Annual Report 2017

Introduction

The Restaurant Group operates over 490 restaurants and pub restaurants. Its principal trading brands are Frankie & Benny's, Chiquito and Coast to Coast. The Group also operates Pub restaurants and a Concessions business which trades principally at UK airports.

Our brands

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Financial highlights

Strategic highlights

- Proposition enhancements in Frankie & Benny's are driving improving volume momentum
- Good progress across other Leisure brands
- Pubs business continues to outperform the market and pipeline of new opportunities further strengthened
- Concessions business expanding into new infrastructure hubs, and with relevant new brands
- Cost reduction programme of £10m delivered ahead of plan, enabling reinvestment in Leisure business
- Enhanced senior leadership team in place

Financial highlights

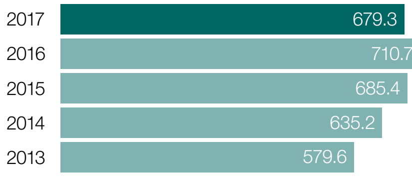
- Like-for-like sales down 3.0%
- Total sales down 1.8% on a 52 week comparable basis; down 4.4% on a statutory basis
- Adjusted[1] profit before tax of £56.7m (2016: £77.1m). Statutory profit before tax of £43.6m (2016[2]: loss of £49.3m)
- Exceptional pre-tax charge of £13.2m (2016[2]: £126.5m)
- Adjusted[1] EBITDA of £95.1m (2016: £121.0m)
- Adjusted[1] EPS of 22.3p (2016: 30.0p). Statutory EPS of 16.4p (2016[2]: 24.0p loss per share)
- Continued strong free cash flow of £84.9m (2016: £78.9m)
- Operating cash flow of £107.6m (2016: £122.1m)
- Net bank debt of £21.6m at year-end (2016: £28.3m)
- Total full year dividend maintained at 17.4p per share, reflecting the Board's confidence in delivery of the plan

The highlights reflect the statutory 52 week year in 2017 versus the statutory 53 week year in 2016 unless stated otherwise.

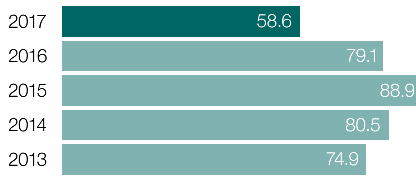
1 Adjusted reflects pre-exceptional costs and is further defined in the glossary at the end of this report.

2 As restated, refer to Note 1 for details.

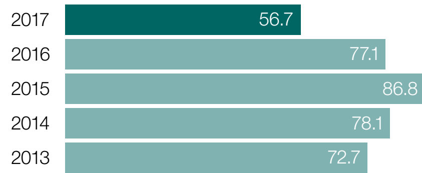
Total revenue (£m)



Adjusted operating profit (£m)



Adjusted profit before tax (£m)

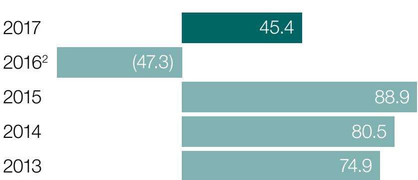


Adjusted EPS (p)

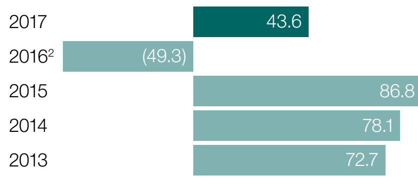
Adjusted EBITDA (£m)

Dividend per share (p)

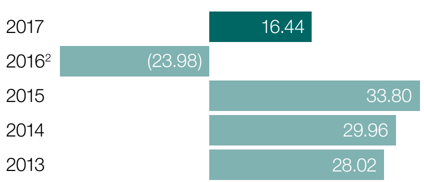
Operating profit (£m)



Profit before tax (£m)



EPS (p)



EBITDA (£m)

Chairman's statement

Debbie Hewitt
Chairman

"2017 has been a transitional year for the Group, with a test and learn approach allowing us to develop the proposition of our brands."

2017 has been a transitional year for the Group, with a test and learn approach allowing us to develop the proposition of our brands. Despite the challenging market context, we have continued to make good progress against the four key elements of our strategy:

- re-establishing the competitiveness of our Leisure brands;
- serving our customers better and more efficiently;
- growing our Pubs and Concessions businesses; and
- building a leaner, faster and more focused organisation.

Total revenues were down 4.4% to £679.3m, with like-for-like sales for the 52 weeks ended 31 December 2017 down 3.0%, representing an improvement on the decline in 2016. Adjusted[1] profit before tax was down 26.4% to £56.7m and Adjusted[1] EPS was down 25.7% to 22.3p per share. Statutory profit before tax was £43.6m and the statutory earnings per share were 16.4p.

Our investments in price, food quality and marketing drove progressively improved volume momentum in our Leisure businesses. Pubs and Concessions both performed well, with the pipeline of new opportunities in both continuing to grow.

We took a low-key approach to marketing our key brands while the changes to the proposition were at an early stage. The latter part of the year has seen us test different media and we are gaining confidence in our ability to segment and target the customers of each of our brands. Investment in digital and social media is beginning to show cut through, with more targeted marketing.

"While the market has softened, the Board is confident that we have a robust plan and the team and resources in place to deliver."

The Group has faced well documented external cost pressures throughout 2017, from the increases in the National Living Wage and National Minimum Wage, the introduction of the apprenticeship levy, the revaluation of business rates, higher energy taxes and increased purchasing costs due to the combined effects of a devalued pound and commodity inflation. As we seek to mitigate these cost pressures, our initiatives to improve the effectiveness of our labour scheduling and to exploit new technologies are on track and continue to drive efficiencies.

We have proactively managed Board succession throughout the year and added new and relevant skills. Barry Nightingale stepped down as Chief Finance Officer in April 2017 and Kirk Davis replaced him in February 2018. Kirk has extensive finance experience within listed leisure and retail businesses and joins from Greene King plc where he has spent the past three years as Chief Financial Officer. Sally Cowdry stepped down from the Board as a Non-executive Director in August 2017 and Paul May joined as a Non-executive Director in July 2017. Paul has been the Chief Executive Officer of Patisserie Holdings plc since 2006. He has extensive experience of managing public and private companies in the retail and hospitality sectors. We are looking to recruit a further Non-executive Director during 2018, with digital credentials.

We have also added to the strength and depth of the senior leadership team, with the appointment of Murray McGowan as Managing Director of our Leisure businesses, joining us from Costa Express and Michael Healy as Chief Marketing Officer, joining us from Paddy Power Betfair plc.

The Board continues to ensure that we have a rigorous and disciplined approach to the allocation of capital, and that the Group's brand and location strategy is robust. As a consequence, we have taken action to close underperforming sites which we do not believe are capable of generating adequate returns.

The business continues to generate strong free cash flow, with £84.9m in 2017. Given our continued confidence in our plan, the Board is proposing the payment of a final dividend of 10.6 pence per share to be paid on 5 July 2018 to all shareholders on the register on 8 June 2018 (ex-dividend date 7 June 2018). The total dividend for the year is, therefore, maintained at 17.4 pence per share. The Board will continue to assess the dividend based on progress against our plan.

The Group employs over 15,000 people and they are the lifeblood of our business. The Board would like to record our thanks and appreciation for their hard work and commitment. We have made solid progress on our strategic initiatives in 2017, resulting in improved volume momentum in our Leisure business, growth in our Pubs and Concessions business, a lower cost base across the business and a more focused growth plan. We continue to benefit from strong cash generation and a healthy balance sheet. While the market has softened, the Board is confident that we have a robust plan and the team and resources in place to deliver.

Debbie Hewitt MBE
Chairman

7 March 2018

Business review

Andy McCue
Chief Executive Officer

> "We start 2018 with a significantly more competitive offering in our Leisure business, a strengthened pipeline of growth opportunities and a leaner, faster and more focused organisation."

Introduction

We continue to make good progress on the four key elements of our strategy that we set out at the beginning of 2017, to:

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

We've made significant proposition improvements in our Leisure business focusing on giving our customers better value and improved food quality along with retrained service standards, all of which are driving improving volume momentum.

We start 2018 with a significantly more competitive and improved offering across our Leisure business, an established expansion programme across our Pubs and Concessions businesses, an enhanced leadership team and a more efficient and focused business.

1. Re-establish competitiveness of our Leisure brands

Frankie & Benny's (259 units)

Our focus has been on enhancing our offer by restoring our value credentials, deepening the distinctiveness of our offer to our core family audience and launching a refocused and refreshed brand nationwide to attract back lapsed customers.

Following the discovery in 2016 that the brand had lost significant value credentials, we made significant investments in price in 2017. In January we reintroduced a £9.95 two-course fixed price menu, our cheapest fixed price menu for six years. We trialled and subsequently launched our new, significantly better value core menu in two waves in March and May. Drawing on customer insight, we launched an optimised version of this menu in October with main course entry prices 26% lower than the menu we started the year with, and like-for-like dish prices reduced by 7% on average, positioning our offering as highly competitively priced relative to our peers. We have also struck new and extended partnerships with value-focused affiliates and intensified our promotional activity to ensure we remain competitive and to encourage retrial of the brand.

We have deepened the distinctiveness of our offer by investing in the quality of ingredients, upgrading our menus to align with our core family audience and introducing new dishes which have proved popular such as our new hot dog range and a steakhouse salad which is now our best-selling salad. In the summer we launched our new kids' menu, which is differentiated in the sector and was recently rated the best in customer satisfaction across our peer set. Our new breakfast menu has a broader range of healthy options and a tailored kids offering.

Towards the end of the year, we commenced roll-out of a refreshed, more contemporary brand look and feel which will be represented across all brand touchpoints. This month we complete the rollout of an upgraded website and app, improving their ease of use for core functions such as bookings. We have also improved our digital search listings and we continue to refine and improve our return from media spend with encouraging activation rates from digital media investment through our new 'Parents win at Frankie & Benny's' campaign. We are currently building a new CRM platform which will enable better segmentation of customers and more targeted communication.

Our customers are recognising the proposition improvements we've made, with the latest external market data showing a continuing improvement in value for money ratings, net promoter score and the largest positive movement in revisit intention scores across our peers.

The proposition changes are driving improving volume momentum. Our performance suggests that we are taking volume share, with market data showing declining restaurant like-for-like sales over the last six months, in spite of significant price increases by our competitors.

Whilst we are pleased with our progress, we are not complacent. In the current year we will be launching an extended range of healthy dishes across our menus, upgrading our vegetarian and vegan options and introducing a redesigned desserts range. Alongside these initiatives, we will continue to improve the quality of our ingredients. We are trialling a pilot 'capital refresh' across 10 of our sites which we will learn from and optimise before making a decision on whether to roll-out more widely.

Chiquito (85 units)

Our focus on Chiquito has been to broaden the brand appeal, making it more accessible and frequented more often by our customers.

We trialled two versions of a fundamentally changed menu in the year which showed an improving covers trend versus the old menu. On the back of this we launched our new menu nationwide in January 2018. This new menu builds on the trials and allows greater customisation of dishes with, for example, 'build your own' tortillas with options to vary the spiciness of the dishes. We have also invested in the quality of the ingredients whilst at the same time making the menu more competitively priced with main course entry prices reduced by 10%, and like-for-like dish prices reduced on average by 6%. The menu is simpler and easier to navigate, benefitting from a 30% reduction in the number of main dishes. This simplicity has also reduced the number of back-of-house processes involved in preparation and improved the consistency and speed of service. We are also making the brand more accessible through new affiliate partnerships with the likes of Tastecard and Gourmet Society.

In the current year we will accelerate our pace of change in this brand. We plan to trial a series of new and exciting product innovations, which if successful will be rolled out more broadly.

Coast to Coast (19 units)

Coast to Coast's like-for-like trading performance remains challenging, albeit the trading trajectory continues to improve driven, in part, by our competitive discounts. The focus remains on further developing our new proposition, Firejacks, which offers high quality flame-grilled steaks and burgers at highly competitive prices. The first Firejacks was a conversion of the Coast to Coast in Northampton and opened in August 2017. We are encouraged by its ongoing trading performance and plan to convert at least three more Coast to Coast sites to Firejacks in the coming months.

2. Serve our customers better and more efficiently

During the course of the year we completed the upgrade of our technology in restaurants in our Leisure and Concessions businesses. We've introduced hand-held terminals enabling faster ordering and payment processing for our customers. The terminals also provide our restaurant staff with automated prompts of, for example, side dishes, which has increased attachment rates of these items. The new labour management software solution has led to improved sales forecasting accuracy and more effective deployment of our teams, ensuring our labour is increased for peak times to provide the right level of customer service, and minimised during quieter periods. We have also improved the flexibility of our workforce to help better align with our trading patterns. These initiatives combined have contributed to the labour cost per cover in our Leisure business declining by 7% in the second half of 2017 compared to the second half of 2016.

Our new simplified service standards have been introduced across our Leisure front-of-house teams to serve our customers better and more consistently. We've moved from an overly complex 'rules-based' service approach to a simplified approach of putting the customer experience at the forefront of everything we do, for example, through a more natural and warmer welcome upon arrival and greater encouragement for our restaurant teams to show their passion for our food and brands.

We continue to invest in new technology to remove customer pain points and improve the overall customer experience. Our 'pay with app' and 'click and collect' trials have been positively received by our customers and we will roll these out across our Leisure business in the first half of this year. We are in the process of developing a mobile order and pay application, allowing guests to be in control of their service and even order in advance of arriving at the restaurant. We have also increased the frequency and accuracy of bookings via an integrated system of online, telephone and in-restaurant reservations, and entered a partnership for the first time with OpenTable. We have trialled and are soon to be launching a new approach to obtaining guest feedback, moving away from an online post-meal survey which generated unrepresentative samples to an 'at-table' system where we can collect real-time feedback in volume, enabling us to respond to issues much more quickly.

We have increased our penetration of delivery with Deliveroo, growing the number of sites that offer this service from 37 at the start of 2017 to 130 in February 2018. We are trialling delivery services with UberEats and Just Eat which we expect will further increase our delivery reach and penetration. In addition, we see opportunities to extend brand reach by offering multiple delivery brands from an individual restaurant and will trial a new delivery-only brand in the coming weeks.

3. Grow our Pubs and Concessions businesses

Our Pubs business is well positioned in the market with a compelling, differentiated food-led offer that consistently outperforms the pub restaurant sector. Strong operational execution, along with locally sourced produce, has attracted a loyal and increasing customer base who rate the offering highly, relative to competitors.

The Pubs business delivers consistently good and growing returns, with recent openings consistently delivering EBITDA returns in excess of 20% (on an assumed leasehold cost base). Our estate is largely freehold asset backed with a book value in excess of £80m and requires, relative to fast-changing casual dining formats, relatively modest levels of ongoing maintenance capital spend.

We see opportunities to increase like-for-like sales through optimising our menu pricing architecture and developing better offerings for previously considered non-core occasions such as breakfast and afternoon tea. We will continue to look for ways we can maximise the use of technology, building on the success we've had in driving bookings. We are finding new ways to maximise available space in our sites by creating private dining areas and will, later this year, make our first foray into accommodation.

Our pipeline of new pub opportunities has strengthened over the past year as we have dedicated more resources to site finding, widened our geographic reach, and embraced new formats such as town pubs. We expect to open between five and 10 new pubs in 2018 and more again in 2019.

Our Concessions business operates in an attractive market segment supported by historically strong levels of passenger growth and with airport operators who are increasingly willing to invest in terminal capacity and breadth of food and beverage offer.

Our trading continues to be strong and we seek further ways of increasing returns from our existing estate through greater use of technology to increase through-put of passengers and menu optimisation to align with customer trends towards quality branded experiences.

Our unique and market leading capabilities of consistently delivering high operational standards at high volume and peak-load intensity, along with our format development and partnering skills, have enabled us to successfully retain and win new sites. We expect to open around 10 units this year, including our first unit in Edinburgh airport, and including sites with new franchise partners we have recently signed up, such as Brewdog and Spuntino.

4. Build a leaner, faster, more focused organisation

We have delivered ahead of our original timescale and reduced the cost base of the business by £10m in 2017, all of which has supported our reinvestment in price, product and marketing. We've achieved this through restructuring both our head office and field operations teams, centralising our purchasing and consolidating our supply base to leverage the Group's scale and by closer management of overheads.

We have enhanced our leadership team, which now reflects a balance of hospitality and other consumer sector experience, and brings significantly improved analytical and customer insight capabilities, enabling us to react more swiftly in a fast changing market.

We remain focused on cost efficiencies and see further opportunities to leverage scale economies and consolidate suppliers. Our planned transition to a new logistics provider in 2019 will allow us to unlock further supply chain opportunities, such as cost savings via collection of restaurant waste and recycling.

Current trading and outlook

Current trading is broadly in line with our expectations. The trading performance of the business in the first half of 2018 will reflect the significant price investments made in the middle of last year. We expect to benefit from our strategic initiatives gaining further traction as the year progresses.

Andy McCue
Chief Executive Officer

7 March 2018

Financial review

Kirk Davis
Chief Financial Officer

"Operating cash flows remained very strong with free cash flow of £84.9m in the year (2016: £78.9m)."

Results

2017 financial year is a 52 week year compared to a 53 week year in 2016 financial year. The comparatives set out in this section reflect the business's performance versus the statutory 53 week period in 2016 unless otherwise stated.

Like-for-like sales declined by 3.0% for the year, with total revenue down 1.8% on a comparable 52 versus 52 week basis. On a statutory basis, revenue decreased by 4.4% to £679.3m (2016: £710.7m). The like-for-like sales decline reflects the investments we made in price and proposition across our Leisure brands, particularly in the second half of the year, which were partially offset by a strong like-for-like sales performance from our Pubs and Concessions businesses.

With declining like-for-like sales, investments made in more competitive pricing, marketing and product quality and significant inflationary cost pressures that were only partially offset by the cost saving initiatives, the Group's Adjusted[1] operating profit (EBIT) fell by 26.0% to £58.6m (2016: £79.2m) with the Adjusted[1] operating margin falling from 11.1% to 8.6%. On a statutory basis, the Group's operating profit (EBIT) was £45.4m (2016[2]: loss of £47.3m).

Net interest costs remain broadly in line with 2016, reflecting the modest levels of net debt within the business. This resulted in adjusted[1] profit before tax for the year of £56.7m (2016: £77.1m), with Adjusted[1] profit after tax of £44.7m (2016: £60.1m). The Adjusted[1] effective tax rate for the Group reduced to 21.3% (2016: 22.1%), in line with the reduction to the main rate of corporation tax. On a statutory basis, the effective tax rate of 24.4% (2016[2]: tax credit 2.7%) reflects the lower exceptional charges in the year. Adjusted[1] earnings per share were 22.3p (2016: 30.0p). On a statutory basis, profit before tax was £43.6m (2016[2]: loss before tax of £49.3m) and EPS was 16.4p (2016[2]: loss per share 24.0p).

The adjusted measures are summarised below:

	52 weeks ended 31 December 2017 £m	53 weeks ended 1 January 2017 £m	% change
Revenue	679.3	710.7	(4.4%)
Adjusted[1] EBITDA	95.1	121.0	(21.4%)
Adjusted[1] operating profit	58.6	79.2	(26.0%)
Adjusted[1] operating margin	8.6%	11.1%	
Adjusted[1] profit before tax	56.7	77.1	(26.4%)
Tax	(12.1)	(17.0)	
Adjusted[1] profit after tax	44.7	60.1	(25.7%)
Adjusted[1] EPS (pence)	22.3	30.0	(25.7%)

1 Adjusted measures are stated before exceptional items and are as defined within the glossary.
2 As restated, refer to Note 1 for details.

Cash flow and net debt

Operating cash flows remained very strong with free cash flow of £84.9m in the year (2016: £78.9m). This improvement in free cash flow reflects the lower operating profit offset by a reduction in maintenance capital expenditure, an improvement in working capital and lower tax payments in the year, the latter as a result of the statutory loss for the year ended 2016. The Group's net debt at the year-end was £21.6m, a decrease of £6.7m on the prior year net debt of £28.3m.

Summary cash flow for the year is set out below:

	2017 £m	2016 £m
Adjusted[1] operating profit	58.6	79.2
Working capital and non-cash adjustments	12.5	1.1
Depreciation	36.5	41.8
Operating cash flow	107.6	122.1
Net interest paid	(0.7)	(0.8)
Tax paid	(7.1)	(16.2)
Maintenance capital expenditure	(14.9)	(26.2)
Free cash flow	84.9	78.9
Development capital expenditure	(18.4)	(28.8)
Movement in capital creditors	(5.9)	(10.3)
Dividends	(34.9)	(34.9)
Utilisation of onerous lease provisions	(12.7)	(3.3)
Exceptional restructuring costs	(6.8)	(3.8)
Other items	0.5	2.3
Net cash flow	6.7	0.1
Net bank debt brought forward	(28.3)	(28.4)
Net bank debt carried forward	(21.6)	(28.3)

The Group continues to maintain considerable headroom on the covenants relating to our £140m revolving credit facility, which is in place until June 2020.

	Banking covenant	2017	2016
Banking covenant ratios:			
EBITDA / Interest cover	>4x	66x	60x
Net debt / EBITDA	<3x	0.2x	0.2x
Other ratios:			
Fixed charge cover	n/a	2.1x	2.4x
Balance sheet gearing	n/a	11%	14%

Financial review continued

Capital expenditure

During the year the Group invested £33.3m (2016: £55.0m) in capital expenditure. Our investment in maintenance capital expenditure reduced to £14.9m (2016: £26.2m) given the one-off spend in 2016 of £7.0m relating to the Frankie & Benny's bar reduction programme and the rephasing of major refurbishment projects into 2018. Our investment in new site expenditure reduced to £18.4m (2016: £28.8m) reflecting the lower number of new site openings in 2017 versus 2016.

