds in aggregate, the % of votes as follows: A Ordinary: 75%, B Ordinary: 5%, C Ordinary 5%, D Ordinary 5%, E Ordinary 5% and F Ordinary 5%. All other classes of share hold no voting rights. In the event of a sale of the business, realisation proceeds are allocated in the following order. To the extent that the hurdle rate exceeds any previous return of capital A Preferred Shares receive proceeds first. Next to the extent that the hurdle rate exceeds any previous return of capital B Preferred Shares receive proceeds. Deferred Shares receive a maximum of 1p on a sale of the business. Finally any remaining proceeds are distributed equally between the remaining share classes. However, in certain circumstances described in the Articles, participation of Management Shares in the proceeds may increase.

On 17 April 2013 two new classes of share were created. The H share is controlled by management and has 5% voting rights. Following the creation of this class of share, the E Shares lost voting rights. C Preferred shares are controlled by both VCP VI B and management and have no voting rights. The H Shares have the same economic rights as the Ordinary Shares and the C Preferred Shares only entitle the holders to an aggregate of £20 on any realisation.

On 28 November 2013 25,000 C Ordinary Shares were converted into 25,000 Ordinary Shares and 2,250,000,000 Deferred Shares.

On 25 July 2014 10,000 A Ordinary Shares were converted into 10,000 Ordinary Shares.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and should be read together with our consolidated financial statements as of and for the twenty-six weeks ended 30 September 2017 and the accompanying notes included elsewhere in this Half Year Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below in "Forward-Looking Statements".

Forward-Looking Statements

This Half Year Report includes "forward-looking statements" within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this Half Year Report, including, without limitation, those regarding our intentions, beliefs or current expectations concerning, among other things: our future financial conditions, financial performance, performance of our Contract Portfolio, results of operations and liquidity; our strategy, plans, objectives, prospects, growth, goals and targets; future developments in the markets in which we participate or are seeking to participate; and anticipated regulatory changes in the industry in which we operate. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "guidance", "intend", "may", "plan", "project", "should" or "will" or, in each case, their negative, or other variations or comparable terminology. Forward-looking statements appear in various locations of this Half Year Report, including, without limitation, in the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance. Although we believe that the expectations reflected in the forward looking statements contained herein were reasonable at the time they were made, our actual financial condition, results of operations and cash flows, and the development of the industry, the macroeconomic environment and the regulatory landscape in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this Half Year report. In addition, even if our financial condition, results of operations and cash flows, and the development of the industry and regions in which we operate, are consistent with the forward-looking statements contained in this Half Year Report, those results or developments may not be indicative of results or developments in subsequent periods.

Any forward-looking statements are only made as of the date of this Half Year Report and, except as required by law or the rules and regulations of any stock exchange on which the Notes are listed, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Half Year Report.

Overview

We are the leading player in the rent-to-own market in the United Kingdom measured by revenue, total customers and number of stores. We offer an integrated retail, credit and service proposition attractive to low income and credit impaired consumers who have limited access to traditional financing alternatives. We conduct our operations from our 283 stores which are located across the United Kingdom. Our product offering consists of a well-balanced mix of quality new and refurbished household goods, including essential and aspirational products, from four main categories: (i) televisions and audio products; (ii) domestic appliances, including washers, fridges and cookers; (iii) furniture, including sofas, dining sets and beds; and (iv) consumer technology, including mobile devices, gaming consoles and computers. Each product category includes a choice of leading brands from name-brand manufacturers, as well as entry level products and quality refurbished products, across a wide range of price points, which are carefully selected to appeal to low income customers.

We continue to evolve our proposition to ensure that it meets the needs of our customers. With effect from 26 February 2017, the proposition was improved to allow greater flexibility and choice for the customer. Our customers are able to choose the length of the agreement they use to purchase products from us. This gives the customer choice over the amount of the weekly payment, and the total amount payable under the agreement. They also have choice about whether to purchase a service package from us, and how to insure the product. If taken, our optional product service and insurance covers can be cancelled by the customer at any time. The Group accounts for its revenue on an accruals basis for all domestic hire-purchase and insurance and warranty agreements taking credit for all weekly or monthly instalments that have fallen due, but not for instalments which will fall due in the future under contracts in existence at the balance sheet date.

We offer our products on an affordable payment schedule. This enables customers to have the items they want and need while spreading the cost over a number of years. Prior to entering into an agreement with a customer, we conduct bespoke creditworthiness and affordability assessments. If these are passed, we will enter into a hire purchase agreement with the customer, providing, primarily, weekly instalment payments and no initial deposit. Ownership of the product passes to the customer upon full payment under the hire purchase agreement. The representative APR offered in our hire purchase agreements is 69.9%. The actual rate offered to individual customers is currently in the range 69.9% – 99.9% based upon the customer's individual credit score, the product taken and the length of the agreement. Included within the credit agreement, we provide customers, for no additional cost, the right of return and cancellation at any time, typically without penalty. As a result, customers benefit from the flexibility to return the product and terminate the hire purchase at any time should their preferences or circumstances change.

Key Performance Indicators

We use certain key operating measures to track the financial and operating performance of our business. None of these terms are measures of financial performance under IFRS, nor have these measures been audited or reviewed by an auditor, consultant or expert. These numbers are not derived exclusively from our internal financial systems or management accounts, but also from our non-financial operating systems. As they are defined by our management, these terms may not be directly comparable to similar terms used by competitors or other companies.

	As of and for the twenty-six weeks ended 30 September 2017	**As of and for the twenty-six weeks ended 1 October 2016**
Summary Statistical and Operating Data		
Customer Data		
Total customers (thousands)(1)	215.5	250.5
Total Gross Dues (in millions of £)(2)	10.1	6.5
Closing Dues base (in millions of £)(2)	25.9	28.9
Average number of contracts per customer(3)	2.58	2.67
Average revenue per customer per month(4)	£120.14	£115.47
Stores		
Number of stores	283	312
Contract Portfolio (in millions of £)(5)	401.7	439.3

(1) Total customers represents the number of distinct individuals who are party to one or more hire purchase agreements outstanding on the relevant date with us, without regard to the number of hire purchase agreements entered into by each such customer.

(2) Dues is the expected amount of receipts from customer agreement instalments in an average month. An average month is assumed to have 4.333 weeks. Total Gross Dues is the Dues value for new agreements signed in the relevant period. Closing Dues Base is the closing dues at the end of the relevant period.

(3) Average number of contracts per customer is calculated by dividing the total number of hire purchase agreements outstanding on the relevant date by the total number of customers on such date.

(4) Average revenue per customer per month is calculated by dividing the closing dues base at the period end by the closing customer base at the period end.

(5) The value of our Contract Portfolio refers to the aggregate amount of remaining payments due under our hire purchase agreements on a given date through the term of the relevant contracts in effect on such date, assuming all contracts are paid in full. These payments include, in addition to the expected instalment payments towards the retail price of the product, interest and indirect taxes and payments from the purchase of our optional insurance and warranty products.

Total customers

Revenue is driven by the number of customers and their average spend with BrightHouse. Customer numbers have decreased by 14.0% from 250,500 as at 1 October 2016 to 215,500 as at 30 September 2017. Customer additions have been impacted in the past year by the more demanding regulatory environment and changes made to the application process. Stricter affordability processes and tightened credit criteria have impacted significantly on the Group's acceptance and successful conversion of applications, however we have put in place new processes to reduce the effect of these changes. Over the past year and in the Half Year 2017, we have developed automated processes which simplify and shorten the process of affordability assessment for some of our customers. This significantly reduces the amount of time taken to complete the assessment, without changing the expected outcome.

Total Gross Dues

Total Gross Dues increased by 55.4% to £10.1 million for the Half Year 2017 from £6.5 million for the Half Year 2016. The increase is due to the development of new automated affordability processes, as discussed above, and the change in customer proposition, allowing greater flexibility, shorter terms and choice for the customer.

Closing Dues base

The Closing Dues base decreased by 10.4% to £25.9 million as at 30 September 2017 from £28.9 million as at 1 October 2016. The decrease is due to a reduction in Gross Dues over the past year combined with the termination of existing contracts.