During the year we closed 13 sites, including five concessions which had reached the end of their contractual life and eight leisure sites which no longer generated acceptable cash returns. The table below summarises openings and closures during the year.

	Year-end 2016	Opened	Closed	Transfers	**Year-end 2017**
Frankie & Benny's	258	7	(6)	–	**259**
Chiquito	79	6	–	–	**85**
Coast to Coast/ Filling Station	28	–	(2)	–	**26**
Garfunkel's	8	–	–	–	**8**
Joe's Kitchen	4	–	–	–	**4**
Pub restaurants	57	3	–	–	**60**
Concessions	59	1	(5)	–	**55**
Total	493	17	(13)	–	**497**

The Group benefits from a strong freehold and long leasehold property asset base which has been externally valued by Savills at the year-end at £148.2m compared to the carrying value of £110.9m.

We expect to open between 16 to 20 units in 2018 which will be weighted towards Pubs and Concessions with associated capital expenditure of between £24m-£30m. Refurbishment and maintenance capital expenditure will range from £20m-£25m.

Restructuring and exceptional charge

An exceptional pre-tax charge of £13.2m has been recorded in the year (2016[2]: £126.5m), which includes the following:

- Onerous lease provisions resulted in a charge of £4.2m in the year (2016[2]: £51.5m, including the prior year restatement of £9.8m). This comprises:
  - a £7.3m credit in respect of unutilised provisions following the successful exit of 21 sites ahead of expectations; and
  - a further charge totalling £11.5m was provided for in the year. This comprised a release of £4.5m in respect of certain sites where performance was better than expected, £5.7m in respect of newly identified onerous leases and a charge of £10.3m in respect of sites previously provided for.
- A net impairment charge of £4.2m (2016: £68.1m) was made against the carrying value of specific restaurant assets due to recent changes in certain markets. This comprises an impairment charge of £5.3m partially offset by reversals of previously recognised impairment losses of £1.1m; and
- A £4.8m charge (2016: £6.9m) relating to costs incurred in the restructuring projects that were initiated in 2017 to implement the new business strategy and cost saving initiatives.

Cash expenditure associated with the above exceptional charges was £19.5m in the year (2016: £7.1m) relating to the costs associated with the implementation of the new business strategy £6.8m and the cash cost of the onerous leases of £12.7m. The tax credit relating to these exceptional charges was £1.4m (2016: £18.4m).

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Prior year restatement

During the year, we identified two historical elements of the mechanical calculations of the onerous lease provisions that were either not in line with recent industry practice or using incorrect data. This resulted in a net movement in the provision of £9.8m and there was no cash impact (refer to Note 1 for more details).

These were initially accounted for as exceptional items within the 2017 half year results. Following the publication of the Group's Interim Report the Financial Reporting Council (FRC) wrote to the Company to determine whether the amendment should be accounted for within the prior year as the correction of a prior year error. As a result of this request, the Company has reviewed the accounting treatment again and taken the decision to restate the 2016 year-end financial statements and record these two amendments as corrections of prior year errors.

This has increased the prior year exceptional onerous lease charge within the income statement and the provision for onerous leases by £9.8m. This has also increased the tax credit on exceptional costs from £16.4m to £18.4m, resulting in a net impact on statutory profit after tax of £7.8m.

Review of distributable reserves and rectification of prior dividends

In December 2017, we became aware of a technical matter relating to the levels of distributable reserves and the payment of interim and final dividends to our shareholders during the period from 2006 to 2017 ('the Relevant Dividends'). Throughout this period, the Group had adequate reserves in subsidiary companies to enable payment of the Relevant Dividends, and each year payment of the final dividends was approved by the Company's shareholders at its annual general meeting. However, a review of historical intra-group transactions revealed that internal dividends paid up through the Group structure in the period from 2006 to 2017 did not, due to a technicality, create distributable reserves in the manner that had been intended. As a consequence, the Relevant Dividends were not paid out of distributable reserves and were therefore not paid in accordance with the Companies Act 2006.

We are undertaking a series of administrative steps in order to rectify this issue and put the Company and its subsidiaries, insofar as possible, in the position that was originally intended with respect to the creation of distributable reserves. The majority of these steps were implemented prior to 31 December 2017. In addition, we will in due course put a resolution to shareholders which, if passed, would put all potentially affected parties, insofar as possible, in the position they would be had the Relevant Dividends been paid in accordance with the requirements of the Companies Act 2006. Full details will be included in the circular and notice of general meeting to be sent to shareholders. It is anticipated that the general meeting to consider the resolution will be held on the same day as the 2018 AGM.

Tax

The Adjusted[1] tax charge for the year was £12.1m (2016: £17.0m), summarised as follows:

	2017 £m	2016 £m
Corporation tax	**10.8**	16.9
Deferred tax	**1.3**	0.1
Total	**12.1**	17.0
Effective adjusted tax rate	**21.3%**	22.1%

The effective Adjusted[1] tax rate for the year was 21.3% compared to 22.1% in the prior year. This decrease in rate reflects the ongoing reduction in the main rate of corporation tax. The Group's effective tax rate will continue to track above the headline UK tax rate primarily due to our capital expenditure programme and the significant levels of disallowable capital expenditure therein. The statutory effective tax rate for the year was 24.4%, which increased from the 2016[2] rate of 2.7% credit due to the reduction in exceptional charges in the year.

Financial review continued

Long term viability statement
In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code (the 'Code'), the Directors have assessed the viability of the Group over a three-year period to December 2020.

The Directors believe that three years is the appropriate time-period over which to evaluate long term viability as this is consistent with the Group's strategic planning process. The latest three-year plan was approved by the board in July 2017 (updated to reflect the approved 2018 budget) and covers the three-year period to the end of the 2020 financial year. Key assumptions underpinning the three-year plan and the associated cash flow forecasts are the economic outlook, revenue growth expectations, impact of expected inflationary cost pressures and new site development opportunities. The three-year plan considers cash flows, headroom on and compliance with the financial covenants contained within the Group's revolving credit facility.

The Group's long term financing is provided by its £140m revolving credit facility which is in place until June 2020. The Group also utilises a repayable on demand overdraft facility which it uses to manage its day-to-day working capital requirements.

As detailed on page 60 the Board has conducted a robust assessment of the principal risks facing the business. The resilience of the Group to the impact of these risks has been assessed by applying a significant but plausible sensitivity to the cash flow projections based on past experience. This includes modelling the effect of reduced consumer confidence and therefore spending, and the failure of our business to maintain and develop compelling customer offers.

Taking account of the company's current position, principal risks and the sensitivity analysis discussed above, as well as the potential mitigating actions that the company can take, and the experience that the company has in adapting the business to change, the Board has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of assessment.

Principal risks and uncertainties
Principal risks and uncertainties faced by the group are discussed in the senior risk committee report on page 60 and incorporated by reference.

Adjusted Performance Metrics
Throughout the strategic report we use a range of financial and non-financial metrics to assess our performance. A number of the financial metrics, adjusted EBITDA, adjusted operating profit, net debt, free cash flow, adjusted EPS, adjusted diluted EPS and adjusted profit before tax are not defined under IFRS, so they are termed Adjusted Performance Metrics (APMs).

Management uses these metrics to monitor the Group's financial performance alongside IFRS metrics because they help illustrate the underlying financial performance and position of the Group. We have defined and explained the purpose of each of these metrics on page 115, where we provide more detail.

These APMs should be considered in addition to the IFRS disclosures. APMs are not uniformly defined by all companies, including those in the Group's industry. Accordingly, APMs may not be comparable with similarly titled metrics and disclosures by other companies.

Kirk Davis
Chief Financial Officer

7 March 2018

Corporate social responsibility

We are committed to doing business responsibly and acknowledge that The Restaurant Group has a significant role to play in the communities and the wider environment in which we operate. This report sets out the principal areas of focus and activity for 2017 in the areas of nutrition, sustainable and ethical sourcing, nurturing and developing our employees, engaging with our communities and reducing the environmental impact of the Group on the wider environment.

Sustainable and ethical sourcing

We practice responsible sourcing throughout our supply chain ensuring our customers get great quality, high welfare and sustainable food on their plates.

All of our suppliers must be certified to the British Retail Consortium Food standard or equivalent as a minimum and we conduct routine supplier audits ourselves to ensure our suppliers are operating to our high standards.

We are committed to sourcing sustainable fish and as such introduced a detailed policy in 2016, within which we commit to source Marine Stewardship Council (MSC) certified fish where available. We also work with our suppliers and farmers (both UK and non-UK) to provide further emphasis and guidance on farm-antibiotic use.

We committed to sourcing all our shell eggs and mayonnaise from cage-free and/or free-range sources by the end of 2017, and this was achieved in November 2017 when all shell eggs used in our restaurants converted to RSPCA Assured™ Free Range. Furthermore, we are committed to ensuring that eggs used as an ingredient in our supply chain will be cage-free and/or free-range by the end of 2023 at the latest. Work is already underway to achieve this goal.

We are a member of the Supplier Ethical Data Exchange (Sedex), which facilitates measurement and improvement in ethical business practices across the supply chain. We require all of our suppliers to be registered and risk assessed with Sedex. All suppliers must also meet the requirements of our Responsible Sourcing Policy which has been introduced to our direct suppliers and disseminated throughout each supply chain.

In order to benchmark our sustainability performance in our sector we are members of The Sustainable Restaurant Association. In 2017 we obtained a 2 Star rating, an increase from 1 Star in 2016.

As in previous years, there continues to be no genetically modified foods or artificial trans fats in any of our products, and we have banned colours that cause hyperactivity in children from any of our products served to children.

Nutrition and Health

We are committed to offering a healthy choice for our customers. We offer a free side of vegetables with all kid's meals and use fresh fruit and vegetables in many of our dishes. The nutritional balance of menus is incorporated into the design process and we are committed to increasing the number of lower calorie, salt and sugar options available on all future menus. Our nutrition policy challenges us always to have a number of healthy choices on our menus.

In 2017, we implemented initiatives to reduce sugar in our dishes in line with the UK Government's Childhood Obesity Plan. Our Frankie & Benny's Kid's menu was relaunched in the summer, within which the range of fruit and vegetables on offer was increased, and further fruit based desserts and drinks were added. In addition, portion sizes were adjusted, and the promotion of sugar-containing carbonated soft drinks was removed.

We've reduced the amount of salt in our bespoke products purchased directly from suppliers, in line with the Department of Health Responsibility Deal for 2017. 95.3% of all products purchased adhere to 2017 Salt targets.

Allergens

Frankie & Benny's and Chiquito offer a Coeliac UK accredited Gluten Free menu to cater for those with Coeliac Disease. This menu offers a wide range of dishes, and in 2017 we introduced gluten free burgers, pastas and pizzas in Frankie & Benny's to add further choice to our guests.

Our allergen information is available online on our brand websites which allows us to provide accurate information to our guests and can be updated daily. It allows guests to create their own bespoke menu based on their particular allergies, intolerances, or vegetarian and vegan preferences.

Corporate social responsibility continued

Serving alcohol responsibly

We operate Challenge 25 in Scotland and Challenge 21 in England, Wales and Northern Ireland.

We continue to support Drinkaware and all menus now display the Drinkaware logo to promote responsible drinking.

We offer very low alcohol beer and a wide range of alcohol free mocktails, soft drinks and milkshakes. Many of our Concessions restaurants also offer a low alcohol wine option.

Food safety

The health and safety of our customers and employees is of paramount importance to us. The Group has extensive procedures to ensure we mitigate risks to our guests and teams as far as possible. We have very clear procedures and standards in place, and to enforce these we employ external auditors to perform a rolling programme of independent safety audits and carry out benchmarking of our restaurants.

As at 31 December 2017, over 98% of our restaurants scored 4 stars or above (including pass in Scotland) under the Food Hygiene Rating Scheme, a sign of excellence in both food safety and hygiene, with 90% at 5 stars or a pass in Scotland. We have invested significant time and resources in health and safety matters across the Group to further enhance the clean, safe environment for our customers and staff.

Our people

As a hospitality Group where a great customer experience is key to business success, we have always believed that our most important assets are our people. With over 15,200 employees (at the end of December 2017) our focus during 2017 has been on robust performance management and objective setting, allowing us to identify and grow our internal talent, and support our managers to develop their own careers within the Group whilst building great teams.

At the beginning of 2017 we conducted a review of the structure and processes across our central support office and field teams. Through process improvements, removing organisational layers and increasing spans of control, we were able to remove 53 roles. We have reinvested some of these savings into growing areas that will improve revenue and the guest experience, such as Food Innovation, Operational Excellence and Marketing.

During 2017 the Group successfully opened a further 17 restaurants and pubs creating new jobs within local communities. As part of the ongoing commercial review of our estate we also took the difficult decision to close 13 sites. We were however able to redeploy and retain many of the employees from these sites.

The Restaurant Group is committed to a policy of being a fair and inclusive employer. Employment with the Group offers everyone equal rights, and career development and promotion prospects, regardless of age, race, gender, sexual orientation, disability or religion. We ensure as far as possible that the diversity of our teams reflects the diversity of the customers we serve. Details relating to the gender diversity of our employees are contained in the corporate governance report on page 24.

If an employee is disabled in any way, or becomes disabled during their employment with us, then our policy is to offer assistance and explore ways of overcoming any difficulties they may have at work, and make adjustments to help them wherever possible.

Our commitment to equality and human rights is discussed in the induction for all employees and covered in the on line policies and employee handbook which are accessible to all. The policies include an Equality and Diversity Policy, a Family Friendly Policy, and a Harassment and Bullying Policy. The various management skills courses offered cover the responsibilities of the management team in upholding these policies to ensure a safe and respectful working environment.

Regarding anti-corruption and bribery, it is our policy to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships. All employees must declare and keep a record of all hospitality or gifts given or received, and all expenses claims relating to hospitality, gifts, or payments to third parties must be submitted in accordance with our expenses policy and record the reason for expenditure. Anyone offered, or asked to make, a bribe, or who suspects any bribery or corruption has occurred, is obliged to notify the Company Secretary without delay. So far as we are aware, there were no incidences of bribery or corruption during 2017.

The Group pays all of its employees at least the National Minimum Wage (or for over 25's the National Living Wage) appropriate to their age. Tips are not included in this rate, and all gratuities are additional to their hourly rate and are paid directly to the employees. Cash tips are self-declared, and only the tips paid by credit card have tax deducted by the Company. Also, unlike some of our competitors, no card processing administration fee is taken by the Company.

We conducted an all employee engagement survey in 2017 and were pleased that engagement levels were high with 85% of employees 'Proud to work for TRG' and over 90% of respondents saying that they respect their manager and feel they can make a contribution to TRG. We followed up the survey with focus groups to gain more understanding of how our teams feel and have already taken action to address some of the lower scoring areas such as work life balance, staff uniforms and performance management.

In 2017 all employees from the Leisure brands were given the opportunity to vote for their choice of Charity Partner, and Cancer Research UK was a clear winner from a shortlist of four charities. We will be encouraging employees to undertake volunteering activity as well as fundraising at a local and national level.

We need to ensure that communications remain accessible, relevant and interesting to all of our employee population, for a significant proportion of whom English is not their first language. There will be further development of our communication channels and messaging this year, and as well as regular business updates there will be more focus on 'softer' areas such as charity fund raising, health and wellness. During 2017 we introduced a number of performance related employee incentive schemes and launched a Suggestion Scheme. We also launched another Save As You Earn share option scheme in 2017, which all employees with more than three months' employment were invited to join.

In 2017, we reported 58 accidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013, with no deaths or dangerous occurrences. This was a significant reduction on both our 2016 and 2015 figures.

Nurturing and developing our people

We have a dedicated learning and development team whose aim is to ensure all our employees are the best they can be. We have simplified and digitalized many of the development tools and activities and they are linked to a 'Leisure Career Path' for each role, thus encouraging cross brand movement and providing more opportunities for everyone to progress their hospitality career with The Restaurant Group.

In 2017, to coincide with the launch of the apprentice levy and the new learning frameworks, we launched five new apprenticeship schemes across the Group. In Leisure brands and Concessions, we launched Level 2 TRG chef apprenticeship and Level 3 TRG Hospitality Management, and in the Pubs, we launched L2 and L3 Professional Cookery and Level 3 Hospitality Supervisor. Over 100 learners are already live and there is a lot of interest in the Level 4 Senior Hospitality Management Apprenticeship due to be launched in 2018.

We continue to focus on identifying talent and using these identified 'talent pools' for succession planning and internal promotion. During 2017, 624 of our employees were promoted internally into management roles or promoted into higher management, including 140 General Manager appointments. 303 members of management were recruited externally. We hope that with our new career pathways and the pipeline of management apprentices, we can maintain, or even further increase, internal promotions across the Group.

Online learning and workshops

Everyone in the Group now has access to our FLOW eLearning centre, which holds a host of TRG specific learning materials that support employees from their first day with the Group and ensures they are able to perform their role safely and effectively. FLOW also holds more generic learning materials for our managers on key topics such as leadership, coaching and performance management. 74,000 eLearning modules were completed on the FLOW system in 2017, which was nearly double the number from the previous year.

As well as online learning and tests we also recognise the importance of face-to-face learning, and in 2017 there were 225 workshops run by our in-house teams and, for more senior managers, our external training partners. The new management induction programme and all the workshops are now run cross brands and give our management teams the chance to learn from each other, share best practice, and build on their development plans.

For our senior leaders, we retained membership of the Henley Business School Partnership which provides access to the latest thinking on a wide range of leadership topics. We filled 50 workshop places in 2017, which was double the number of the previous year, and used these events to supplement the development of our up-and-coming talent.

Corporate social responsibility continued

Managers in Training
All new managers into our restaurants are enrolled on the Manager in Training (MIT) programme. This gives managers a structured pathway to be a successful manager with us. The programme covers all aspects of operational management and hospitality, as well as leadership skills, and is designed to reflect the culture, behaviours and values of the Group.

External hires and internally promoted management work with experienced managers in restaurants designated as 'Centres of Excellence' for up to six weeks. During their training they experience a variety of learning events and are supported by their line manager and the learning and development team.

Team member training and development
On the job learning is critical for the development of our people and forms the majority of their training with TRG. However, to give them the technical knowledge required in areas such as Allergens and Food Safety, and to check their understanding, there are also eLearning modules and tests that must be completed. Management across the business, as well as the learning and development team, are always on hand to guide and support people throughout their career with The Restaurant Group.

Recruitment
We have been working on building the TRG external recruitment brand to enable us to attract the best of the available external talent through low cost methods. We have increased our presence on LinkedIn and other key recruitment sites and relaunched the employee referral scheme across the Leisure business. We now have nearly 10,000 followers on LinkedIn, and we recruited 10 roles through LinkedIn in 2017.

Our internal recruitment team recruited over 300 managers into our restaurants and pubs for Assistant, Deputy and General Management roles, and as a result of the brand and awareness building activity we reduced the cost of each hire by 67% in 2017.

The new Applicant Tracking System 'Harri' went live in 2017 and provides a seamless recruitment and on boarding process. It is more engaging for the candidate and more efficient for us as a business to recruit our future talent.

Our communities
We are passionate about engaging with our communities and actively support our teams in their fundraising efforts and community engagements. Over many years we have supported a number of local and national charities.

The brands that make up our **Leisure Division** include Frankie & Benny's, which had a long standing partnership with Children in Need, raising large amounts for a charity close to our hearts as a family brand. In more recent years Frankie & Benny's has assisted children's charities such as ***Rays of Sunshine***, and ***Together for Short Lives***.

Also in the Leisure Division, Chiquito has raised money for ***Children with Cancer UK*** with the funds going towards supporting families during extremely difficult times. Other Leisure brands have linked with ***Global's Make Some Noise***, and the ***Children's Hospice Association Scotland (CHAS)***.

In 2018 we are proud to announce that we have joined together for the very first time to form a different kind of partnership with a national charity. Each employee was given the opportunity to vote for our charity partner and they chose ***Cancer Research UK***. The team of over 12,000 colleagues will concentrate their efforts on making a difference physically by giving up their precious spare time volunteering, and financially by raising money through special events throughout the year. We are very excited about the new style partnership and look forward to a successful 2018.

Our **Concessions Division**, mainly based in airport locations around the country, work extremely hard for a range of charities.

The School Club Zambia charity was founded in 2011 to work in partnership with community schools in Zambia to ensure children have access to a relevant and sustainable education, helping them become financially self-sufficient, up-scale their vocational education, and improve their employment potential in the community. Since our partnership began in December 2013, we have raised nearly £40,000 with donations largely coming from a proportion of the sale of selected dishes sold at some of our Concessions pub brands.

Our team at Joe's Kitchen, Manchester Airport, has been working with ***Manchester Enterprise Academy*** since 2013 to create curriculum visits, which amongst other things gives students the opportunity to visit our restaurants to practice life skills and broaden their appreciation of food and eating out through fun activities including designing their own smoothies and pizzas.

The Prince's Trust is a youth charity that supports 13 to 30 year olds who are unemployed or struggling at school and at risk of exclusion. Our Concessions team support The Prince's Trust programme by enabling 18 to 30 year olds to work in our units at London Luton Airport. We give them an insight into working life for two weeks, which in some cases has led to participants being employed as permanent team members.

Since 2009, the Concessions team have also fundraised for ***The Guide Dogs for the Blind Association*** and sponsored 17 Guide Dogs through various fundraising activities and sponsored events. In 2016, they raised £5,000 for the Name a Puppy scheme, naming their first puppy 'Simba'. During 2017 they have raised enough to name another Puppy and are awaiting further details.