Average number of contracts per customer

Average number of contracts per customer decreased to 2.58 as at 30 September 2017 compared to 2.67 as at 1 October 2016. The decrease of this metric is primarily due to extended sign-up policies, adversely impacting application volumes and acceptance and conversion rates as existing customers adapted to the new affordability requirements. Simplification measures have since automated affordability processes and are having a positive impact on application volumes.

Number of stores

As of 30 September 2017, we had a total of 283 stores, and as of 1 October 2016, we had a total of 312 stores. The Group closed 29 of its stores across the UK in the fourth quarter of FY16/17, as part of a business-wide cost reduction programme, aligned to a new business strategy. Our strategy to expand the customer base is to grow like-for-like revenues through further simplification of the sign-up processes, the development of our E-Commerce capabilities for new customers and improved customer retention.

The E-commerce programme has continued the development of a clicks and mortar strategy. The business launched its fully transactional website on 1 August 2017.

Contract Portfolio

The value of our Contract Portfolio as at 30 September 2017 was £401.7 million compared to £439.3 million as at 1 October 2016. This decrease was due to the introduction of new affordability processes and lending criteria as described above.

As calculated by an independent analytics firm, the Group has historically achieved a cash collection rate of circa. 69% - 70% of its Contract Portfolio.

Regulation and compliance

Until 1st April 2014 BrightHouse was regulated by the Office of Fair Trading "OFT". On 1 April 2014, regulation for consumer credit passed from the OFT to the Financial Conduct Authority "FCA". In order to continue to operate its business, BrightHouse is required to become authorised by the FCA for Consumer Credit and Insurance intermediation. On the 1st April 2014 BrightHouse and all other firms that wished to continue offering credit were granted interim permission by the FCA. Thereafter, all firms were required to apply for full authorisation to a published timeline. For BrightHouse this meant submitting an application in May 2015. We are able to trade under our interim permission during the authorisation process.

The FCA confirmed to BrightHouse on 5 April 2017, that they were minded to authorise the business subject to a number of conditions. These included a refinancing or restructuring of the Company's corporate bond and adherence to BrightHouse's regulatory business plan which is required to be suitable for a firm that is complying with the threshold conditions and treating customers fairly.

On 31 July 2017, as part of the review into high-cost credit, the FCA stated that they were not considering new rules for RTO products at the current time. They added that they consider price-capping would be a very difficult tool to use in the RTO market. However, they announced that they would investigate further the concerns that there are harmful consequences of borrowing for a significant number of consumers, with the aim of issuing a Consultation Paper in Spring 2018.

We reached agreement with the FCA to reintroduce late fees from 19 August 2017 and on 24 October announced a scheme to return £14.8m to 249,000 customers. This programme was developed following engagement with the FCA over more than two years and has been independently reviewed. The scheme covers the repayment of initial payments where agreements were cancelled within the first 14 days and the return of interest and fees where affordability assessments might not have been effective enough.

The total value to customers of the scheme is £14.8m. This includes £6.5m in cash and £8.3m of interest and fees which had already been written-off in the normal course of business. The total cash costs, including administration of the scheme, has already been extensively provisioned for in the accounts as the “affordability action plan” and were covered within the “exceptional cash outflows” in the business update presentation published on 12 October 2017.

As a result of the regulation described above, our business and our hire purchase agreements are subject to complex regulation (including the Consumer Credit Act 1974, the Financial Services and Markets Act 2000, the Consumer Rights Act 2015 and relevant secondary legislation), which include, among other things, substantive requirements for the conduct of our business, maintenance of certain standards in respect of our consumer credit business, and periodic disclosure of key terms of our hire purchase contracts to our customers. If a hire purchase agreements or other aspects of our business fail to meet those requirements, our hire purchase agreements may be unenforceable in whole or in part, and we could be subject to sanctions such as mandatory shut-downs, redress, fines, criminal prosecutions, enforcement action and private litigation from consumers, any of which could have a material adverse effect on our business, prospects, financial condition or results of operations.

Strategic Review

The Company announced on 8th December 2017 that it has entered into an agreement (the “Agreement”) with over 90% by value of its existing noteholders and its current majority owner, certain funds in respect of which Vision Capital LLP acts as an investment advisor (“Vision”), to refinance its £220 million senior secured notes due 15 May 2018. Once implemented, the principal amount of the senior secured notes will be released and fully discharged in exchange for the issuance of approximately £111.7 million new 9% senior secured notes due May 2023 and the existing noteholders will receive 97% ownership of the Group, with Vision retaining the remaining 3% ownership (prior to dilution by a management incentive plan). Subject to satisfaction of conditions precedent, including receipt of the applicable regulatory authorisations, the refinancing is expected to be completed by the end of January 2018.

Further details of the Agreement can be found on the Company’s website in the announcement titled “**BrightHouse Group plc (“BrightHouse” or the “Company”): Refinancing Agreement, Half Year Results and update on October Trading**”, issued on 8th December 2017 through the Luxemburg Stock Exchange.

The sale process announced on 28 September 2017 will no longer be pursued by the Company.

Discussion and Analysis of Our Consolidated Results of Operations

Results of operations for the Half Year 2017 compared with the results of operations for the Half Year 2016

The following table sets forth certain information with respect to our consolidated results of operations for the Half Year 2017 and the Half Year 2016, respectively, which have been derived from our unaudited consolidated financial statements included elsewhere herein.

(in thousands of £, except percentages)	**For the Second Quarter 2017**	**For the Second Quarter 2016**	**For the Half Year 2017**	**For the Half Year 2016**
	(unaudited)		**(unaudited)**	
Revenue	**69,971**	**80,810**	**142,131**	**172,529**
Cost of sales	(35,016)	(40,870)	(70,606)	(85,599)
Gross Profit	**34,955**	**39,940**	**71,525**	**86,930**
Operating expenses	(41,422)	(41,176)	(80,583)	(84,689)
Operating (loss) / profit	**(6,467)**	**(1,236)**	**(9,058)**	**2,241**
Finance income	4	34	7	147
Finance expense	(5,323)	(5,791)	(10,860)	(11,405)
Loss before taxation	**(11,786)**	**(6,993)**	**(19,911)**	**(9,017)**
Tax credit	1,548	441	2,414	574
Loss for the period	**(10,238)**	**(6,552)**	**(17,497)**	**(8,443)**

Revenue

Our revenue decreased by £30.4 million, or 17.6%, to £142.1 million for the Half Year 2017 from £172.5 million for the Half Year 2016. This decrease was primarily due to the impact of stricter affordability processes and tightened credit criteria, which have impacted significantly on the acceptance and successful conversion of customer applications over the past year.

Cost of sales

Cost of sales decreased by £15.0 million, or 17.5%, to £70.6 million (49.7% of revenue) for the Half Year 2017 from £85.6 million (49.6% of revenue) for the Half Year 2016 which is primarily due to the year-on-year reduction in rental asset depreciation, a decrease in the carrying value of rental assets written off and reduced expenditure on rental asset maintenance.

Gross profit and gross profit margin

Our gross profit reduced by £15.4 million, or 17.7%, to £71.5 million for the Half Year 2017 from £86.9 million for the Half Year 2016. Our gross profit margin (expressed as a percentage of revenue) decreased to 50.3% for the Half Year 2017 from 50.4% for the Half Year 2016. This reduction in gross profit margin was primarily due to the rise in cost of debt as a proportion of revenue from 10.1% for the Half Year 2016 to 11.7% for the Half Year 2017.

Operating expenses

Our operating expenses decreased by £4.1 million, or 4.8%, to £80.6 million (56.7% of revenue) for the Half Year 2017 from £84.7 million (49.1% of revenue) for the Half Year 2016, primarily due to the reduced store base year-on-year.

Operating (loss) / profit

We reported an operating loss of £9.1 million for the Half Year 2017 compared to an operating profit of £2.2 million for the Half Year 2016. This decrease was due to the factors discussed above.

Finance expenses (net)

Our net finance expenses decreased by £0.5 million, or 3.6%, to £10.9 million for the Half Year 2017 from £11.4 million for the Half Year 2016. The interest saving generated from cancelling the senior credit facility has been offset by the non-cash interest expense in the Half Year 2017 of unwinding the onerous contract provisions and the provision against the VAT debtor.