Our **Pubs Division** is situated in locations that are in the very heart of their local communities.

Each individual pub works hard to engage with and support many individual groups and events directly within their local area.

Additionally, multiple pubs often get together to support national charities, including throwing themselves into 'National Jumper Day' raising money for ***Save the Children***, and participating in 'National coffee morning week' for ***Macmillan nurses***.

Two employees from the Hayhurst Arms recently completed a huge canoe challenge where they canoed 266 miles for the ***Joshua Tree*** charity, which supports families affected by childhood cancer. Also, a team member from the Armoury walked the Cornish coastline for ***Shrewsbury Ark***, a local homeless charity, and the ***Brain Tumour Society***.

As our pubs are very dog friendly, they encourage widespread backing for dogs charities, joining in local dog walks and supporting ***The Guide Dogs for the Blind Association*** and ***Dog's Trust***.

Educational Support

We also engage with local schools, hosting educational workshops in our restaurants where pupils learn about Frankie & Benny's and see the work we do first hand.

Charities Aid Foundation Give As You Earn

In early 2014, the Group teamed up with the Charities Aid Foundation to allow our team members the facility to donate to their favourite charities directly from their salary. This enables employees to make a regular donation in a tax efficient way to registered charities and also local clubs, parent teacher associations and even Scout or Brownie groups.

We will continue to work hard to ensure we make a difference both to our local community and the wider world around us.

Corporate social responsibility continued

Our environment

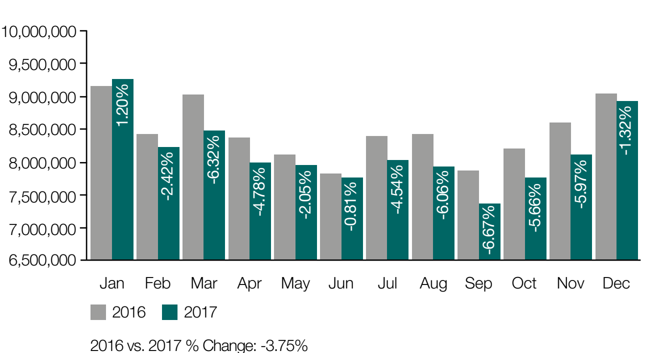
The Group recognises its responsibility to minimise its impact on the natural environment and continues in its commitment to reduce its energy consumption and carbon emissions, water usage and waste.

Energy Consumption and Carbon Emissions

We continue to promote our energy saving campaign to all restaurants through the timely supply of accurate reporting. Operational managers have the information they need to allow them to monitor and reduce energy consumption levels through an online portal and centralised data resource. During 2017 the group trialed several energy control systems which passed proof of concept, but we found better value to be had by improving and increasing our behavioral change as detailed below.

The Group still maintains Carbon Saver Gold Standard accreditation, showing seven years commitment to reducing carbon emissions. The Group also continued to be accredited by the Sustainable Restaurant Association, scoring highly in the Environment section. 2017 showed an 8th consecutive year of LFL energy consumption reduction as illustrated below. The reduction of over 3,800,000 kWh is equivalent to nearly 1,500 tonnes of carbon. This equates to a saving of 3.8% on LFL measurable sites and is a significant improvement on the 2016 reduction. This was achieved by continuing to use low energy lighting, including an install at our head office with sensors and timers; but mostly it was due to the increased use of data to target and control exceptional usage. Reporting to site, area and regional points have all been improved as has support to sites, all of which contribute to increased operational understanding and engagement.

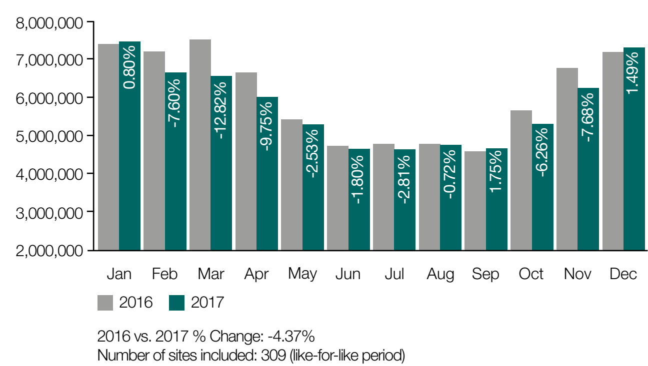
Monthly electricity consumption 2016 v 2017 (KWh)



2016 vs. 2017 % Change: -3.75%
Number of sites included: 377 (like-for-like period)

In 2016 we significantly improved our data coverage and accuracy for gas, which meant that in 2017 we were for the first time able to track and impact our gas volumes using the same operational engagement strategy as electricity. As shown below, the result was a reduction of over 3,100,000 kWh, which is equivalent to nearly 600 further tonnes of carbon. This equates to a saving of 4.4% on LFL measurable sites.

Monthly gas consumption 2016 v 2017 (KWh)



2016 vs. 2017 % Change: -4.37%
Number of sites included: 309 (like-for-like period)

Greenhouse gas emissions

We report Scope 1 and 2 emissions defined by the Greenhouse Gas protocol as follows:

- Scope 1 (Direct emissions): combustion of fuel and operation of facilities; and
- Scope 2 (Indirect emissions): consumption of purchased electricity, heat or steam.

Greenhouse gas emissions data

Emissions data in respect of the 2016 reporting period, on the financial control reporting basis, is as follows:

	CO_2e tonnes (location-based method)	
Emission Type	**2017**	2016
Scope 1:		
Operation of Facilities	**734**	930
Combustion	**18,237**	19,667
Total Scope 1 Emissions	**18,971**	20,597
Scope 2:		
Purchased Energy (UK)	**45,865**	55,349
Total Scope 2 Emissions	**45,865**	55,349
Total Emissions	**64,836**	75,946

Greenhouse gas emissions intensity ratio

	2017	2016	Year-on-Year Variance
Total Footprint (Scope 1 and Scope 2) – CO_2e	**64,836**	75,946	-11,110
Turnover (£)	**679.2m**	710.7m	-4.43%
Intensity Ratio – Scope 2 location based method (tCO_2e/£100,000)	**0.095**	0.107	-11.21%

Scope and methodology:

- Our methodology has been based on the principles of the Greenhouse Gas Protocol, taking account of the 2015 amendment which sets out a 'dual reporting' methodology for the reporting of Scope 2 emissions. TRG only report the Location based method.
- We have reported on all the measured emissions sources required under The Companies Act 2006 (strategic report and Directors' report) Regulations 2013, except where stated.
- The period of our report is the calendar year 2017.
- This includes emissions under Scope 1 and 2, except where stated, but excludes any emissions from Scope 3.
- Conversion factors for UK electricity (location-based methodology), gas and other emissions are those published by the Department for Environment, Food and Rural Affairs for 2016.
- Decrease in location-based methodology primarily due to reduced electricity consumption and lower carbon factor with an additional decrease in LPG usage.

Water

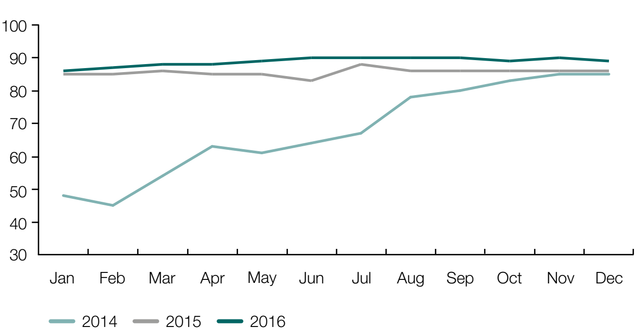
For water the Group benchmark restaurants and pubs by average daily usage and use data validation to highlight high or anomaly users. Where usage increases or is marked as high the restaurant or pub is surveyed for reduction initiatives and leak fixes, ensuring that we prevent water wastage and remain commercially controlled in this area. We now have ongoing savings of nearly £120,000.

The group also took advantage of the de-regulation of the water market. We conducted a full market tender exercise and were able to extend our Scottish deal for preferable terms. We were also able to consolidate purchasing of English sites for the first time, taking advantage of commercial benefits as well as added value benefits such as centralised billing, supplier contacts and Account Management.

Waste

The Group has further improved its diversion from landfill to 99%; up from 90% in 2016. A significant number of sites divert 100% of their waste from landfill. Year on year progress in this area is illustrated below:

Monthly waste diversion (%)



Pages 2 to 19 form the strategic report.

Approved by the Board of Directors and signed on its behalf by:

Kirk Davis
Chief Financial Officer

7 March 2018

Corporate governance report

Debbie Hewitt MBE

Chairman's introduction

The Board has a wide range of responsibilities and my overall objective is to ensure that we have the right mix of skills and experience to leverage the opportunities and overcome the challenges that the Company faces and that it works effectively as a team to identify, prioritise, communicate and review the delivery of our goals. With the appropriate skills and experience in place, my specific role is to ensure that there is the right mix of challenge and support to the executive Directors from the non-executives and that it is done in the context of a culture that reflects strong levels of corporate governance.

The non-executive Directors discuss and agree the strategy with the executive Directors and hold the executives accountable for its execution; we ensure that we have the most talented team to execute this strategy and we set the tone for governance.

The Board is committed to creating and maintaining a culture where these strong levels of governance thrive throughout the organisation, specifically ensuring that we send out consistent messages on the core values of the Company and acceptable behaviours from our people, our suppliers and our advisers. We have continued our progress in moving towards best practice and we will regularly review the context, progress and maintenance of these standards, for the benefit of all of our stakeholders.

Debbie Hewitt MBE
Chairman

In 2017, the Board was further strengthened by two new appointments. Paul May was appointed a non-executive director in July 2017, bringing substantial current experience of managing public and private companies in the retail and hospitality sectors. He is currently the Chief Executive of AIM listed Patisserie Valerie. In August 2017, we announced the decision to appoint Kirk Davis as Chief Financial Officer following the departure of Barry Nightingale earlier in the year. He brings extensive finance experience within listed leisure and retail businesses. After serving his notice with Greene King plc, Kirk joined our business in February 2018.

During the year, the business has made good progress on implementing our strategic priorities of re-establishing the competitiveness of our Leisure brands, serving our customers better and more efficiently, growing our Pubs and Concessions businesses and building a leaner, faster and more focused organisation. The Board continues to recognise and embrace its role in challenging and supporting senior management through this transitional phase.

Statement of compliance with the UK Corporate Governance Code

The Company is required to measure itself against the UK Corporate Governance Code 2016 (the 'Code') which is available on the Financial Reporting Council website (www.frc.org.uk).

Throughout 2017 the Company complied with the principles set out in the Code with the exception that, since the resignation of Sally Cowdry on 31 August 2017, the Remuneration Committee has comprised two independent non-executive directors (in addition to the Company Chairman) instead of three. It is intended that a third independent non-executive Director will be appointed to the Remuneration Committee during 2018. Further explanations of how the Main Principles of the Code have been applied are set out below and also in the Directors' remuneration report and the Audit Committee report.

Leadership

Role of the Board

The Board's role is to provide strong value-based leadership of the Company, within a framework of prudent and effective controls, which enable risk to be assessed and appropriately managed. The Board reviews the Group's business model and strategic objectives and looks to ensure that the necessary financial and human resources are in place to achieve these objectives, to sustain them over the long-term and to review management performance in their delivery.

The Board sets the tone of the Company's values and ethical standards and manages the business in a manner to meet its obligations to shareholders and other stakeholders. The Board is responsible for reviewing, challenging and approving the strategic direction of the Group.

Corporate governance report continued

The Directors who held office during 2017 were as follows:

Director	Role	Details
Debbie Hewitt	Chairman	Appointed Chairman May 2016, non-executive Director from May 2015
Andy McCue	Chief Executive Officer	Appointed September 2016
Simon Cloke	Non-executive Director and Senior independent Director	Appointed March 2010, previously Chairman of Audit Committee
Mike Tye	Non-executive Director and Chairman of Remuneration Committee	Appointed April 2016
Graham Clemett	Non-executive Director and Chairman of Audit Committee	Appointed June 2016
Paul May	Non-executive Director	Appointed July 2017
Barry Nightingale	Chief Financial Officer	Resigned April 2017
Sally Cowdry	Non-executive Director	Resigned August 2017

The Board considers each of the non-executive Directors to be independent, including the Chairman of the Board, as set out in the Code. Each Director demonstrates the skills and experience the Board requires for the success of the Group. Biographies of the current Directors are set out on pages 28 and 29.

Division of responsibilities

Andy McCue, Chief Executive Officer, together with the senior management team, is responsible for the day-to-day running of the Group and regularly provides reports on performance to the Board.

Non-executive Directors maintain an ongoing dialogue with the executive Directors, which includes constructive challenge of performance and the Group's strategy. The non-executive Directors are provided with insightful and appropriate information to allow them to monitor, assess and challenge the executive management of the Group.

The senior independent non-executive Director, Simon Cloke, is available to liaise with shareholders who have concerns that they feel have not been addressed through the normal channels of the Chairman, Chief Executive Officer and Chief Financial Officer.

The Board has a formal schedule of matters specifically reserved for its consideration which includes items such as: the approval of the annual budget and business plan; approval of the Group's interim and year-end reports; review and approval of significant capital expenditure; significant disposals of assets; and acquisitions or disposals of businesses. Any matter not formally reserved to the Board is generally delegated to management, unless it has some unusual or significant feature which makes it appropriate for it to be considered by the Board.

Overview

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Meetings and attendance

A summary of each Director's attendance at meetings that they were eligible to attend of the Board and its Committees during 2017 is shown below. Unless otherwise indicated, all Directors held office throughout the year:

	Committee appointments	Board	Audit Committee	Nomination Committee	Remuneration Committee
Debbie Hewitt	Nom/Rem	14/14	n/a	4/4	8/8
Andy McCue	n/a	14/14	n/a	n/a	n/a
Simon Cloke	Audit/Nom	14/14	3/3	4/4	n/a
Mike Tye[1]	Audit/Nom/Rem	12/14	3/3	4/4	8/8
Graham Clemett[2]	Audit/Nom/Rem	13/14	3/3	3/4	7/8
Paul May[3,4]	Audit/Nom	7/8	1/2	1/1	n/a

1 Mike Tye missed two Board meetings due to the short notice on which they were called. Both meetings were held by conference call and dealt with a single item of business. Mike Tye gave his input to these meetings ahead of the calls.
2 Graham Clemett missed one Board, one Remuneration Committee and one Nomination Committee meeting (which were held on the same day) due to the short notice on which they were called. All the meetings were held by conference call and dealt with a single item of business. Graham Clemett gave his input to these meetings ahead of the calls.
3 Paul May was appointed independent non-executive Director in July 2017.
4 Paul May missed one Board and one Audit Committee meeting (which were held on the same day) due to a previous commitment prior to joining the Board.

Comprehensive Board papers are provided to the Directors prior to Board meetings, and financial information packs are provided on a monthly basis. The non-executive Directors have the opportunity to meet without the executive Directors to examine, among other matters, targets set and performance achieved by management.

Independent advice

All Directors have access to the advice and services of the Company Secretary and it has been agreed that in the furtherance of their duties, Directors are entitled to take independent professional advice if necessary, at the expense of the Company.

Conflicts of interest and independence

The Board reviews potential conflicts of interest and independence where necessary at each meeting. Directors have continuing obligations to update the Board on any changes to these conflicts or matters which may impinge upon their independence.

In 2017, Paul May and Mike Tye were potentially conflicted in relation to a proposed new operation due to their involvement with other businesses which operated on the same site. Accordingly, both Paul May and Mike Tye left the relevant Board meeting at the appropriate time and did not participate in the Board's discussion and subsequent decision in relation to the matter.

Directors' and Officers' liability ('D&O') insurance

The Company maintains D&O insurance to cover the cost of defending civil and criminal proceedings brought against an individual acting in their capacity as a Director or Officer of the Company (including those who served as Directors or Officers during 2017).

Effectiveness

Board composition and diversity

As required by the Code, at least 50% of the Board, excluding the Chairman, are independent non-executive Directors. The Board currently comprises two executive Directors, four independent non-executive Directors and the non-executive Chairman, in compliance with the Code. The Board considers that all of the non-executive Directors, including the Chairman, are independent.

Corporate governance report continued

The principle of Board diversity is strongly supported by the Board. It is the Board's policy that appointments to the Board will always be based solely on merit without any discrimination relating to age, gender or any other matter that has no bearing on an individual's ability to fulfil the role of Director. This is so that the Board has the right individuals in place, recognising that diversity of thought, approach and experience is seen as an important consideration as part of the selective criteria used to assess candidates to achieve a balanced Board.

Further details on the Board's and the Group's policy on diversity are contained in the Nomination Committee report on page 36 and the corporate social responsibility report on page 14.

The table below sets out the position of the Group on a gender basis as at 31 December 2017:

	Female	Male
Main Board	1 (17%)	5 (83%)
Executive Committee[1]	3 (38%)	5 (62%)
Direct Reports to Executive Committee	12 (36%)	21 (64%)
TRG Employees at December 2017	7,535 (49.9%)	7,536 (50.1%)

1 Excluding the executive Directors.

Details of the Directors' respective experience are set out in their biographical profiles on pages 28 to 29. The Board considers that each Director is able to allocate sufficient time to the Company to discharge their responsibilities effectively.

Annual re-election

In accordance with the Code, Paul May and Kirk Davis are subject to election by shareholders at the Annual General Meeting (AGM) in May 2018. All other Directors are subject to re-election annually. Details setting out why each Director is deemed to be suitable for re-election will be included with the AGM papers circulated to shareholders.

Board committees

The Board is supported by three committees: Audit, Nomination and Remuneration. The terms of reference of these committees are available at http://www.trgplc.com/investors/corporate-governance. Full reports for each of the committees are set out on pages 30 to 56.

Director induction

Paul May joined the Board in July 2017 and Kirk Davis joined the Board in February 2018. Both were provided with an induction on appointment, which included visits to the Group's operations, meetings with operational and executive management, and where appropriate meetings with shareholders, suppliers and company advisers. Each Director's induction is tailored to their experience and background with the aim of enhancing their understanding of the Group's business, its brands, employees, shareholders, suppliers, advisers and processes, and the Board's role in setting the tone of the culture and governance standards.

Director training and development

The Company acknowledges the importance of developing the skills of the Directors to run an effective Board. To assist in this, Directors are given the opportunity to attend relevant courses and seminars to acquire additional skills and experience to enhance their contribution to the ongoing progress of the Group. Presentations by external advisers are also given at Board meetings on specific regulatory and governance topics, and in 2017 a presentation was given on the Market Abuse Regulation (MAR).

Board effectiveness review

Following the deferral in 2016, an externally facilitated Board and committee evaluation was conducted in December 2017. The external facilitator was Lintstock Limited, which has no other connection with the Company.

The evaluation process involved the completion of comprehensive, bespoke to The Restaurant Group, individual Director feedback questionnaires on all aspects of the Board, its committees and all individual Directors, including the Chairman (which was overseen by the Senior independent Director). The completed questionnaires were collated and analysed by Lintstock, who subsequently attended a Board meeting to discuss the findings, which were benchmarked to other high performing Boards.

Results

The evaluation identified changes which would improve the working of the Board, including:

- The recruitment of a non-executive Director with digital expertise.
- A review to understand the factors impacting employee engagement with the business.
- A review of advisers.
- Continued external input to the Board on topical issues such as cyber security, the General Data Protection Regulation (GDPR) and digital.

Individual Director appraisal process

Individual performance evaluations of all members of the Board are carried out by the following individuals:

Director being appraised	Appraiser
Chairman	Reviewed by the executive and non-executive Directors excluding the Chairman and feedback facilitated by the Senior independent non-executive Director.
Chief Executive Officer	Reviewed by all of the non-executive Directors and Chief Financial Officer and feedback facilitated by the Chairman.
Chief Financial Officer	Reviewed by the Chief Executive Officer and all of the non-executive Directors and feedback facilitated by the Chief Executive Officer and Chairman.
Non-executive Directors	Reviewed by the executive Directors and by their non-executive Director peers and feedback collated and given by the Chairman.

Accountability

Risk management

The Board has ultimate responsibility for ensuring the business risks are effectively managed. The Board has delegated regular review of the risk management procedures to the Audit Committee and collectively reviews the overall risk environment on an annual basis. The day-to-day management of business risks are the responsibility of the senior management team together with the senior management Risk Committee. For the report of the Risk Committee see pages 59 to 60.

Internal controls

The Group has a system of internal controls which aim to support the delivery of strategy by managing the risk of failing to achieve business objectives and the protection of assets. As such the Group can only provide reasonable and not absolute assurance.

The Group insures against risks, but certain risks remain difficult to insure, due to the breadth and cost of cover. In some cases, external insurance is not available at all, or not at an economical price. In such cases the Group identifies and agrees to accept such a risk. The Group regularly reviews both the type and amount of external insurance that it buys. There were no meaningful changes to the policy undertaken in 2017.

Risk map

The Board annually reviews the Group's risk map, which includes the principal risks and mitigation process as set out on page 60.

Remuneration

For information on remuneration see the Remuneration Committee report on pages 38 to 56.

Relations with shareholders

Share capital structure

The Company's issued share capital at 1 January 2018 consisted of 201,067,400 ordinary shares of 28 1⁄8 pence each. There are no special control rights, restrictions on share transfer or voting rights, or any other special rights pertaining to any of the shares in issue, and the Company does not have preference shares. During the year 4,355 new shares were issued under the Company's all employee Save As You Earn scheme.

As far as is reasonably known to management, the Company is not directly or indirectly owned or controlled by another Company or by any government.

As granted at the 2017 AGM, the Directors currently have authority to allot shares in the Company up to an aggregate nominal amount of £18,849,660. This authority will lapse at the 2018 AGM, where it is intended that a resolution granting a similar authority will be put to shareholders.

Corporate governance report continued

As granted at the 2017 AGM, the Company is currently authorised to purchase its own shares and to cancel or hold in treasury such shares provided that: (a) the maximum aggregate number of shares authorised to be purchased is 20,106,305 (representing 10% of the Company's then issued share capital); (b) the minimum price (exclusive of expenses) which may be paid for each share is 28.125p (being equal to the nominal value of each share); and (c) the maximum price (exclusive of expenses) which may be paid for each share is the higher of (i) an amount equal to 105% of the average of the middle market quotations for the shares as derived from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase, and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange Daily Official List at the time of the purchase. This authority will lapse at the 2018 AGM, where it is intended that a resolution granting a similar authority will be put to shareholders.

Board engagement with shareholders

Communications with shareholders are given high priority. There is a regular dialogue with institutional investors including presentations after the Company's year-end and interim results announcements. A programme of meetings takes place throughout the year with major institutional shareholders, with both executive and non-executive Directors attending, and private shareholders have the opportunity to meet the Board face-to-face and ask questions at the AGM.

In addition to the Board's regular engagement with shareholders in 2017, the Chairman consulted with major shareholders on the appointment of key executives, and the Chairman of the Remuneration Committee wrote to substantial shareholders in October 2017 to explain the proposed changes to the remuneration policy and to invite feedback on the proposals.

Board shareholder updates

Feedback from major institutional shareholders is provided to the Board on a regular basis and, where appropriate, the Board takes steps to address their suggestions, concerns and recommendations.

Re-engaging with 'gone away' shareholders

We have engaged ProSearch to locate shareholders with unclaimed dividends. The programme has been successful at reunifying both lost shares and unclaimed dividends.

Review of distributable reserves and rectification of prior dividends

In December 2017, the Company became aware of a technical matter relating to the levels of distributable reserves and the payment of interim and final dividends to its shareholders during the period from 2006 to 2017 ('the Relevant Dividends'). Throughout this period, the Group had adequate reserves in subsidiary companies to enable payment of the Relevant Dividends, and each year payment of the final dividends was approved by the Company's shareholders at its annual general meeting. However, a review of historical intra-group transactions revealed that internal dividends paid up through the Group structure in the period from 2006 to 2017 did not, due to a technicality, create distributable reserves in the manner that had been intended. As a consequence, the Relevant Dividends were not paid out of distributable reserves and were therefore not paid in accordance with the Companies Act 2006.

The Group is undertaking a series of administrative steps in order to rectify this issue and put the Company and its subsidiaries, insofar as possible, in the position that was originally intended with respect to the creation of distributable reserves. The majority of these steps were implemented prior to 31 December 2017. In addition, the Company will in due course put a resolution to shareholders which, if passed, would put all potentially affected parties, insofar as possible, in the position they would be had the Relevant Dividends been paid in accordance with the requirements of the Companies Act 2006. Full details will be included in the circular and notice of general meeting to be sent to shareholders. It is anticipated that the general meeting to consider the resolution will be held on the same day as the 2018 AGM.

Substantial shareholdings

As at 31 December 2017, the Company had been notified of the following interests of 3% or more in the issued share capital of the Company under the UK Disclosure and Transparency Rules:

	Number of shares	% of issue share capital
FMR LLC	19,341,883	9.62
Aberforth Partners LLP	16,273,984	8.09
Schroders Plc	15,403,828	7.66
Ameriprise Financial Inc	13,986,964	6.96
M&G Investment Management Ltd	11,514,782	5.73
J O Hambro Capital Management	8,908,078	4.43
Wellington Management Company	8,608,075	4.28
Rathbones	7,926,352	3.94
Artemis Fund Managers Ltd	7,913,803	3.94
Royal London Asset Management Ltd	7,311,495	3.64
BlackRock Inc	6,462,517	3.22

Since 31 December 2017 and up to the date of this report the Company has been notified of the following interests of 3% or more in the issued share capital of the Company:

	Number of shares	% of issue share capital
Norges Bank	6,197,609	3.08
J O Hambro Capital Management	10,081,492	5.01

Directors' shareholdings

For details of Directors' shareholdings, remuneration and interests in the Company's shares and options, together with information on service contracts, see pages 53 to 56 of the Directors' remuneration report.

Annual General Meeting

The AGM is an opportunity for shareholders to vote on certain aspects of Group business and provides a useful forum for communication with private shareholders. At the AGM shareholders receive presentations on the Company's performance and may ask questions of the Board. The Chairman seeks to ensure that all Directors attend and that the Chairmen of the Audit, Remuneration and Nomination Committees answer relevant questions at the meeting.

The 2018 AGM will be held at 10am on Wednesday 23 May 2018 at the offices of Instinctif Partners, 65 Gresham Street, London EC2V 7NQ. The notice convening this meeting has been sent to shareholders at the same time as publication of this Annual Report and Accounts and is available at www.trg.com/investors/reports-and-presentations.

By order of the Board

Debbie Hewitt MBE
Chairman

7 March 2018

Board of Directors as at 7 March 2018

Debbie Hewitt MBE
Non-executive Chairman

Debbie was appointed as a non-executive Director on 1 May 2015 and Chairman on 12 May 2016. She is currently non-executive Chair of Moss Bros Group plc, White Stuff Ltd, and senior non-executive Director of Redrow plc (which she steps down from in November 2018), NCC Group plc (which she steps down from in March 2018), BGL Ltd and non-executive Director of Visa Europe and Domestic and General Ltd.

Her executive career was spent at RAC plc where she was latterly Group Managing Director and prior to that she was in retail management with Marks and Spencer. She is a Fellow of the Chartered Institute of Personnel Development, and was awarded the MBE for services to Business and the Public Sector in 2011.

Andy McCue
Chief Executive Officer

Andy joined the Company as Chief Executive Officer on 19 September 2016. He was previously Chief Executive of Paddy Power plc, where he embedded a new growth strategy which delivered record revenues and profits, as well as playing a pivotal role in the merger with Betfair plc. Prior to that, he led the Paddy Power UK and Irish retail businesses, transforming profitability and overseeing its growth for eight years. Andy joined Paddy Power from OC&C Strategy Consultants where he was a Principal.

Andy is currently also a non-executive Director, senior independent Director, and Chairman of the remuneration committee of Hostelworld Group plc.

Kirk Davis
Chief Financial Officer

Kirk joined the Company as Chief Financial Officer on 5 February 2018. He has extensive finance experience within listed leisure and retail businesses, and was previously Chief Financial Officer at Greene King plc for three years. Prior to that he was Finance Director at JD Wetherspoon plc, and he has also held senior finance roles at Tesco plc and Marks & Spencer plc. He is a member of the Chartered Institute of Management Accountants.

A Member of the Audit Committee
N Member of the Nomination Committee
R Member of the Remuneration Committee
Committee Chairman

Simon Cloke
Senior independent non-executive Director
A N

Simon was appointed as a non-executive Director of the Company in March 2010. Formerly Global Head of Industrials at Dresdner Kleinwort Wasserstein, he was appointed Managing Director of HSBC's Diversified Industries Group in 2005 and is currently responsible for managing HSBC's business with some of its largest UK corporate clients.

Mike Tye
Independent non-executive Director

A N R

Mike was appointed as a non-executive Director on 4 April 2016. He has extensive experience of the retail, leisure and hospitality sectors and was, until 2015, Chief Executive of Spirit Pub Company plc, where he led its successful establishment as a public company following the demerger from Punch Taverns and the subsequent turnaround and sale of the business. Prior to that, he held a number of senior executive roles in Whitbread, including Managing Director of David Lloyd Leisure, Premier Inn and Costa Coffee. Mike is currently also Chairman of Moto Hospitality Ltd (the motorway services operator), non-executive Director and Trustee of Prostate Cancer UK, and non-executive Chairman Designate of Haulfryn Group Ltd.

Graham Clemett
Independent non-executive Director

A N R

Graham was appointed as a non-executive Director on 1 June 2016. Graham is currently Chief Financial Officer of Workspace Group PLC. He was previously Finance Director for UK Corporate Banking at RBS Group PLC where he worked for five years. Prior to RBS, Graham spent eight years at Reuters Group PLC, latterly as Group Financial Controller. He qualified as a chartered accountant with KPMG.

Paul May
Independent non-executive Director

A N

Paul was appointed as a non-executive Director of the Company on 3 July 2017. He has extensive current experience of managing public and private companies in the retail and hospitality sectors. He is currently the Chief Executive Officer of Patisserie Valerie Holdings plc, having been appointed in 2006. During his tenure, he has overseen the profitable expansion of the company and its successful IPO. Paul is also a non-executive Director at GRA Ltd, a privately owned sports facilities and hospitality group.

Audit Committee report

Graham Clemett

The Committee is appointed by the Board and comprises four independent non-executive Directors, and is chaired by Graham Clemett. It met three times during the year. Membership and attendance is set out below:

Membership

- Graham Clemett (Chairman)
- Simon Cloke
- Mike Tye
- Paul May (appointed July 2017)

Director	Attendance
Graham Clemett	3/3
Simon Cloke	3/3
Mike Tye	3/3
Paul May	1/2[1]

1 Paul May missed one meeting due to a previous commitment prior to joining the Board.

In accordance with the UK Corporate Governance Code (Code) the Board considers that Graham Clemett has significant, recent and relevant financial experience. Biographies of all Committee members, including a summary of their experience, appear on pages 28 to 29.

On an ongoing basis the Board reviews the composition of the Committee to ensure that it remains proportionate to the task and provides sufficient scrutiny of risk management and internal and external controls.

The Committee regularly invites the external audit lead partner, the Chairman of the Board, the other non-executive Directors, the Chief Executive Officer and the Chief Financial Officer to its meetings. The Committee meets privately with the external auditor at least twice a year and liaises with Company management in considering areas for review.

Role of the Audit Committee

The Committee is responsible for monitoring and reviewing the integrity of the Company's financial reporting in advance of its consideration by the Board, reviewing the adequacy of the Company's internal controls and risk management systems, and making recommendations to the Board in relation to the external auditor.

Key responsibilities

The Committee discharges its responsibilities through Committee meetings during the year at which detailed reports are presented for review. From time to time, the Committee commissions reports from external advisers or Company management in relation to the Company's major risks or in response to developing issues.

The Committee's key responsibilities are to:

- provide additional assurance regarding integrity, quality and reliability of financial information used by the Board and in financial statements issued to shareholders and the public;
- review the Company's internal procedures on control and compliance for financial reporting to satisfy itself that these are adequate and effective;
- review the principles, policies and practices adopted in the preparation of the Group's financial statements to ensure they comply with statutory requirements and generally accepted accounting principles;
- review the adequacy and effectiveness of the Company's risk management and internal control systems;
- receive reports from the Group's external auditor concerning external announcements, in particular the Annual Report and Accounts and the Interim Report;
- develop and oversee the Company's policy regarding the external audit process, review the external auditor's independence, review the provision of non-audit services they provide and review and approve their remuneration;
- review the whistleblowing arrangements whereby employees may, in confidence, raise concerns about possible improprieties in financial reporting or other matters, to ensure there are proportionate and independent procedures in place; and
- consider any other matter that is brought to its attention by the Board or the external auditor.

2017 Committee activities

As required by its terms of reference, three formal meetings of the Committee were held during 2017 to discharge its responsibilities. The Committee considered the following matters:

Financial and narrative reporting:

- reviewed the full year and interim results and associated announcements;
- considered whether taken as a whole the Annual Report and Accounts were fair, balanced and understandable and whether they provided the necessary information for shareholders to assess the Company's position, performance, business model and strategy;
- reviewed the suitability of the Group's accounting policies and practices; and
- discussed the Group's long-term viability and going concern statements.

External audit:

- recommended the reappointment of Deloitte as external auditor following an audit tendering process;
- received the external auditor review report on the Annual Report and Accounts and Interim Report process and discussed the 2017 year-end audit;
- considered the scope and cost of external audit;
- considered the effectiveness of the external audit process;
- discussed the Board representation letter;
- considered the appropriateness of the Group's accounting policies and practices; and
- discussed the non-audit work carried out by the external auditor and its impact on safeguarding audit independence.

Internal control and risk management:

- reviewed the Group's principal risk factors (see page 60);
- reviewed risk management and internal controls;
- received updates on the Group's General Data Protection Regulation (GDPR) compliance project;
- received updates on the internal review of cyber security; and
- received updates and the minutes from the senior management Risk Committee.

Committee governance:

- reviewed the Committee terms of reference; and
- conducted an externally facilitated Committee effectiveness review.

Audit Committee report continued

Significant financial judgements

In recommending the Annual Report and Accounts to the Board for approval, the Committee reviewed in particular the accounting and disclosure of the following key judgements:

Matter considered	Action taken by the Committee
Impairment of property, plant and equipment	The Committee reviewed the proposals prepared by management setting out their approach and challenged the key judgements made relating to impairment, such as forecast performance and discount rates, as well as reviewing this topic in discussion with the external auditor.
Onerous contracts and provisions associated with the review of the operating estate	The provision requires judgement and assessment of the facts across a range of likely outcomes, which inherently involves significant estimation. The Committee considered management's approach to the calculation of the provisions, again with particular attention paid to the key assumptions such as the expected time to exit, sublet, or cover the fixed cost base and the discount rate applied. During the year, management identified two historical elements of the mechanical calculations of the property provisions that were either not in line with recent industry practice or using incorrect data. This resulted in a net movement in the provision of £9.8m (see Note 1). The accounting for these changes was discussed at length by the Audit Committee with significant input provided by management and the external auditor. It was agreed that it would be accounted for initially as exceptional costs within the Group's interim results with the full support of the external auditor. Following the publication of the Group's Interim Report the Financial Reporting Council (FRC) wrote to the Company to determine whether the amendment should be accounted for within the prior year as the correction of a prior year error. As a result of this request, the Audit Committee reviewed the accounting treatment again and has taken the decision to restate the 2016 year-end financial statements and record the two amendments as corrections of prior year errors.

Other areas considered included:

- management override of controls and consideration of bias underlying key estimates or judgements; and
- completeness of revenue recognition, in terms of whether all of the cash and credit card receipts received at restaurants are recognised in the financial statements.

No issues arose from our consideration of these matters.

Interaction with the Financial Reporting Council (FRC)

The FRC wrote to the Company in relation to its Annual Report and Accounts for the year ended 1 January 2017 as part of its annual monitoring activities. The Committee was extensively involved in the correspondence with the FRC and, as a result of these enquiries along with significant debate with the Board, management and the external auditors, has determined that two prior year restatements were required in relation to the classification of exceptional cash flows within the consolidated cash flow statement and the accounting for onerous lease provisions. These restatements are fully explained in Note 1 of the financial statements.

Review of distributable reserves and rectification of prior dividends

In December 2017, the Company became aware of a technical matter relating to the levels of distributable reserves and the payment of interim and final dividends to its shareholders during the period from 2006 to 2017, as explained in more detail in the corporate governance report and Note 5 to the Company accounts. The Committee was fully involved in resolving this matter and oversaw the thorough review by management into the historical position and the administrative steps taken to rectify the position.

Fair, balanced and understandable

The Committee carried out an assessment of whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. This assessment included a review for consistency of the narrative reporting and the financial statements and forms the basis of the advice given by the Committee to the Board to assist them in making this statement.

The Committee also considered the use of Adjusted Performance Metrics (APMs) in view of new guidance from the European Securities & Markets Association, the equal prominence of such metrics and the definitions and reconciliations of these.

Long-term viability and going concern statements

The Committee considered, with reference to a detailed management paper, the Group's going concern and long-term viability statements. The factors used when assessing the Group's viability for the next three years, together with the statement, are set out on page 12 and the Group's going concern statement on page 58.

External audit

The Committee has primary responsibility for overseeing the relationship with, and performance of, the external auditor. Annually the Committee undertakes a review of the objectivity and effectiveness of the audit process.

Auditor effectiveness

When considering the suitability of the external auditor for reappointment, the Committee takes account of:

- the findings set out in the Financial Reporting Council's (FRC's) Audit Quality Review team's public report on Deloitte and its reports on other auditors in its sample;
- the ability of the external auditor to add value through observations from the audit process and interactions with the Company's management;
- the arrangements for ensuring the independence and objectivity of the external auditor;
- the external auditor's fulfilment of the agreed audit plan;
- the robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements; and
- the external auditor's conclusions with regard to existing management and control processes.

The Committee has informally discussed the effectiveness of the external audit for the 2017 year-end, a formal assessment will be conducted after the approval of the financial statements in March 2018. The evaluation to date focused on: robustness of the audit process, quality of delivery, timeliness of addressing key matters, reporting and people.

Audit tender

Following a full tender process, Deloitte were reappointed as auditor at the AGM on 26 May 2017. In 2017 the Deloitte audit lead partner changed to Georgina Robb.

The Company continues to adopt a policy of tendering the external audit contract at least every 10 years and the rotation of the external audit lead partner every five years. This policy will be reviewed again on completion of the formal evaluation of the external audit process in March 2018.

Auditor independence

To ensure the external auditor remains independent upon reappointment the Committee takes into account the following:

- the external auditor's plan for the current year, noting the role of the external audit lead partner and their length of tenure;
- the arrangements for day-to-day management of the external audit relationship;
- a report from the external auditor describing their arrangements to identify, report and manage any conflicts of interest;
- the overall extent of non-audit services provided by the external auditor, in addition to its case-by-case approval of the provision of non-audit services by the external auditor; and
- the past service of the external auditor.

Non-audit work and pre-approval policy

The Company has an audit engagement policy in place which is regularly reviewed. Where non-audit work is carried out by the external auditor, robust processes are put in place to prevent auditor objectivity and independence being compromised. Pre-approved services within the policy can be summarised as follows:

- audit-related services, including work relating to the annual Group financial statements audit, subsidiary audits and statutory accounts;
- review of the Group's Interim Report; and
- certain extraction reporting services.

The Company is committed to keeping non-audit fees low, and in 2017 spend fell to £44,000, a ratio of 1:0.3 (2016: 1:0.8).

To safeguard objectivity and independence the Committee also assesses whether the fees are appropriate to enable an effective, high quality audit to be conducted and independence maintained. Further details on non-audit services can be found in note 4 on page 85.

Internal controls and risk management

Internal audit function

The Committee keeps under regular review the scope of the internal audit function, which is currently solely focused on site level reviews. The Committee continues to review the need for internal audit of the corporate function. If an issue were to arise, the appropriate internal individuals and external advisers with the requisite skills would form a working group to discharge these responsibilities.

Senior management Risk Committee

In October 2016, the senior management Risk Committee was established and the Committee approved its terms of reference. As set out in the Risk Committee's terms of reference, the Committee Chairman received regular reports on its activities during 2017. For further details on the membership, roles and responsibilities and Risk Committee activities during 2017, see page 59.

The Group's principal risk factors are set out on page 60.

Committee Governance

Committee terms of reference

In November 2017, the Committee reviewed its terms of reference and concluded that no changes were necessary. The full terms of reference are available on the Company's website at http://www.trgplc.com/investors/corporate-governance.

Committee effectiveness review

An externally facilitated effectiveness review was carried out by way of a questionnaire in December 2017 by Lintstock Limited, a Board Effectiveness and Governance advisory firm. This covered topics such as the composition and management of the Committee, the quality of information it receives, its effectiveness in reviewing key areas of its responsibility, and potential areas for improvement in the Committee's performance. The review did not identify any changes that would materially improve the working of the Committee.

On behalf of the Audit Committee

Graham Clemett
Chairman of the Audit Committee

7 March 2018

Nomination Committee report

Debbie Hewitt MBE

The Committee is appointed by the Board and comprises four independent non-executive Directors (excluding the Chairman of the Board) and is chaired by Debbie Hewitt. It met four times during the year. Membership and attendance is set out below:

Membership

- Debbie Hewitt (Chairman)
- Simon Cloke
- Mike Tye
- Graham Clemett
- Paul May (appointed July 2017)

Director	Attendance
Debbie Hewitt	4/4
Simon Cloke	4/4
Mike Tye	4/4
Graham Clemett	3/4[1]
Paul May	1/1

1 Graham Clemett missed one meeting due to the short notice on which it was called. He however gave his input on the matter to be discussed to the Chairman prior to the meeting.

Biographies of all Committee members, including a summary of their experience, appear on pages 28 to 29.

Role of the Nomination Committee

The principal role of the Committee is to identify, evaluate and recommend candidates for appointment to the Board, to review the structure, size and composition of the Board and its committees, and to keep under review the Group's executive leadership needs, together with Board and executive committee succession planning.

Key responsibilities

The Committee discharges its responsibilities through regular meetings during the year.

The Committee's key responsibilities are to:

- review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations of any changes;
- give full consideration to succession planning for Directors and the executive leadership and executive succession needs of the Group;
- recommend to the Board Directors for annual re-election, and keep under review Directors being re-elected for a term exceeding six years; and
- make recommendations for new Director appointments to the Board.

Nomination Committee report continued

2017 Committee activities

The Committee is required to hold two meetings per year as set out in its terms of reference. However, in 2017 four formal meetings were held. The Committee considered the following matters:

- appointment of a new Chief Financial Officer;
- appointment of a new non-executive Director;
- the potential need for a further non-executive Director; and
- appointment of a new Company Secretary.

In addition, the Committee conducted an externally facilitated effectiveness review.