Tax credit

We have reported a tax credit of £2.4 million for the Half Year 2017 compared to a tax credit of £0.6 million for the Half Year 2016. Both have been driven by the respective losses reported in each period. Our effective tax rate for the Half Year 2017 was (12.1%) compared to (6.4%) for the Half Year 2016.

Loss for the period

We have reported a loss of £17.5 million for the Half Year 2017 compared to a loss of £8.4 million for the Half Year 2016 as a result of the factors described above.

Cash Flows

(in thousands of £)	**For the Second Quarter 2017**	**For the Second Quarter 2016**	**For the Half Year 2017**	**For the Half Year 2016**
Cash and cash equivalents at beginning of period	66,787	55,191	77,796	41,369
Net cash flow from operating activities	(4,868)	24,250	(3,390)	49,599
Net cash from investing activities	(5,196)	(4,062)	(9,021)	(6,842)
Net cash flow from financing activities	(1)	(92)	(8,663)	(8,839)
Net increase in cash and cash equivalents	(10,065)	20,096	(21,074)	33,918
Cash and cash equivalents at end of period	**56,722**	**75,287**	**56,722**	**75,287**

Net cash flow from operating activities

Net cash flow from operating activities reduced by £53.0 million to an outflow of £3.4 million for the Half Year 2017 from an inflow of £49.6 million for the Half Year 2016, primarily as a result of the trading performance during the period and increased rental asset purchases.

Net cash flow from investing activities

Net cash used in investing activities increased by £2.1 million to an outflow of £9.0 million for the Half Year 2017 from an outflow of £6.8 million for the Half Year 2016. This has been analysed in the capital expenditure section.

Net cash flow from financing activities

Net cash used in financing activities decreased by £0.2 million to an outflow of £8.7 million for the Half Year 2017 from an outflow of £8.8 million for the Half Year 2016. Net cash used in financing activities primarily comprise, in both periods, interest payments on the senior secured notes. In August 2016, the Group took the decision to cancel the senior credit facility with Lloyds Bank Plc and Sumitomo Mitsui Banking Corporation Europe Limited in advance of the planned repayment date. Consequently a non-utilisation interest fee attached to the previous facility is not payable in the Half Year 2017.

Restricted cash

We are required by regulation to maintain cash reserves at our Insurance Subsidiaries relating to our insurance operations. In addition, we hold cash received as a result of voluntary overpayments by customers (generally for the purpose of application towards future payments) in segregated accounts. As of 30 September 2017 our total restricted cash was £5.8 million compared to £9.2 million as of 1 October 2016.

Capital Expenditures

Our capital expenditures (excluding purchases of hire purchase assets) comprise investments in our information technology systems and capital expenditure relating to the refurbishment of existing stores and service centres. The following table sets out our capital expenditures for the Half Year 2017 and the Half Year 2016:

(in millions of £)	For the Second Quarter 2017	For the Second Quarter 2016	For the Half Year 2017	For the Half Year 2016
Capital expenditure on information technology hardware	–	–	–	0.1
Capital expenditure on software development[1]	5.0	3.4	8.6	5.6
Others[2]	0.2	0.7	0.4	1.2
Total capital expenditure	**5.2**	**4.1**	**9.0**	**6.9**

(1) Includes expenditure relating to the ERP project and other strategic programmes.

(2) Primarily includes capital expenditure relating to our stores and service centres, including refurbishment, new signage and similar improvements.

Total capital expenditure incurred in the Half Year 2017 increased by £2.1 million to £9.0 million compared to the Half Year 2016. We have continued to invest in our fully transactional website throughout the Half Year.

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet financing arrangements other than operating leases for stores, vehicles and office equipment. As of 30 September 2017, the value of our Contract Portfolio, which is unrecognized and maintained off-balance sheet until instalment payments are due, was £401.7 million. This was supported by hire purchase assets, recognized on our balance sheet, underpinning our Contract Portfolio, having a net book value of £104.3 million as of 30 September 2017.

Key Contacts and Calendar

Key Contacts

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Finance Calendar

Details of future results releases will be made available on our website.