Board changes during the year

In April 2017 Barry Nightingale resigned as Chief Financial Officer. An extensive search was undertaken to recruit a successor using an external search consultant, Odgers Berndtson, and in August 2017 the Board announced the appointment of Kirk Davis as Chief Financial Officer. Kirk brings extensive finance experience within listed leisure and retail businesses. After serving his notice with Greene King plc, Kirk joined the business on 5 February 2018. As part of the Board succession planning, Sally Cowdry stepped down from the role of non-executive director in August 2017 and the Board was then further strengthened by the appointment of Paul May as non-executive director in July 2017. Paul was chosen after an extensive search using an external search consultant, Sam Allen Associates, to target candidates with current experience of managing public and private companies in the retail and hospitality sectors. He is currently the Chief Executive of AIM listed Patisserie Valerie.

Neither Sam Allen Associates nor Odgers Berndtson have any other connection with the Company.

Board and senior management diversity

On an ongoing basis, the Committee keeps under review the tenure and qualifications of the executive and non-executive Directors to ensure the Board has an appropriate and diverse mix of skills, experience, knowledge and diversity.

The Committee continues to be aware of, and embrace, the Hampton-Alexander Review on Improving Gender Balance in FTSE Leadership and its targets of 33% female representation on the executive committee and in their direct reports by 2020. Although these recommendations do not apply to the Group, as it sits outside the FTSE 100, the Board is aligned on these ambitions. As at the date of this report, the Board reflects 14% female representation and the executive committee (excluding the executive Directors) reflects 38% female representation.

The Committee is also aware of, and embraces, the Parker Review on the ethnic diversity of boards, and its recommendations concerning the representation of people of colour on boards and in the senior management and executive ranks of an organisation. The Board recognises the value of, and strongly supports, the principle of diversity generally, and over the coming years will work to ensure that the Group maximises the benefits that a diverse management and workforce can bring.

The aim of the Board's approach to diversity is to ensure that the Group has in place the most appropriate Board, management and workforce to deliver value to shareholders, and to operate the business as effectively as possible for the benefit of all its stakeholders.

Further details on the Group's policy on diversity are included in the corporate governance report on pages 23 to 24 and the corporate social responsibility report on page 14.

Director induction

On joining the Board, Directors receive an induction on the business, its strategy, the Board's role in setting the tone of the Group's culture, and the Director's role and requirements in influencing behaviour. A series of meetings takes place with key management and Board colleagues, and non-executive Directors are actively encouraged to meet with operational management and to visit the Group's restaurants to enhance their understanding of the business, its brands, employees and processes.

Training and development

The Company acknowledges the importance of developing the skills of the Directors to run an effective Board. To assist in this, Directors are given the opportunity to attend relevant courses and seminars to acquire additional skills and experience to enhance their contribution to the business. The Board also has collective training sessions on relevant topics from time to time. In 2017 the Board had specific training on the Market Abuse Regulation (MAR).

Succession planning

The Nomination Committee keeps under review executive committee succession planning to ensure the Company has a strong leadership pipeline. The Committee also monitors the tenure of non-executive Directors to ensure their independence is maintained. The Board currently has one Director (14%) who has Board tenure of more than six years. The Board has commenced a search to replace that Director in 2019, when he will have completed a tenure of nine years on the Board. The Committee has debated and determined the skill set of candidates to be considered, and the profile reflects digital marketing skills.

Annual re-election of Directors

As required by the Code, all Directors are subject to annual re-election and as such, details setting out why each Director is deemed to be suitable for reappointment will be included with the AGM papers circulated to shareholders.

Committee Governance

Terms of reference

The full terms of reference are available on the Company's website at http://www.trgplc.com/investors/corporate-governance.

Annual effectiveness review

An externally facilitated effectiveness review of the Nomination Committee was carried out in December 2017 by Lintstock Limited, a Board Effectiveness and Governance advisory firm, as part of the review of all aspects of the Board and its Committees. The review covered topics such as the composition of the Committee, the quality of information it receives, its performance in reviewing the composition of the Board, and potential areas for improvement in the Committee's performance. The review concluded that the Committee generally worked well, and that it was timely to commence the recruitment of an additional non-executive director with digital marketing expertise. The review also resulted in individual one to one performance appraisals for each of the directors, delivered by the Chairman, and for the Chairman, delivered by the Senior independent Director.

On behalf of the Nomination Committee

Debbie Hewitt MBE
Chairman of the Nomination Committee

7 March 2018

Directors' remuneration report

Mike Tye

Dear Shareholder,

I am pleased to provide the Directors' remuneration report for the year ended 31 December 2017. This was a busy year for the Committee, particularly with the full review of the Remuneration Policy and changes to the board. The current Directors' Remuneration Policy was adopted at the 2015 AGM and in line with regulatory requirements, the updated version will be put to a binding vote at the forthcoming Annual General Meeting (AGM).

As usual, the annual statement and annual report on remuneration, which provide details of the remuneration earned by Directors in the year to 31 December 2017 and how the Policy will be implemented for the 2018 financial year will be subject to an advisory shareholder vote at this year's AGM, on 23 May 2018.

Policy review

In preparation for the triennial shareholder vote on the Directors' Remuneration Policy, the Committee has undertaken a thorough review of the existing remuneration structures in place for our executive directors. The Committee has concluded that the existing policy, in relation to both the levels of remuneration and their linkage to achievement of increasing shareholder value, remain both relevant and appropriate. Accordingly, the Committee intends to make only a few important changes to the policy to be submitted for a binding vote at the AGM. The proposed key changes are as follows:

1. Annual bonus deferral – reflecting the current deferral requirement for the Chief Executive, the proposed policy will require 50% of any bonus to be deferred (the current policy requires any bonus over 100% of salary to be deferred). The proposed policy also extends the potential mechanisms for the deferral and will allow for deferral in the form of nil-cost options.

2. Introduction of malus and clawback provisions – reflecting best practice the proposed policy will be updated to include malus and clawback provisions in both the annual bonus scheme and long-term incentive plan.

3. Long-term incentive plan (LTIP) metrics – the current policy limits the long-term incentive plan metrics to TSR versus comparator group and financial metrics. The Committee proposes to revise the policy wording to enable future metrics to be introduced if they are deemed, at the time, to be aligned to the long term interests of the Company and its shareholders. For 2018 the metrics will remain TSR versus comparator group and EPS.

4. Contractual provisions – under the current policy the Committee may make a payment to an executive director in lieu of notice based on salary, pension and benefits. Consistent with the service contracts of the current Chief Executive and Chief Financial Officer, the proposed policy will limit this payment to salary only.

Remuneration in 2017

As expected, 2017 was a transitional year for the Group as is explained in the Business review. Accordingly, in relation to bonus, the Committee set challenging Adjusted PBT targets with stretching guest satisfaction and like-for-like (LFL) covers targets. As a result a bonus of 52% of the maximum available was awarded to the Chief Executive. 50% of the award will be deferred in shares for three years. No LTIP awards vested for executive Directors during 2017 (for a definition of Adjusted PBT, see the glossary on page 115).

During the year, the Committee made remuneration related decisions concerning the changes in the Executive team. In agreeing the exit and joining terms the Remuneration Committee was conscious of the approved policy. The departing Chief Financial Officer received his six month basic salary contractual payment in lieu of notice by way of monthly instalments, subject to mitigation. There is no entitlement to a bonus in respect of the financial year ended 31 December 2017. All Performance Share Plan awards held lapsed on cessation of employment. Details of the incoming Chief Financial Officer's package can be found on page 48 of this report. He will not receive any payments or awards in respect of incentive pay forfeited from his previous employer.

The Committee also spent time in the year considering the existing arrangements for the Chief Executive and consulted major shareholders on three revisions, which are in line with the current policy. These changes were made against the backdrop of re-establishing the competitiveness of our Leisure brands by improving pricing and menu choices, delivery of upgraded technology to enhance customer service, and growth in the Pubs and Concessions businesses, all while reducing the cost base to build a leaner, faster and more focused organisation:

- An additional LTIP award of 25% of salary was made on 2 October 2017, taking the aggregate value of awards granted in 2017 to 200% of the CEO's salary, which is within the current policy. The Committee decided to award the full quantum of LTIP to ensure appropriate retention is in place for the long term.
- As originally planned and communicated when Andy McCue joined the Company in September 2016, his notice period from both the Company and the Individual increased from 6 months to 12 months, with effect from 1 October 2017. The Committee believes that he has established his credentials for leading the business and that it is now appropriate to have a notice period commensurate with a Chief Executive of this scale and complexity of business.
- The Committee has altered the £300,000 relocation expense provision agreed on recruitment as the Chief Executive has decided to keep his main home in Ireland due to personal reasons. Instead the Company will pay him for a three-year period until 30 September 2020 the annual sum of £100,000 (in respect of his temporary living costs in London), which shall be paid monthly at the same time as his salary, subject to deductions for income tax and national insurance. The Company will continue to pay for his weekly trips to and from Ireland during this period.

During the year, the Committee also spent time reviewing the gender pay gap data which has been published in line with regulatory requirements.

Remuneration for 2018

For 2018, the maximum annual bonus for the Chief Executive and Chief Financial Officer will be 150% and 120% of salary respectively. 50% of any bonus earned will be deferred in shares for three years. The Committee intends to grant LTIP awards of 200% and 150% of salary respectively, based on stretching total shareholder return (TSR) and Adjusted earnings per share (EPS) targets (for a definition of Adjusted EPS, see the glossary on page 115).

A 2% salary increase was awarded to the Chief Executive for 2018 (effective 1 January), which is in line with the rest of the head office team. Non-managerial staff in restaurants and pubs are determined in line with changes to the National Minimum and National Living Wage and this was higher than 2%.

We are committed to ensuring that the remuneration practices promote the attraction, retention and incentivisation of high calibre executives to deliver the Group's strategy and align executives to the interests of shareholders. We hope that you will be supportive of the resolutions to approve the remuneration policy and the annual report on remuneration at this year's AGM.

Yours faithfully,

Mike Tye
Chairman of the Remuneration Committee

Directors' Remuneration Policy report

This report sets out the policy of the Group on executive Directors' and Non-executive Directors' remuneration. The Policy Report will be put to shareholders for approval at the AGM to be held on 23 May 2018 and, subject to approval, will be operated from that date. The current policy, approved by shareholders in 2015, will continue to apply until the new policy is approved.

Policy overview

The objective of our Remuneration Policy is to attract, retain and incentivise a high calibre of senior management who can direct the business and deliver the Group's core objective of growth in shareholder value by building a business that is capable of delivering long-term, sustainable and growing earnings.

To achieve this objective, executive Directors and senior management receive remuneration packages with elements of fixed and variable pay. Fixed pay elements (basic salary, pension arrangements and other benefits) are set at a level to recognise the experience, contribution and responsibilities of the individuals and to take into consideration the level of remuneration available from a range of the Group's broader competitors.

Variable pay elements (annual bonus and Long-Term Incentive Plan awards) are set at a level to incentivise executive Directors and senior management to deliver outstanding performance in line with the Group's strategic objectives.

Consideration of shareholders' views

The Committee considers feedback from shareholders received during the year, including at the AGM, and feedback from additional engagement as part of any review of executive remuneration. The Committee engages pro-actively with shareholders and ensures that they are consulted in advance where any material changes to the Remuneration Policy are proposed. During 2017, a consultation exercise was undertaken with major shareholders to seek feedback on the proposed changes to the Policy Report and the amendments made to the Chief Executive package.

Consideration of employment conditions elsewhere in the Group

In determining the remuneration of the Directors, the Committee takes into account the pay arrangements and terms and conditions across the Group as a whole. The Committee seeks to ensure that the underlying principles which form the basis for decisions on Directors' pay are consistent with those on which pay decisions for the rest of the workforce are taken. For example, the Committee takes into account the general salary increase for the head office team when conducting the salary review for the executive Directors. Increases for the non-managerial staff in restaurants and pubs are determined in line with changes to the National Minimum and National Living Wage.

Key elements of the new Remuneration Policy for Directors

Set out below is a summary of the main elements of the new Remuneration Policy for executive Directors and non-executive Directors, together with further information on how these aspects of remuneration operate. The key changes are:

- 50% of any annual bonus is deferred in shares for three-years (reflecting the implementation of the policy over the last two years) and the policy allows for deferral in the form of nil-cost options.
- Introduction of malus provisions into the annual bonus and long-term incentive schemes.
- Removal of pension and benefits from the calculation of payments in lieu of notice.

Key elements of the new Remuneration Policy for Directors

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Basic salary	Attract and retain key personnel of the right calibre. Reflects individual responsibilities, skills and achievement of objectives.	Salary levels (and subsequent increases) are set based on role, experience, performance and consideration of the general workforce pay review and competitor pay levels. Salaries are paid monthly. Normally reviewed annually with any changes taking effect from 1 January or when an individual changes position or responsibility.	No prescribed maximum annual increase. The Committee is guided by the general increase for the companies general workforce, but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role.	None.
Benefits	To provide market consistent benefits.	Benefits packages typically comprise a car (or car allowance), health insurance, and life assurance although other benefits may be provided where appropriate, including relocation and expatriation expenses as outlined on page 50 of this report.	No maximum limit.	None.
Pension	Rewards sustained contribution.	Contribution to a personal pension plan (no defined benefit schemes operate) and/or a salary supplement (e.g. where HMRC limits would be exceeded).	Up to 20% of base salary.	None.

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual bonus	Rewards the achievement of annual financial targets and other key performance indicators, depending on job responsibilities, which are aligned to the strategic needs of the business.	Bonus level is determined by the Committee after the year-end based on performance conditions drawn up before the financial year commences. 50% of any bonus is payable in cash. 50% of any bonus is deferred in shares or nil-cost options with awards normally vesting after a three-year period. Not pensionable. A malus and clawback mechanism operates. The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding award in specific circumstances. The Committee also has the authority to recover (clawback) all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe. These provisions apply to both the cash and deferred elements of the annual bonus.	Maximum of 150% of base salary.	Normally based on a one year performance period. The annual bonus is subject to the achievement of stretching performance measures. Financial measures will account for the majority, normally based on Group Adjusted profit before tax or an alternative profit measure. The Committee may vary the metrics and weightings from year to year according to Group strategy.

Directors' remuneration report continued

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Long-Term Incentive Plan (LTIP)	Promotes achievement of long-term strategic objectives of increasing shareholder value and delivering sustainable and expanding earnings.	Annual grant of Conditional Awards in the form of nil-cost options. Conditional Awards vest three years after grant subject to performance conditions and continued employment. Two year post-vesting holding period applies to the net of tax shares for awards granted from 2016. Dividend equivalents may be payable. A malus and clawback mechanism operates. The Committee has the authority to apply a malus adjustment to all, or a portion, of an outstanding award in specific circumstances. The Committee also has the authority to recover (clawback) all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe.	Maximum of 200% of base salary.	Normally based on a three-year performance period. Awards are subject to performance conditions which are set prior to the grant of each award. The awards for 2018 are based on TSR versus comparator group and Adjusted EPS. Different measures, targets and/or weightings between measures may be made for future awards. Up to 25% of an award vests at threshold performance increasing to full vesting at maximum performance.
Save As You Earn scheme (SAYE)	Encourages employee share ownership and therefore increases alignment with shareholders.	HMRC approved plan under which eligible employees are able to purchase shares under a three-year savings contract at a discount of up to 20% of market value at grant. Provides tax advantages to UK employees.	Prevailing HMRC limits.	None.
Shareholding guidelines	Increase alignment with shareholders.	Executive Directors must build up and maintain a shareholding equivalent to 200% of base salary. Requirement to retain no fewer than 50% of the net of tax shares vesting under an LTIP award until the required shareholding is achieved.	N/A	None.

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Non-executive Directors' fees	Attract and retain a high-calibre Chairman and Non-executive Directors by offering market-competitive fee levels. Reflects fees paid by similarly sized companies. Reflects time commitments and responsibilities of each role.	Fees are normally reviewed annually. Fees paid in cash. Chairman is paid a single fee. Non-executive Directors are paid a base fee. A Committee Chair fee and a Senior Independent Director fee is payable to reflect additional responsibility. The Chairman and the Non-executive Directors are entitled to reimbursement of reasonable expenses including any tax due on such payments. They may also receive limited travel or accommodation-related benefits in connection with their role as a Director.	The Group's Articles of Association place a limit on the aggregate annual fees of the Non-executive Directors of £500,000. As per executive Directors, there is no prescribed maximum annual increase. The Committee is guided by the general increase in the non-executive director market and for the broader UK employee population but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role.	None.

Differences between the Policy Report and that previously approved by shareholders can be found on page 46.

Performance measures

The Committee chooses performance measures in the annual bonus and long-term incentive plans which align to the Group's profitability and the strategic plan. This enables the executive Directors to be incentivised to achieve the Group strategy, aligning interests with those of shareholders. Financial performance measures (Adjusted profit before tax, Adjusted earnings per share (EPS) and total shareholder return (TSR) are used as the key performance indicators (KPIs). The combination of Adjusted EPS and TSR performance conditions provides a balance between rewarding management for growth in sustainable profitability and stock market outperformance. TSR is a clear indicator of the relative success of the Group in delivering shareholder value and, as a performance measure, firmly aligns the interests of Directors and shareholders. The Adjusted EPS target range will require growth in profitability and the TSR condition will be based on recent share price performance. Performance against EPS and TSR targets are reviewed by the Committee. For the annual bonus plan, non-financial measures relate to strategic priorities such as the number of covers and the results of the employee engagement survey.

Committee discretions

The Committee operates share plans in accordance with their respective rules and in accordance with the Listing Rules and HMRC where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans.

These include (but are not limited to) the following:

- selecting the participants;
- the timing of grant and/or payment;
- the size of grants and/or payments (within the limits set out in the Policy table above);
- the extent of vesting based on the assessment of performance;
- determination of a 'good leaver' and where relevant the extent of vesting in the case of the share-based plans;
- treatment in exceptional circumstances such as a change of control, in which the Committee would act in the best interests of the Company and its shareholders;

Directors' remuneration report continued

- making the appropriate adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, variation of capital and special dividends);
- cash settling awards; and
- the annual review of performance measures, weightings and setting targets for the discretionary incentive plans from year to year.

Any performance conditions may be amended or substituted if one or more events occur which cause the Committee to reasonably consider that the performance conditions would not, without alteration, achieve their original purpose. Any varied performance condition would not be materially less difficult to satisfy in the circumstances.

Annual effectiveness review

An externally facilitated effectiveness review of the Remuneration Committee was carried out in December 2017 by Lintstock Limited, a Board Effectiveness and Governance advisory firm, as part of the review of all aspects of the Board and its Committees. The review covered topics such as the composition of the Committee, the quality of information it receives, its performance in reviewing the remuneration of the Executive, and potential areas for improvement in the Committee's performance. The review concluded that the Committee generally worked well, and that it was timely to commence the recruitment of an additional non-executive director to join the Committee, ideally with senior executive remuneration committee expertise; to continue to monitor the performance of the external advisers and the timing for retendering the external adviser role; to continue to monitor executive Director remuneration packages in the context of retention, as well as reflecting strategic priorities and shareholder alignment.

Differences between the Policy Report and the policy on employee remuneration

There are no material differences in the structure of remuneration arrangements for the executive Directors and the senior management team. There are some operational differences such as quantum, which reflect the fact that a greater emphasis is placed on performance-related pay for executive Directors and the most senior individuals in the management team. Outside the senior management team, the Company aims to provide remuneration structures for employees which reflect market norms.

Legacy arrangements

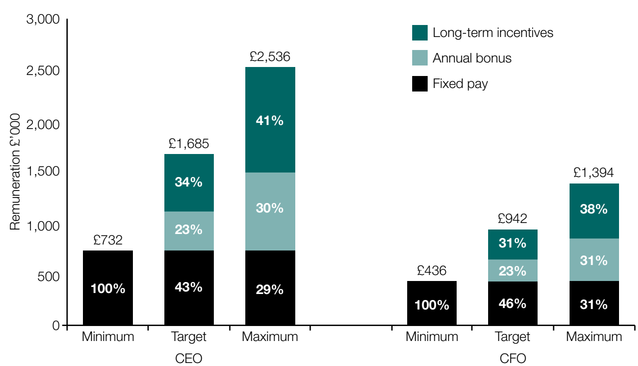
For avoidance of doubt, in approving this Directors' remuneration policy report, authority is given to the Company to honour any prior commitments entered into with current or former Directors.

External appointments

Executive Directors are entitled to accept one appointment outside the Group and there is no requirement for Directors to remit any fees to The Restaurant Group plc. Details of any appointments are provided in the annual report on remuneration section.

Illustration of application of remuneration policy

The chart below shows the value of the executive Directors' packages under three performance scenarios, minimum, on-target and maximum.



Notes:

- Salary levels are based on those applying from 1 January 2018.
- The value of benefits receivable in 2018 is estimated and pension is based on 20% of salary.
- The on-target level of bonus is taken to be 50% of the maximum bonus opportunity (150% of salary for the CEO and 120% for the CFO).
- The on-target level of vesting under the LTIP is taken to be 55% of the face value of the 2018 LTIP awards at grant and the maximum value is taken to be 100% of the face value of the intended 2018 awards at grant (200% of salary for the CEO and 150% for the CFO).
- No share price appreciation has been assumed for the deferred bonus shares and LTIP awards.

Approach to recruitment and promotions

The remuneration package for a new executive Director would be set in accordance with the terms of the Company's prevailing approved Remuneration Policy at the time of appointment and take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Salary would be provided at such a level as required to attract the most appropriate candidate and may be set initially at a below mid-market level on the basis that it may progress towards the mid-market level once expertise and performance has been proven and sustained. Benefits and pensions would be provided in line with the prevailing approved policy. The annual bonus potential would be limited to 150% of salary and grants under the LTIP would be limited to a maximum of 200% of salary. Where necessary, specific annual bonus and LTIP targets may be introduced for an individual for the first year of appointment if it is appropriate to do so to reflect the individual's responsibilities and the point in the year at which they joined the Board. In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods, expected value and performance conditions.

For an internal executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate, so as to enable the recruitment of the best people including those who need to relocate.

Notice periods for executive Directors are normally 12 months. If appropriate, the Committee may agree, on the recruitment of a new executive Director, to a notice period of 6 months but with the ability to increase this to 12 months over a specified period.

Service contracts and payments for loss of office

Contractual provisions

It is the Company's policy that any new executive Director appointment should have a service contract with an indefinite term which is subject to up to a year's notice by either party with provision, at the Board's discretion, for early termination by way of a payment in lieu of salary, with the ability to phase payments and mitigate such payments if alternative employment is obtained.

There will be no provisions in respect of a change of control.

Directors' service contracts are available for inspection at the central support office of the Group during normal business hours and will be available for inspection at the AGM.

Outstanding incentive awards

The annual bonus may be payable with respect to the period of the financial year worked, although it will be pro-rated for time and paid at the normal pay-out date.

Any share-based entitlements granted to an executive Director under the Company's share plans will be determined based on the relevant plan rules. Any unvested deferred bonus plan awards will ordinarily vest on the normal vesting date, save where the departure is as a result of summary dismissal in which case the awards will lapse on cessation of employment. Any outstanding LTIP awards will normally lapse on cessation of employment. However, in certain prescribed circumstances, such as death, ill-health, disability, retirement or other circumstances at the discretion of the Committee, 'good leaver' status may be applied. Awards held by executive Directors will normally vest on their scheduled vesting date, subject to the satisfaction of the relevant performance conditions at that time and reduced pro-rata to reflect the proportion of the performance period actually served. However, the Committee has discretion to determine that awards vest at cessation and/or to dis-apply time pro-rating.

Directors' remuneration report continued

In the event of a takeover (or other corporate event such as demerger, delisting, special dividend or other similar event which, in the opinion of the Remuneration Committee, would affect the market price of shares to a material extent) all awards will vest early subject to the extent that the performance conditions have been (or would have been, in the opinion of the Remuneration Committee) satisfied at that time and pro-rated to reflect the reduced period between grant and vesting relative to the normal vesting period (although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances). In the event of an internal reorganisation, awards may be exchanged for equivalent new awards over shares in the new holding company.

Non-executive Directors

Letters of appointment for the non-executive Directors were each set for an initial three-year period (renewable thereafter for periods of three years). Non-executive Directors are required to submit themselves for re-election every year.

The notice period for the Chairman, Debbie Hewitt, is six months by either party. The notice period for the non-executive Directors is set at three months under arrangements that may generally be terminated at will by either party without compensation.

Directors' letters of appointment are available for inspection at the central support office of the Group during normal business hours and will be available for inspection at the AGM.

Fees payable for a new non-executive Director appointment will take into account the experience and calibre of the individual and current fee structure.

Annual report on remuneration

Implementation of the Remuneration Policy for the 2018 financial year

Executive Directors' salaries for 2017 and applying with effect from 1 January 2018 are:

Basic salary	2017	2018 (from 1 January)	Increase
Andy McCue	**£505,000**	£515,500	2.08%
Kirk Davis[1]	**n/a**	£355,000	n/a

1 Salary effective from date of appointment (5 February 2018).

The Committee considered that a 2% increase for the Chief Executive was in line with the rest of the head office team. The average increase for managerial employees across the Group was 2.2% for the 2018 pay review. Restaurant management and general restaurant employees receive their pay award in April 2018, and where applicable the non-management increases will be aligned to the National Living Wage and the National Minimum Wage increases. The Committee is informed of the base pay review budget applicable to other employees and is aware of the National Living Wage and the National Minimum Wage.

Pension and benefits

Pension and benefits will continue to be provided in line with the stated policy. Andy McCue and Kirk Davis each receive a salary supplement of 20% of base salary in lieu of pension contributions.

Performance targets for the annual bonus in 2018

For 2018, the annual bonus will be based on Group financial measures (70%) and strategic KPIs (30%) and capped at 150% of salary for the Chief Executive and 120% of salary for the Chief Financial Officer. Kirk Davis's annual bonus will be pro-rated in 2018 reflecting the month of joining. The financial measure will be Adjusted profit before tax (PBT). The strategic KPIs will focus on improvement in like-for-like covers and in employee engagement metrics. The Committee has chosen not to disclose, in advance, the performance targets for the forthcoming year as these include items which the Committee considers commercially sensitive. However retrospective disclosure in respect of the 2018 targets will be provided in next year's report. In line with the new Policy (and implementation in 2017) executive Directors are required to defer 50% of any bonus earned for three years.

We have disclosed the 2017 targets relating to the payment to Andy McCue on page 51 of this report. As Kirk Davis joined in 2018, he was not eligible for a 2017 bonus.

Performance targets for LTIP awards to be granted in 2018

The LTIP awards intended to be granted to executive Directors in 2018 will be over shares equal to 200% of salary for Andy McCue and 150% of salary for Kirk Davis, with performance targets based on:

- TSR element (50%) – the Company's TSR vs the constituents of the FTSE 250 (excluding investment trusts). Nothing vests below median. Threshold vesting for median performance; 100% vests for upper quartile performance, with a straight-line scale between these two points; and
- Adjusted EPS element (50%) – the Company delivers Adjusted EPS growth. Nothing vests for growth below 4% pa. Threshold vesting for growth of 4% pa; 100% vests if growth of 10% pa is achieved, with a straight-line scale between these two points.

Last year the Committee decided to reduce the quantum of LTIPs vesting at threshold from 25% to 10%, thus ensuring that the executives were fully aligned in sharing restoration of value to shareholders, as the turnaround of the business progresses. The Committee has decided to revert to 25% vesting at threshold for the 2018 awards.

We have disclosed the 2017 LTIP targets relating to the two awards made to the Chief Executive on page 52 of this report.

Non-executive Directors

As detailed in the Remuneration Policy, the Company's approach to setting non-executive Directors' fees is by reference to fees paid at similar sized companies and reflects the time commitment and responsibilities of each role. A summary of current fees is as follows:

	2017[1]	2018 (from 1 January 2018)	Increase
Chairman	**£215,000**	£215,000	0%
Non-executive Directors' base fee	**£55,000**	£55,000	0%
Committee Chair/senior independent Director fee	**£5,000**	£5,000	0%

1 From 1 January 2017 or date of appointment.

Non-executive Director fees were reviewed by the Board on 19 January 2018. A decision was taken to award no increase to either the Chairman or the non-executive Directors, with the exception of Simon Cloke. During 2017, Simon received a single fee of £57,900 reflecting the fee structure in place at the time of his appointment. The decision was taken to bring his fees in line with the structure for non-executive Directors who joined after April 2016. Accordingly, his base fee is now set at £55,000 and he receives £5,000 to reflect his role as senior independent Director (making a total of £60,000, an increase of £2,100). This took effect from 1 January 2018.

Remuneration received by Directors (audited)

The table below sets out the remuneration received by the Directors in relation to performance for the year ended 31 December 2017 (or for performance periods ending in 2017 in respect of long-term incentives) and the year ended 1 January 2017.

						Long-Term Incentive Plan				
£'000	Salary & fees	Taxable benefits[1]	Pension[2]	Annual bonus[3]	SAYE vesting	Value of vesting award at grant	Increase in value due to rise in share price	Dividend equivalent	Value of award	**Total**
Debbie Hewitt[4]										
2017	215	–	–	–	–	–	–	–	–	**215**
2016	158	–	–	–	–	–	–	–	–	**158**
Andy McCue[5]										
2017	505	113	101	397	–	–	–	–	–	**1,116**
2016	146	29	29	38	–	–	–	–	–	**242**
Simon Cloke										
2017	58									**58**
2016	58	–	–	–	–	–	–	–	–	**58**
Mike Tye[6]										
2017	60									**60**
2016	45	–	–	–	–	–	–	–	–	**45**
Graham Clemett[7]										
2017	60									**60**
2016	35	–	–	–	–	–	–	–	–	**35**
Paul May[8]										
2017	28	–	–	–	–	–	–	–	–	**28**
2016	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**
Former Directors										
Barry Nightingale[9]										
2017	104	4	15	–	–	–	–	–	–	**123**
2016	179	5	27	40	–	–	–	–	–	**251**
Sally Cowdry[10]										
2017	41									**41**
2016	58	–	–	–	–	–	–	–	–	**58**

1 Taxable benefits comprise car allowance, health care, life assurance and relocation allowance.
2 This comprises contributions to the Directors' personal pension plans and/or salary supplements.
3 For 2017, this relates to the payment of the annual bonus for the year ended 31 December 2017. Further details of this payment are set out below.
4 Debbie Hewitt was appointed as Chairman on 12 May 2016.
5 Andy McCue was appointed as Chief Executive Officer on 19 September 2016.
6 Mike Tye was appointed as a non-executive Director on 4 April 2016.
7 Graham Clemett was appointed as a non-executive Director on 1 June 2016.
8 Paul May was appointed as a non-executive Director on 3 July 2017.
9 Barry Nightingale was appointed as Chief Financial Officer on 20 June 2016 and left the board on 21 April 2017.
10 Sally Cowdry resigned as a non-executive Director on 31 August 2017.

Annual bonus payments for the year ended 31 December 2017 (audited)

The annual bonus for the year under review for the Chief Executive was based on Adjusted PBT performance, guest satisfaction improvement targets and a like-for-like covers improvement target. The structure of the targets and the actual performance against the targets are set out below.

Annual bonus payments

70% of the annual bonus was based on Adjusted PBT, which was updated during the course of the year, with the following targets and outturn:

	Group Adjusted PBT targets	CEO % of salary[1]
< Threshold	< £55.3m	0%
>Threshold	£55.3m	37.5%
Maximum	> or = £61.2m	105%
Outcome	£56.7m	53.8%

1 Pro-rata payout between the targets.

A maximum of 10% of the bonus (15% of salary) was payable for Guest Satisfaction and a maximum of 20% of the bonus (30% of salary) was payable for achieving like-for-like covers improvement targets across the Group. For this additional 30% of bonus potential to be payable, the threshold of £55.3m Adjusted profit before tax had to be achieved.

Guest Satisfaction measure[1]	CEO % of salary	Outcome
'Value for Money' (Frankie & Benny's)	3.75%	3.75%
'Consideration' (Frankie & Benny's)	3.75%	3.75%
'Positive Buzz' (Frankie & Benny's)	3.75%	3.75%
'Consideration' (Chiquito)	3.75%	3.75%

1 The bonus percentage for each measure is earned independently. For the 3.75% to be earned in each case, improvement must be shown in the relevant score on the relevant report scorecard for December 2017 vs December 2016.

The target for like-for-like covers improvement was partially met, giving a bonus achievement of 6.5% of the bonus potential (9.75% of salary) as shown below:

Like-for-like covers	CEO % of salary
< Threshold	0%
Threshold	7.5%
Maximum	30%
Outcome	9.75%

The total bonus for the CEO amounted to 78.5% of salary, which is 52% of his potential bonus. 50% of this payment will be deferred for three years and paid as shares.

Vesting of LTIP awards in year under review (audited)

No LTIP awards vested to executive Directors in the year.

Outstanding share awards

The table below sets out details of executive Directors' outstanding share awards (which will vest in future years, subject to performance and/or continued service).

Name of Director	Scheme	At 1 January 2017	Granted	Exercised	Lapsed	At 31 December 2017	Exercise price	Date from which exercisable	Expiry date
Andy McCue	2016 LTIP[1]	–	282,675	–	–	282,675	–	14.10.2019[2,3]	6 months after vesting[3]
	2017 LTIP[1]	–	236,424	–	–	236,424	–	17.03.2020[2,3]	6 months after vesting[3]
	2017 LTIP[1]	–	41,502	–	–	41,502	–	02.10.2020[2,3]	6 months after vesting[3]

1 2016 Conditional Award: Details of the performance conditions can be found on page 47 of last year's report. 2017 Awards: Details of the performance conditions can be found in the next section of this report.
2 A two year post vesting holding period applies to all net of tax shares together with a 200% of salary share ownership guideline.
3 Date from which first exercisable and expiration of the exercise period may be impacted if the Directors are prohibited from trading in the Company's shares at that time.

Long-term incentives granted during the year (audited)

During the year, the following LTIPs were granted to executive Directors:

Executive	Type of award	Basis of award granted	Share price at date of grant	Number of shares over which award was granted	Face value of award (£)[1]	% of face value that would vest at threshold performance	Date of award	Date of vesting
Andy McCue	Conditional Awards – nil-cost option	175% of salary of £505,000	360.0p	236,424	£883,750	10%	17.03.2017	17.03.2020
	Conditional Awards – nil-cost option	25% of salary of £505,000	302.5p	41,502	£126,250	10%	02.10.2017	02.10.2020
Total		**200% of salary of £505,000**			**£1,010,000**			
Past Directors								
Barry Nightingale[2]	Conditional Awards – nil-cost option	130% of salary of £335,000	360.0p	116,507	£435,500	10%	17.03.2017	17.03.2020

1 Based on a share price of 373.8p on 13 March 2017 for the March award, and an average of 304.2p for the five days preceding the October 2017 award.
2 Barry Nightingale stood down as a Director on 21 April 2017 at which time his 2017 LTIP lapsed in full.

Details of the performance targets are as follows:

	Weighting (% of total award)	Below threshold (0% vesting)	Threshold (10% vesting)	Maximum (100% vesting)
TSR[1] against FTSE 250 (excluding investment trusts)	50%	Below median	Median	Upper Quartile
Adjusted Earnings per share[2] (EPS)	50%	Less than 6% pa	6% pa	12% pa

1 The TSR performance is benchmarked against the base return index averaged over each weekday in the three month period ending 1 January 2017 to 2020.
2 Company EPS growth based on budgeted PBT for 2017.
3 Vesting is determined on a straight-line basis between threshold and maximum performance.

Payments on cessation of office (audited)

As announced on 21 April 2017, effective immediately, Barry Nightingale ceased to be a Director and employee of the Company. In line with his contractual terms Barry Nightingale was paid his base salary in lieu of notice for his six month notice period, paid in monthly instalments. There was no payment for pension and benefits during the notice period and no payment was made in lieu of annual bonus. He was not entitled to an annual bonus in respect of the financial year ending 2017. Provisions were in place to reduce the instalments, totalling £167,500, by any monies that Barry Nightingale received from alternative employment during the notice period.

Under the Deferred Bonus Plan, Barry Nightingale has a total of 5,964 shares relating to the 2016 annual bonus awards. The Remuneration Committee has determined that such awards should vest, subject to the rules of the Deferred Bonus Plan, on 31 March 2020. The awards will continue to be subject to the relevant malus and clawback provisions. Participants in the plan are also entitled to a cash payment of an amount equal to the value of dividends that would have been paid on the deferred shares in relation to dividend record dates occurring between the date of grant and the date that the awards vest. Accordingly, the Remuneration Committee has determined that he will be entitled to a Dividend Accrual payment on the 5,964 shares, subject to the rules of the plan.

All Long Term Incentive Plan awards held by Mr Nightingale (in respect of the 2016 and 2017 awards, totalling 267,932 shares under award) and his outstanding Save As You Earn awards (5,863 options) lapsed on cessation of his employment.

Payments to former Directors' (audited)

Danny Breithaupt and Stephen Critoph left in 2016 and in accordance with the terms outlined on page 48 of last year's annual report, they have received monthly instalments in lieu of their respective notice. There was no payment for loss of office and no payment made in lieu of annual bonus. All Performance Share Plan awards held by both former Directors lapsed on cessation of employment.

Statement of Directors' shareholdings and share interests (audited)

Director	Beneficially owned at 1 January 2017	Beneficially owned at 31 December 2017	Outstanding LTIP awards at 31 December 2017	Shareholding % of salary at 31 December 2017	Guideline
Debbie Hewitt	35,642	53,638	n/a	n/a	n/a
Andy McCue	50,000	75,617	560,601	45%	No
Simon Cloke	7,000	7,000	n/a	n/a	n/a
Mike Tye	7,284	7,284	n/a	n/a	n/a
Graham Clemett	14,218	14,218	n/a	n/a	n/a
Paul May	n/a	0	n/a	n/a	n/a
Past Directors					
Barry Nightingale	13,617	19,581[1]	0	n/a	n/a
Sally Cowdry	1,000	1,000[2]	n/a	n/a	n/a

1 As at 21 April 2017, his date of resignation.
2 As at 31 August 2017, her date of resignation.

The Chief Executive Officer and Chief Financial Officer are required to hold shares in the Company worth 200% of salary. For the 2016 and 2017 LTIP awards, Andy McCue must retain no fewer than 100% of the shares, net of taxes, vesting under the awards until the required shareholding is achieved. Andy McCue bought shares during the year and continues to build his shareholding following appointment to the Board during 2016.

As at the date this report was approved by the Board, there have been no changes in respect of the numbers of shares presented in the table above.

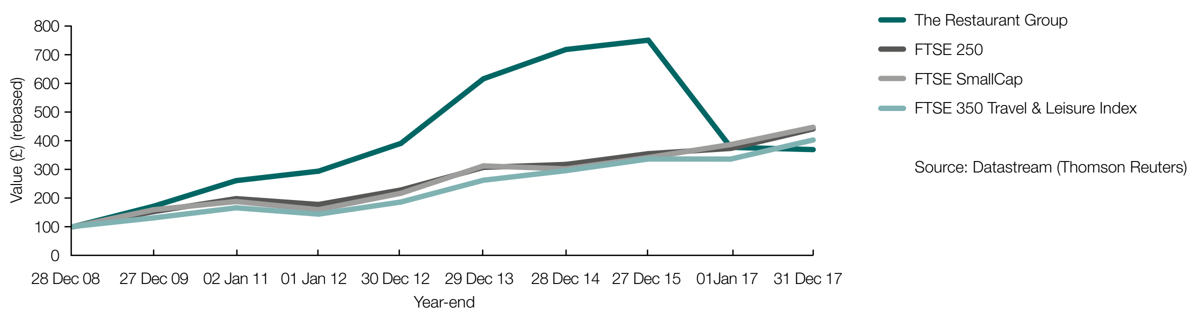
Directors' remuneration report continued

Performance graph and Chief Executive Officer pay

The graph below compares the Company's TSR performance and that of the FTSE 250 Index, the FTSE Small Cap Index and the FTSE 350 Travel & Leisure Index over the past eight years, all rebased from 100. The FTSE 350 Travel & Leisure Index has been selected for this comparison because it is the index most relevant to gauging the Company's relative performance. This graph shows the value, by 31 December 2017, of £100 invested in The Restaurant Group plc on 28 December 2008 compared with the value of £100 invested in the FTSE 250 Index, the FTSE Small Cap Index and the FTSE 350 Travel & Leisure Index. On this basis the value, as at 31 December 2017, of £100 invested is as follows:

The Restaurant Group plc (dividends reinvested)	£ 369
FTSE 250 Index	£ 441
FTSE Small Cap Index	£ 447
FTSE 350 Travel & Leisure	£ 403

Total shareholder return



This graph shows the value, by 31 December 2017, of £100 invested in The Restaurant Group on 28 December 2008, compared with the value of £100 invested in the FTSE 250, FTSE SmallCap and FTSE 350 Travel & Leisure Index Indices on the same date.

The table below shows the total remuneration for the Chief Executive Officer for each of the last seven years:

	Andrew Page					Danny Breithaupt		Andy McCue	
	2011	2012	2013	2014 to 30.08.2014	2014 from 01.09.2014	2015	2016 to 12.08.2016	19.09.2016 to 01.01.2017	**2017**
Total remuneration	4,241	3,070	3,840	4,559	913	1,429	387	242	**1,116**
Annual bonus[1]	86%	100%	100%	75%	75%	69%	0%	20%	**52%**
Annual LTIP Vesting[1]	100%	82%	93%	100%	94%	93%	–	–	**–**

1 As a percentage of maximum.

Percentage change in Chief Executive Officer's remuneration

The table below shows the percentage change in the Chief Executive Officer's salary, benefits and annual bonus between the financial year ended 31 December 2017 and 1 January 2017, compared to all employees of the Group.

	Salary change	Benefits change	Bonus change
Chief Executive Officer[1]	2.0%	0%	201%
All employees[1]	3.5%[2]	0%	1%

1 Bonus change is calculated on a pro-rate basis vs the prior year.
2 Salary change is calculated compared to all staff, including restaurant staff.
3 Bonus change is calculated excluding restaurant staff.

Relative importance of spend on pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends.

£m	2016	**2017**	% change
Staff costs	239.2	**237.0**	(0.9%)
Dividends[1]	34.9	**34.9**	0%
Retained profits[1]	60.1	**44.7**	(25.6%)

1 Dividends and retained profits are as reported for the trading business and exclude the non-trading items.

Appointments outside the Group

Executive Directors are entitled to accept appointments outside the Company or Group and there is no requirement for Directors to remit any fees to The Restaurant Group plc. Currently, Andy McCue is a non-executive director of Hostelworld Group PLC and is paid fees of €74,000, which he is allowed to keep.

Additional information

Following a review by the Committee, the Company has altered the £300,000 relocation expense provision as the Chief Executive has decided to keep his main home in Ireland due to personal reasons. Instead the Company will pay him for a three-year period until 30 September 2020 the annual sum of £100,000 (in respect of his temporary living costs in London), which shall be paid monthly at the same time as his salary, subject to deductions for income tax and national insurance. The Company will continue to pay for his weekly trips to and from Ireland during this period.

As originally planned and communicated when Andy McCue joined the Company in September 2016, his notice period from both the Company and the Individual increased from 6 months to 12 months, with effect from 1 October 2017. The Committee believes that he has established his credentials in the role and that it is now appropriate to have a notice period commensurate with a CEO of this scale and complexity of business.

Directors' remuneration report continued

Kirk Davis has a service contract with an indefinite term which is subject to six months' notice by either party. As communicated at the time of his appointment, this will increase to 12 months' notice by either party on completion of one year's service.

In respect of the Chief Executive Officer, in the event of early termination by the Company, the Company shall make a payment in lieu of notice equivalent to 12 months of base salary only. Under the Chief Financial Officer's contract, the Company shall make a payment in lieu of notice equivalent to six months of base salary only, rising to 12 months on completion of one year's service. There are no provisions in respect of change of control within either contract.

Consideration by the Directors of matters relating to Directors' remuneration

The Committee is constituted in accordance with the recommendations of the UK Corporate Governance Code, with the exception that it currently comprises two independent non-executive Directors in addition to the Company Chairman, instead of three. It is intended that a third independent non-executive director will be appointed to the Committee during 2018. Mike Tye is the Committee Chairman and the other members of the Committee are Graham Clemett and Debbie Hewitt. Sally Cowdry resigned from the Committee in August 2017 on her departure from the Board. None of the Committee has any personal financial interest in the Company (other than as shareholders).

The Committee makes recommendations to the Board. No Director plays a part in any discussion about his or her own remuneration. In determining the executive Directors' remuneration for the year, the Committee consults the non-executive Chairman about its proposals. In determining the Company Chairman's fees, the Committee (excluding the Company Chairman) consults with the Chief Executive and the Senior Independent Director. The Board (including the Company Chairman but excluding the non-executive Directors) determines the non-executive Directors' fees.

New Bridge Street (NBS), part of Aon plc, were appointed by the Committee and act as its independent advisers, providing services encompassing all elements of the remuneration packages. Neither NBS nor any other part of Aon plc provided any other services to the Group during the year. Total fees paid to NBS in respect of its services were £60,784 (2016: £44,432) with increased workload regarding the full policy review & implementation.

NBS is a signatory to the Remuneration Consultants' Code of Conduct. The Committee has reviewed the operating processes in place at NBS and is satisfied that the advice that it receives is objective and independent.

Statement of shareholder voting

The Directors' remuneration report received the following votes from shareholders at the last AGM, held on 26 May 2017:

Directors' remuneration report		
Votes cast in favour	151,032,992	98.85%
Votes cast against	1,749,753	1.15%
Total votes cast	152,782,745	
Votes withheld	1,251,670	

The Directors' remuneration policy was last put to shareholders at the AGM held on 14 May 2015 on a binding basis. The voting outcomes were as follows:

Directors' remuneration policy		
Votes cast in favour	139,800,144	98.45%
Votes cast against	2,202,116	1.55%
Total votes cast	142,002,260	
Votes withheld	151,592	

This report was approved by the Board of Directors and signed on its behalf by:

Mike Tye
Chairman of the Remuneration Committee

7 March 2018

Directors' report

The Directors present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2017. The year ended 31 December 2017 was a 52 week period, with the comparative year to 1 January 2017 being a 53 week period.

The Directors' report comprises these pages 57 to 58 and the other sections and pages of the Annual Report and Accounts cross-referred to below which are incorporated by reference. As permitted by legislation, certain disclosures normally included in the Directors' report have instead been integrated into the strategic report (pages 2 to 19).

Results and dividends

The results for the year are set out in the consolidated income statement on page 73. This shows a Group Adjusted profit after tax of £44.7m (2016: profit £60.1m). After charging exceptional items, the Group recorded a statutory profit after tax of £32.9m (2016 restated: loss after tax of £48.0m). The closing mid-market price of the ordinary shares on 29 December 2017 (the last trading day before 31 December 2017) was 301.0p and the range during the financial year was 274.9p to 384.3p.

Dividend		Increase/ decrease
Interim dividend		
Paid on 12 October 2017	6.8p per share	0%
Final dividend		
Subject to shareholder approval, payable on 5 July 2018 to shareholders on the Register of Members at the close of business on 8 June 2018	10.6p per share	0%
Total dividend payable in respect of 2017	17.4p per share	0%

For more information on the Company's dividends, see note 10 on page 90 and for details on our dividend policy see page 81.

For definitions of the Adjusted Performance Metrics used by the Group and how these reconcile to statutory measures, see the glossary on page 115.

Directors and Directors' interests

The names of all persons who were Directors during the year can be found on page 22. Directors' interests in the shares of the Company can be found on page 53.

Directors' and officers' liability ('D&O') insurance

Details of the D&O insurance maintained by the Company can be found on page 23.

Articles

The Company's Articles may only be amended by special resolution and are available on the Company's website at www.trgplc.com/investors/corporate-governance.

Greenhouse gas reporting

The disclosures concerning greenhouse gas emissions are included in the corporate social responsibility report on pages 18 to 19.

Disabled employees

The Company's policy towards disabled employees is included in the corporate social responsibility report on page 14.

Employee participation

The action taken during the year in relation to employee participation is included in the corporate social responsibility report on pages 14 to 16.

Employee benefit trust (EBT) and share awards

Details of the Company's EBT arrangements can be found on page 97 (note 19). Dividends on shares held by the EBT are waived.

The Company has an all employee Save As You Earn scheme and a Long-Term Incentive scheme. Details of share-based payments during the year can be found on pages 98 to 102 (note 20).

Substantial shareholdings

Details of substantial shareholdings can be found on page 27.

Directors' report continued

Capital risk management
The Group manages its capital to ensure that it will be able to continue as a going concern while looking to maximise returns to shareholders. The capital structure of the Group consists of equity (comprising issued share capital, other reserves and retained earnings), borrowings and cash and cash equivalents. The Group monitors its capital structure on a regular basis through cash flow projections and consideration of the cost of financing its capital.

The Group is subject to externally imposed capital requirements in respect of its bank loan. The Group is required to maintain a required net debt to EBITDA ratio and EBITDA to net interest charge ratio. These requirements are monitored as part of the capital management process on a regular basis and have been complied with for the current financial period.

Details of the Company's share capital structure can be found on page 25.

Financial instruments and financial risk management
The Group's policy on the use of financial instruments is set out in note 1 to the financial statements. The Group's financial instruments and financial risk management are set out in note 23 to the financial statements.

Significant agreements and change of control provisions
The Group has a £140m revolving credit facility in place until June 2020 and a £10m overdraft facility. Under the terms of the £140m revolving credit facility the Group is required to comply with its financing covenants whereby net interest charges must be covered at least four times by EBITDA and net debt must not exceed three times EBITDA. The margin (on interest rates) applied to the revolving credit facility is dependent on the ratio of net debt to EBITDA. The banking facility covenants are tested twice a year and are monitored on a regular basis. The Group remained within its banking facility covenant limits throughout 2017.

The Group has entered into various contracts, including leases, during the course of ordinary business which may be terminated in the event of a change of control of the Company.

Corporate governance
The Company's statement on corporate governance can be found in the corporate governance report on pages 20 to 27 of these financial statements. The corporate governance report forms part of this Directors' report and is incorporated into it by cross-reference.

Disclosure of information to the external auditor
In the case of each of the persons who are Directors at the time the report is approved, the following applies:

- as far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all of the steps that he/she ought to have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going concern
The strategic report contains a summary of the cash flow and borrowing position of the Group on page 9. The Group is highly cash generative and as a retail business with trading receipts settled by cash or credit or debit cards enjoys favourable working capital movements.

Information on the Group's policies for capital risk management and financial risk management are set out above. The principal risk factors and uncertainties that could affect the business are detailed on page 60.

Based on the Group's plans for 2018 and after making enquiries (including preparation of reasonable trading forecasts, consideration of current financing arrangements and current headroom for liquidity and covenant compliance), the Directors have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

By order of the Board

Kirk Davis
Chief Financial Officer

7 March 2018

Senior management Risk Committee

The Committee was established in October 2016 and held four meetings in 2017.

Membership

The Committee's membership comprises the Chief Executive Officer, the Chief Financial Officer and not less than three other members of the senior management team. It currently includes the Financial Controller, the Chief Information Officer, the Group HR Director, the Purchasing Director and the Chief Marketing Officer. In addition, employees from across the business attend Committee meetings by invitation in order to assist the Committee in discharging its duties.

The Risk Committee is chaired by the Chief Financial Officer and is required to meet at least four times a year. The minutes of the meetings are tabled at the subsequent Audit Committee meeting and the Chief Financial Officer reports to the Audit Committee on its proceedings.

Role of the Risk Committee

Board

Overall responsibility for risk management

Audit Committee

Delegated responsibility regular review of risk management procedures

Risk Committee

Day-to-day responsibility, review individual business risks and aggregation of Group risk register

The Board has ultimate responsibility for ensuring business risks are effectively managed. The Board has delegated regular review of the risk management procedures to the Audit Committee and collectively reviews the overall risk environment on an annual basis. The day-to-day management of business risks are the responsibility of the individual executives and the compliance and governance of those processes is the accountability of the Risk Committee.

Risk management process

Each business unit or functional area of the Group is responsible for identifying and assessing its risks half yearly. This process identifies the gross risk, the likelihood of occurrence, impact to the Group along with the mitigating controls in place. The Risk Committee formally reviews the individual risk registers, aggregates them from across the business to form the consolidated view of the Group's principal risks.

Given that some risks are external and not fully within our control, the risk management processes are designed to manage risks which may have a material impact on our business, rather than to fully mitigate all risks.

Risk appetite

The UK Corporate Governance Code requires companies to determine their risk appetite in terms of the nature and extent of the principal risks faced and those they are willing to take in achieving strategic objectives. The Board regularly assesses the risks faced by the business and considers these when setting the business model and strategic objectives for the Group to ensure the business operates within appropriate risk parameters.

Senior management Risk Committee
continued

Principal risk factors

Set out below is a list of what the Directors, in conjunction with the Risk Committee, consider to be the current principal risks of the Group together with the mitigation plans and risk management strategy. This list is not presumed to be exhaustive and is, by its very nature, subject to change.

Risks	Mitigation plans/Risk management strategy
Health, safety and food hygiene/allergens Damage to reputation due to failures in environmental health compliance in the restaurants or from contamination of products.	Training of restaurant and pub teams; detailed health and safety manual; regular auditing of all sites; auditing of supply chain and suppliers.
Key suppliers Major failure of key suppliers to deliver products into restaurants.	Contingency planning for supply chain and suppliers; regular monitoring of suppliers performance; back up supplier in place for all key product lines.
Economic and political climate Adverse economic conditions and a decline in consumer confidence and spend in the UK impacting top line growth. Impact of Brexit coupled with cost inflation, FX pressures across the key supply chain and likely shortage of foreign workers.	Regular monitoring of economic climate and appropriate action plans. Cross training of existing employees including apprentices, as a mechanism to internally develop the required skills. Looking at other candidate sources such as long term unemployed or out of sector workers who can undergo intensive training on joining.
Regulatory risk Damage to reputation and potential fines as a result of major breach of applicable rules and regulations, including Listing Rules, Disclosure and Transparency Rules, Market Abuse Regulation, General Data Protection Regulation, or Companies Act.	Regular monitoring of legislative changes, and ensuring internal systems and controls to maintain compliance. External advisors and advice sort where necessary. GDPR project established with a plan to ensure compliance in line with new regulations. Ongoing employee training and development to support changes in legislation.
Cyber, data security and disaster recovery Cyber security failure leading to data loss, disruption of services and trading or reputational damage.	Ongoing investment in security controls, processes and systems. Improving data controls, processes and awareness and education including General data Protection Regulations. Third party systems and controls aligned to risk appetite.
Personnel Loss of key personnel or failure to manage succession planning.	Benchmarking of remuneration packages; analysis of staff turnover; performance appraisal and review system to retain and develop existing talent; Long-Term Incentive plan.
Brand Failure to provide customers with brand-standard value for money offerings and service levels.	Re-established competitiveness of our leisure brands through significant investment in core menu pricing, re-introduction of a two-course value menu and an increase in promotional activity. New service standards training rolled out across Leisure business. Ongoing review and monitoring of customer satisfaction through mystery diner visits, customer feedback, user survey and internal quality control testing.

Directors' responsibility statements

Financial statements and accounting records

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations. Company law requires the Directors to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice FRS101 (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure and Transparency Rules

The Board confirms that to the best of its knowledge:

- the financial statements, prepared in accordance with the IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

UK Corporate Governance Code

The Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the necessary information for shareholders to assess the Company's performance, business model and strategy.

For and on behalf of the Board.

Andy McCue
Chief Executive Officer

7 March 2018

Kirk Davis
Chief Financial Officer

7 March 2018

Independent auditor's report
to the members of The Restaurant Group plc

Report on the audit of the financial statements
Opinion
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of The Restaurant Group plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Parent Company balance sheets;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated cash flow statement;
- the accounting policies for the consolidated and Company accounts; and
- the notes to the accounts 1 to 27 and notes to the Parent Company financial statements.

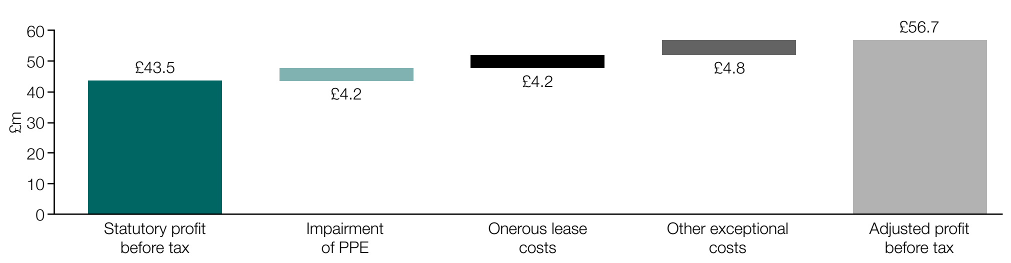
The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • *Impairment of property, plant and equipment (PPE)* • *Provision for onerous leases* Within this report, any new key audit matters are identified with ⌃ and any key audit matters which are the same as the prior year identified with ».
Materiality	The materiality that we used for the group financial statements was £2.8m which was determined on the basis of 5% of Adjusted profit before tax, calculated by adjusting statutory profit before tax for the exceptional charge for impairments, onerous lease costs and costs associated with strategic reviews. 
Scoping	Our group audit scope focused on the Group's head office in London and the Pub's business office in Chester, which were subject to a full audit by our London based audit team. This represents 100% of the Group's net assets, revenue and profit before tax.
Significant changes in our approach	We have reconsidered our view of the recognition of commercial discounts. We previously identified a key audit matter in respect of commercial discounts. Due to improvements in management's processes, and also because the majority of contracts run concurrently with the Group's year-end, we no longer consider it to be a key audit matter.

Independent auditor's report continued

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in note 1(b) to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on page 60 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 61 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 12 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of property, plant and equipment

Key audit matter description

Property, plant and equipment (PPE) is the most quantitatively significant item on the balance sheet with a net book value at 31 December 2017 of £335.0m (2016: £346.0m).

The PPE balance is primarily comprised of freehold and leasehold buildings and the plant and equipment therein that support the Group's restaurant operations. There are 497 (2016: 493) separate restaurant sites.

The assessment of the carrying value of property, plant and equipment requires evaluating whether any indicators of impairment exist in the asset base by reference to expected future profitability of cash-generating units (CGUs) within the restaurant estate. Management reviews all restaurant operations annually for impairment. Other than where restaurants are located together in a cluster (such as concessions in airports), CGUs are individual restaurant sites. If indications for impairment are identified, the carrying value of each CGU is compared to its estimated value in use. For the impairment test at 31 December 2017 a weighted average cost of capital (WACC) of 10.2% was used (2016: 10.6%). Management has stated in the Accounting Policies note that this discount rate used is the rate believed by the Board to reflect the risks associated with each CGU.

For the period ended 31 December 2017 the Group has recorded an impairment charge of £5.3m which relates to 14 underperforming sites which do not generate adequate levels of return to support the value of their PPE. The Group has also reversed impairments on two sites with a total value of £1.1m.

This is recognised as a critical judgement and a major source of estimation uncertainty in the accounting policies in Note 1 of the financial statements. See also note 12 to the financial statements.

Impairment of property, plant and equipment

How the scope of our audit responded to the key audit matter

We assessed management's process for identification of sites for potential impairment, including reviewing the analysis performed by management and that assets were appropriately impaired.

We also considered the indicators of impairment identified by management for each CGU, if any, and performed an analysis to challenge their assumptions. Our work included:

- obtaining evidence, including market based evidence, to support the growth and discount rates used;
- testing the mechanics of management's impairment model;
- performing analysis to assess and challenge the assumptions underpinning the model. This included analysis of forecast site performance, taking into account: historical performance of the sites and the overall brand, management's strategy and expectations for the sites and recent local market trends;
- assessing completeness of management's process by considering other market-based factors indicating other potential site impairments such as low historical profitability;
- engaging our valuation specialists to evaluate the weighted average cost of capital and then performing sensitivity analysis using this independently calculated rate; and
- in addition, holding discussions with business heads to corroborate and challenge the assumptions used in determining the value in use of both impaired sites and other sites not subject to an impairment.

Key observations

Given recent operating performance and the number of challenges faced by the Leisure brands, as set out in the strategic report, we concluded that the assumptions in respect of future performance built into the impairment model are not unreasonable. Therefore, based on our testing and challenge of the assumptions, we conclude that the amount recognised as an impairment charge is materially appropriate.

Provision for onerous leases

Key audit matter description

Management has performed a site by site review of the Group's property portfolio which makes an assessment of:

- the estimated period of time it will take to agree an exit or sublet arrangement for onerous leases;
- costs of void period prior to sublet; and
- any value of lease incentive required and the likely sublet rental income rate when compared to the passing rent in the lease.

As set out in note 16, provisions relating to onerous leases totalled £41.8m as at year-end (2016 Restated: £51.1m). Note 16 sets out the movements in the provision during the financial year.

The net impact of these changes has resulted in charges to the income statement of £4.5m of which £4.2m has been noted as an exceptional cost and described in Note 6 (2016 Restated: £51.5m).

In the 2016 financial year the Group recorded an exceptional charge against profit before tax of £126.5m (Restated) of which £51.5m related to provisions for onerous leases and £68.0m related to the impairment of property, plant and equipment at underperforming or sites expected to be exited.

Consistent with the 2016 Annual Report, and in accordance with IAS 1, under critical accounting judgements in Note 1 of the financial statements management identifies onerous contract provisions as a major source of estimation uncertainty that has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Based on the Accounting Policy in Note 1(n) of the financial statements, management recognises a provision for onerous leases when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Provisions by their nature are inherently judgemental and could result in a range of possible outcomes. Management's calculation of these provisions involves significant assumptions in respect of the estimated future cash flows from sites that remain trading, the discount rate to be applied and also includes an estimate of the time taken to sublet or exit sites, the amount of sublet income that might be achieved and/or the costs of exit in due course.

Therefore there is a wide range of possible scenarios and considerable estimation uncertainty involved.

Based on the level of judgement and assumptions used in the accounting for onerous leases and the calculation of the related provisions we identified a significant risk of material misstatement and a risk for potential fraud in financial reporting in this area.

During the current year, management improved their analysis of onerous leases to provide greater clarity over this highly judgemental area and identified two historical elements of the mechanical calculations of the onerous lease provisions that were either not in line with recent industry practice or using incorrect data.

They changed the discount rate applied to the provisions from the Group's WACC of 10.6% to a risk free rate and corrected certain lease end dates used in the calculation.

Applying the new discount rate to the gross projected cash flows determined at 1 January 2017 resulted in an increase in the onerous lease provision of £19.1m and the correction of the errors in lease length resulted in a decrease in the onerous lease provision of £9.3m, together a net increase in the charge to the income statement during the year of £9.8m.

Following queries from the Financial Reporting Council (FRC) in respect of these items during 2017, the net charge of £9.8m, which was initially accounted for within exceptional items in the 2017 half year results, has now been recognised as a prior year adjustment in the financial statements as of 31 December 2017 as disclosed in Note 1(u) of the financial statements.

Provision for onerous leases

How the scope of our audit responded to the key audit matter

To audit this key audit matter we have performed a range of procedures including:

- challenging the assumptions and estimates supporting the amount of provision provided with reference to contractual rent obligations and third party evidence to support the estimated cost of void periods;
- reviewing the calculation of onerous lease provisions and assessing its completeness by challenging all sites with negative EBITDA;
- where sites have been exited, agreeing terms to completion statements;
- performing sensitivity analysis flexing the data for various variables including like-for-like revenues, margins and discount rates; and
- assessing the appropriateness of the discount rate used against the relevant market benchmark.

Within those procedures we have discussed site by site assumptions with senior brand management and the Group Property Director and we have agreed the underlying assumptions for a sample of property disposal provisions to correspondence with landlords and other supporting evidence.

In respect of the decision to record the impact of the change in discount rate and errors in lease length determination as a prior year error, we have challenged whether it was appropriate to record a prior year adjustment and in particular whether the various matters reflect a prior period error or a change in accounting estimate, as defined by International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and whether they represent a material omission or misstatement.

Key observations

We consider that recording these changes as a prior year adjustment facilitates comparability of the provision from 2016 to 2017, as it results in the provision being prepared on the same basis in both years. Whilst we remain satisfied overall that the original amounts provided in the 2016 financial statements were appropriate, we recognise that the restated provision would still be within a range of possible outcomes.

In respect of the provision as at 31 December 2017, whilst we noted an immaterial misstatement and an element of prudence in the provision, based on our audit work, our challenges of the assumptions and estimates and our sensitivity analysis on the data, we concur that the provision calculated by management is materially appropriate within a reasonable range of outcomes, and again concur that it is identified as a major source of estimation uncertainty.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£2.8m (2016: £3.5m)	£2.3m
Basis for determining materiality	We have used 5% (2016: 4.5%) of adjusted profit before tax, calculated by adjusting statutory profit before tax for the exceptional charge for impairments, onerous leases and other exceptional costs.	We determined materiality for the Parent Company to be £2.3m based on 1.5% of its net assets.
Rationale for the benchmark applied	We consider a profit measure the most appropriate basis for determining materiality as this is the measure on which business performance is analysed. During the year the Group continued to incur a significant exceptional charge (£13.2m) relating to onerous leases, impairment and other exceptional costs. This has impacted the statutory profit before tax. We have therefore chosen profit before tax adjusted for the exceptional charges as the basis for determining our materiality to provide a consistent year on year basis and to exclude the impact of exceptional items.	We consider net assets an appropriate benchmark for the measure of the materiality for the Parent Company on the basis that it is the Group's ultimate parent and is a non-trading company.

PBT £56.7m

PBT
Group materiality

Group materiality
£2.8m

Audit Committee
reporting threshold
£0.14m

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £142,500 (2016: £70,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report continued

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on this assessment, and as in the prior year, our group audit scope focused on the Group's head office in London and the Pub's business office in Chester, which were subject to a full audit. This represents 100% of the Group's net assets, revenue and profit before tax. Our audit work was executed at levels of materiality applicable to each individual subsidiary entity, which were lower than group materiality, ranging from £2.3m to £0.3m. All audit work was carried out by the group audit team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- ***Fair, balanced and understandable*** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- ***Audit committee reporting*** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- ***Directors' statement of compliance with the UK Corporate Governance Code*** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements
Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

Independent auditor's report continued

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure
We were appointed by the Company at its annual general meeting on 16 May 2007 to audit the financial statements of the Company for the period ended 31 December 2007 and subsequent financial periods. Following a competitive tender process, we were reappointed as auditor of the Company for the period ending 31 December 2017 and subsequent financial periods.

Our total uninterrupted period of engagement is 11 years, covering periods ended 31 December 2007 to 31 December 2017.

Consistency of the audit report with the additional report to the audit committee
Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Georgina Robb FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London

7 March 2018

Consolidated income statement

	Note	52 weeks ended 31 December 2017			53 weeks ended 1 January 2017		
		Trading business £'000	Exceptional (Note 6) £'000	Total £'000	Trading business £'000	Exceptional (Note 6) Restated (Note 1) £'000	Total Restated (Note 1) £'000
Revenue	3	679,282	–	679,282	710,712	–	710,712
Cost of sales	4	(589,490)	(8,386)	(597,876)	(598,136)	(119,546)	(717,682)
Gross profit/(loss)		89,792	(8,386)	81,406	112,576	(119,546)	(6,970)
Administration costs		(31,188)	(4,772)	(35,960)	(33,420)	(6,944)	(40,364)
Operating profit/(loss)		58,604	(13,158)	45,446	79,156	(126,490)	(47,334)
Interest payable	7	(1,911)	–	(1,911)	(2,073)	–	(2,073)
Interest receivable	7	51	–	51	66	–	66
Profit/(loss) on ordinary activities before tax		56,744	(13,158)	43,586	77,149	(126,490)	(49,341)
Tax on profit/(loss) from ordinary activities	8	(12,076)	1,423	(10,653)	(17,043)	18,368	1,325
Profit/(loss) for the year		44,668	(11,735)	32,933	60,106	(108,122)	(48,016)
Earnings/(loss) per share (pence)							
Basic	9	22.29		16.44	30.02		(23.98)
Diluted	9	22.18		16.36	29.84		(23.98)

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

	Trading business £'000	Exceptional (Note 6) £'000	Total £'000	Trading business £'000	Exceptional (Note 6) Restated (Note 1) £'000	Total Restated (Note 1) £'000
Earnings before interest, tax, depreciation and amortisation (EBITDA)	95,118	(8,973)	86,145	120,965	(58,440)	62,525
Depreciation and impairment	(36,514)	(4,185)	(40,699)	(41,809)	(68,050)	(109,859)
Operating profit/(loss)	58,604	(13,158)	45,446	79,156	(126,490)	(47,334)

Consolidated balance sheet

	Note	At 31 December 2017 £'000	At 1 January 2017 Restated (Note 1) £'000
Non-current assets			
Intangible assets	11	**26,433**	26,433
Property, plant and equipment	12	**335,029**	345,952
		361,462	372,385
Current assets			
Stock	13	**5,930**	5,632
Other receivables	14	**14,949**	18,782
Prepayments		**17,473**	15,824
Cash and cash equivalents	22	**9,611**	9,568
Corporation tax receivable		**–**	688
		47,963	50,494
Total assets		**409,425**	422,879
Current liabilities			
Overdraft	22	**–**	–
Corporation tax liabilities		**(2,129)**	–
Trade and other payables	15	**(124,238)**	(121,850)
Other payables – finance lease obligations	24	**(164)**	(393)
Provisions	16	**(10,408)**	(15,415)
		(136,939)	(137,658)
Net current liabilities		**(88,976)**	(87,164)
Non-current liabilities			
Long-term borrowings	22	**(31,223)**	(37,882)
Other payables – finance lease obligations	24	**(2,548)**	(2,950)
Deferred tax liabilities	17	**(5,127)**	(4,434)
Provisions	16	**(31,688)**	(38,369)
		(70,586)	(83,635)
Total liabilities		**(207,525)**	(221,293)
Net assets		**201,900**	201,586
Equity			
Share capital	18	**56,551**	56,550
Share premium		**25,554**	25,542
Other reserves	19,20	**(7,753)**	(9,987)
Retained earnings		**127,548**	129,481
Total equity		**201,900**	201,586

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 73 to 108 were approved by the Board of Directors and authorised for issue on 7 March 2018 and were signed on its behalf by:

Andy McCue (CEO) **Kirk Davis (CFO)**

Consolidated statement of changes in equity

	Note	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 28 December 2015		56, 518	25,255	(11,080)	212,867	283,560
Loss for the year (Restated)		–	–	–	(48,016)	(48,016)
Issue of new shares	18	32	287	–	–	319
Dividends	10	–	–	–	(34,862)	(34,862)
Share-based payments – credited to equity		–	–	1,323	–	1,323
Other reserve movements		–	–	(230)	–	(230)
Current tax on share-based payments taken directly to equity		–	–	–	73	73
Deferred tax on share-based payments taken directly to equity	17	–	–	–	(581)	(581)
Balance at 1 January 2017 restated (Note 1)		56,550	25,542	(9,987)	129,481	201,586
Balance at 2 January 2017		**56, 550**	**25,542**	**(9,987)**	**129,481**	**201,586**
Profit for the year		**–**	**–**	**–**	**32,933**	**32,933**
Issue of new shares	18	**1**	**12**	**–**	**–**	**13**
Dividends	10	**–**	**–**	**–**	**(34,866)**	**(34,866)**
Share-based payments – credited to equity		**–**	**–**	**2,158**	**–**	**2,158**
Deferred tax on share-based payments taken directly to equity	17	**–**	**–**	**76**	**–**	**76**
Balance at 31 December 2017		**56,551**	**25,554**	**(7,753)**	**127,548**	**201,900**

There is no comprehensive income other than the profit/loss for the year ended 31 December 2017 or the year ended 1 January 2017.

Other reserves represents the Group's share-based payment transactions and the shares held by the employee benefit trust.

Consolidated cash flow statement

	Note	52 weeks ended 31 December 2017 £'000	53 weeks ended 1 January 2017 Restated (Note 1) £'000
Operating activities			
Cash generated from operations	21	**107,637**	122,148
Interest received		**55**	41
Interest paid		**(751)**	(865)
Tax paid		**(7,068)**	(16,223)
Cash outflows from exceptional onerous leases provisions	6	**(12,738)**	(3,315)
Cash outflows from exceptional restructuring costs	6	**(6,792)**	(3,759)
Net cash flows from operating activities		**80,343**	98,027
Investing activities			
Purchase of property, plant and equipment		**(39,275)**	(65,280)
Proceeds from disposal of property, plant and equipment		**828**	2,219
Net cash flows used in investing activities		**(38,447)**	(63,061)
Financing activities			
Net proceeds from issue of ordinary share capital		**13**	319
Net (repayments)/withdrawals of borrowings		**(7,000)**	7,000
Dividends paid to shareholders	10	**(34,866)**	(34,862)
Net cash flows used in financing activities		**(41,853)**	(27,543)
Net increase in cash and cash equivalents		**43**	7,423
Cash and cash equivalents at the beginning of the year	22	**9,568**	2,145
Cash and cash equivalents at the end of the year	22	**9,611**	9,568

Notes to the consolidated accounts
for the year ended 31 December 2017

1 Accounting policies for the consolidated accounts

Significant accounting policies

The Restaurant Group plc (the 'Company') is a public listed company incorporated and registered in Scotland. The consolidated financial statements of the Group for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the 'Group'). The principal activity of the Group during the period continued to be the operation of restaurants and pubs.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRS interpretations as adopted by the European Union.

(b) Going concern basis

The consolidated financial statements have been prepared on the going concern basis as, after making appropriate enquires, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future at the time of approving the financial statements. The principal risks and uncertainties facing the Group and further comments on going concern are set out in the report of the Directors.

(c) Basis of preparation

The accounting year runs to a Sunday within seven days of 31 December each year which will be a 52 or 53 week period. The year ended 31 December 2017 was a 52 week period, with the comparative year to 1 January 2017 being a 53 week period.

The financial statements are presented in sterling, rounded to the nearest thousand. They have been prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Future accounting policies

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases have not yet been adopted by the EU:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

- IFRS 16 (applicable for year ending 2020) will have a material impact on the reported assets, liabilities and income statement of the Group given the extensive portfolio of operating leases held. Under IFRS 16, the Group will be required to account for its operating leases by recognising a right-of-use asset and related lease liability on the balance sheet. This will additionally impact the depreciation and interest amounts recognised in the income statement. The measurement of overall cash flows of the Group will remain unchanged, although there will be classification changes within the cash flow statement as a result of adopting IFRS 16. Furthermore, extensive disclosures will be required by IFRS 16. As shown in Note 24, the Group has lease commitments of £850m at 31 December 2017 across leases of varying remaining length and age. The impact of the standard on the Group is currently being assessed and it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

1 Accounting policies for the consolidated accounts
continued

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company possess power over the investee, has exposure to variable returns from its involvement with the entity and has the ability to use its power over the investee to affect its returns. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account, regardless of management's intention to exercise that option or warrant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and any gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(e) Foreign currency

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the balance sheet. Transactions in foreign currencies are translated into sterling at the rate of exchange at the date of the transaction.

(f) Property, plant and equipment and intangible assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy k). Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Finance leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied properties (excluding land element) acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy k).

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that enhanced future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis to the residual value over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Freehold land	Indefinite
Freehold buildings	50 years
Long and short leasehold property	Term of lease or 50 years, whichever is lower
Fixtures and equipment	3-10 years
Motor vehicles	4 years
Computer equipment	3-5 years

The estimated useful lives and residual values applied are reviewed at each reporting date with any changes in estimates being applied prospectively.

Intangible assets – Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. Goodwill is not subject to amortisation but is formally tested for impairment at least annually or when an impairment trigger has arisen (see accounting policy k).

(g) Financial assets

Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'cash and cash equivalents' and 'other receivables' in the balance sheet.

Other receivables are amounts due from suppliers or sub tenants in the ordinary course of business. Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (see accounting policy k).

Recognition and measurement
Financial assets are recognised when the Group becomes party to the contractual provisions of the instrument and are subsequently carried at amortised cost using the effective interest rate method, less provisions for impairment. Impairment of financial assets is based on management's estimate of future cash inflows.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(h) Financial liabilities – Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

(i) Stock
Stock is stated at the lower of cost and net realisable value. Cost is determined in accordance with the weighted average stock costing model, including applicable commercial discounts. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and debit and credit card payments received within 48 working hours. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(k) Impairment
The carrying amounts of the Group's assets are reviewed annually to determine whether there is any indication of impairment.

The Group formally determines whether property, plant and equipment are impaired by considering indicators of impairment annually. This requires the Group to determine the lowest level of assets which generate largely independent cash flows (cash-generating units or CGU) and to determine their recoverable amount, based on estimating the value-in-use of these assets or CGUs; and compare these to their carrying value. Cash-generating units are deemed to be individual units or a cluster of units depending on the nature of the trading environment in which they operate. We only consider sites as a cluster of units, i.e. as a single CGU, where they are in a single, shared location, such as an airport, such that demand at one unit can directly affect that of other units in the same location. The discount rate applied in the value-in-use calculations is the Group's weighted average cost of capital. We apply any CGU specific risks to the underlying cash flow assumptions in calculating the value-in-use and therefore apply the same discount rate to each CGU. Impairment losses are recognised in the income statement.

For goodwill and assets that have an indefinite useful life, the recoverable amount is estimated annually. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Goodwill Impairment losses are recognised in the income statement and are not subsequently reversed. All goodwill stated on the balance sheet relates to the acquisition of Blubeckers Limited and Brunning & Price Limited.

1 Accounting policies for the consolidated accounts continued

(l) Share-based payment transactions

The Group operates a number of share-based payment schemes. These schemes allow Group employees to acquire shares of the Company and all options are equity-settled. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The Stochastic, Black-Scholes and Finnerty valuation models are used to measure the fair value of the options granted. The type of award and conditions attached to the award determine which valuation model is used. At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

(m) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

(n) Onerous lease provisions

A provision for onerous lease is recognised when the expected benefits to be derived by the Group from a lease are lower than the unavoidable cost of meeting its obligations under the lease.

The Group provides for its onerous obligations under operating leases where the property is closed or vacant and for properties where the fixed cost is in excess of income. The amount provided is based on the lowest net cost of exiting the contract. Estimates have been made with respect to the time to exit, sublet or cover the fixed cost base, along with other associated exit costs as well as an evaluation of the cost of void period prior to sublet and the value of lease incentive which may be required to be paid as part of the sublet process.

(o) Deferred and current tax

Corporation tax payable is provided on the taxable profit at the current rate. Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that are enacted, or substantively enacted, by the balance sheet date. Deferred tax is measured on a non-discounted basis.

(p) Pensions

The Group makes contributions for eligible workers into defined contribution pension plans and these contributions are charged to the income statement as they are accrued. The Group does not operate any defined benefit plans.

(q) Revenue

Revenue represents amounts received and receivable for goods provided (excluding value added tax and voluntary gratuities left by customers for the benefit of employees) and is recognised at the point of sale. Where the Group operates a Concession unit under a franchise agreement, it acts as principal in this trading arrangement. All revenue from franchise arrangements is recognised by the Group at the point of sale and licencing fees are recorded in cost of sales as the goods are sold. The Group does not act as a franchisor in any trading relationship.

(r) Other income – rental income

Rental income is derived from sites where the Group is the lessor. Rental income is recognised in the income statement as earned. Provisions are made for any doubtful debts. Where any lease incentives are provided to the lessee (such as rent-free periods), such incentives are accounted for as a reduction in lease income over the lease term.

(s) Expenses

Operating lease payments

Fixed payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Contingent rents, such as turnover related rents, are recognised in the income statement as incurred. Incentives to enter into an operating lease are spread on a straight-line basis over the lease term as a reduction in rental expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Pre-opening expenses

Property rentals and related costs incurred up to the date of opening of a new restaurant are written off to the income statement in the period in which they are incurred. Promotional and training costs are written off to the income statement in the period in which they are incurred.

Borrowing costs

Debt is stated net of borrowing costs which are spread over the term of the loan. All other borrowings costs are recognised in the income statement in the period in which they are incurred.

Commercial discount

Commercial discounts represent a reduction in cost of goods and services in accordance with negotiated supplier contracts, the majority of which are based on purchase volumes. Commercial discounts are recognised in the period in which they are earned and to the extent that any variable targets have been achieved in that financial period.

Exceptional items

In order to illustrate the trading performance of the Group, presentation has been made of performance measures excluding those exceptional items which it is considered would distort the comparability of the Group's results. Exceptional items are defined as those items that, by virtue of their unusual nature or size, warrant separate additional disclosure in the financial statements in order to fully understand the performance of the Group.

The Group's income statement provides a reconciliation of the adjusted profitability measures, excluding exceptional items to the equivalent unadjusted IFRS measures. Exceptional items are then further detailed in Note 6.

(t) Dividends

In accordance with IAS 10 'Events after the Balance Sheet Date', dividends declared after the balance sheet date are not recognised as a liability at that balance sheet date, and are recognised in the financial statements when they have received approval by shareholders.

(u) Restatement of comparatives

During the year, management identified two historical elements of the mechanical calculations of the onerous lease provisions that were either not in line with recent industry practice or using incorrect data. This resulted in a net movement in the provision of £9.8m, which can be split across these two areas as follows:

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

These were initially accounted for as exceptional items within the 2017 half year results. Following the publication of the Group's Interim Report the Financial Reporting Council (FRC) wrote to the Company to ask for reconsideration of whether this should be accounted for within the prior year as the correction of a prior year error. As a result of this request, the Company has reviewed the accounting treatment again and taken the decision to restate the 2016 year-end financial statements and record these two elements as corrections of prior year errors.

Notes to the consolidated accounts
continued

1 Accounting policies for the consolidated accounts continued

This has increased the prior year exceptional onerous lease charge within the income statement and the provision for onerous leases by £9.8m. This has also increased the tax credit on exceptional costs from £16.4m to £18.4m, resulting in a net impact on statutory loss after tax of £7.8m.

The amount of correction for each financial line item affected and for basic and diluted earnings per share is as follows:

	As originally disclosed £'000	Restatement £'000	As restated £'000
Consolidated income statement			
Exceptional cost of sales	(109,732)	(9,814)	(119,546)
Cost of sales	(707,868)	(9,814)	(717,682)
Exceptional tax credit	16,405	1,963	18,368
Tax on loss from ordinary activities	(638)	1,963	1,325
Loss for the year	(40,165)	(7,851)	(48,016)
Consolidated balance sheet			
Corporation tax (liabilities)/receivable	(1,275)	1,963	688
Provisions – current	(16,391)	976	(15,415)
Provisions – non-current	(27,579)	(10,790)	(38,369)
Retained earnings	137,332	(7,851)	129,481
Basic and diluted earnings per share			
Weighted average ordinary shares for the purposes of basic earnings per share	200,230,299	–	200,230,299
Total loss for the year (£'000)	(40,165)	(7,851)	(48,016)
Basic loss per share for the year (pence)	(20.06)	(3.92)	(23.98)
Diluted loss per share (pence)	(20.06)	(3.92)	(23.98)

The retained earnings balance as at 28 December 2015 has not been restated, as the impact is considered immaterial.

The FRC also asked the Company to review the classification of the net cash flows relating to exceptional items within the cash flow statement of £7.1m in the year ended 1 January 2017. The Company reconsidered the underlying cash flows and concluded that these would be more appropriately classified as operating cash flows. As a result, the prior year cash flow has been restated to reflect this change in presentation.

Critical accounting judgements

In the process of applying the Group's accounting policies as described above, management has made a number of judgements and estimations of which the following are the most significant:

Critical accounting estimates and assumptions

a) Onerous lease provisions

Provisions for onerous leases are identified as major sources of estimation uncertainty and by their nature are inherently judgemental. The Group provides for its onerous obligations under operating leases where the property is closed or vacant and for properties where the fixed cost is in excess of income. The amount provided is based on the lowest net cost of exiting the contract.

Estimates have been made with respect to the time to exit, sublet or cover the fixed cost base, along with other associated exit costs as well as an evaluation of the cost of void periods prior to sublet and the value of lease incentive which may be required to be paid as part of the sublet process.

In determining the provision, the risk adjusted cash flows have been discounted on a pre-tax basis using a risk free rate.

Changes in the EBITDA performance of each site could impact on the value of the provision. It is estimated that, a 10% decline in the EBITDA performance of the sites included in the provision would generate an additional provision of £0.5m.

Additionally, it is estimated that, should all leases with more than ten years remaining on the committed lease term be exited two years ahead of expiry, the provision would reduce by £2.4m.

A 1% increase in the risk free rate would reduce the provision by £1.8m while a reduction of similar magnitude would result in an additional provision of £2.0m.

b) Impairment of property, plant and equipment

The Group formally determines whether property, plant and equipment are impaired by considering indicators of impairment annually. This requires the Group to determine the lowest level of assets which generate largely independent cash flows (cash-generating units or CGU) and to determine their recoverable amount, based on estimating the value-in-use of these assets or CGUs; and compare these to their carrying value. Cash-generating units are deemed to be individual units or a cluster of units depending on the nature of the trading environment in which they operate. We only consider sites as a cluster of units, i.e. as a single CGU, where they are in a single, shared location, such as an airport, such that demand at one unit can directly affect that of other units in the same location.

Calculating the value-in-use requires the Group to make an estimate of the future cash flows of each CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows. The estimated future cash flows for each CGU are based on past experience and trading at the specific CGU. The discount rate used in the year ended 31 December 2017 for all CGUs was based on the Group's weighted average cost of capital of 10.2% (year ended 1 January 2017: 10.6%). The Directors believe the risks associated with each CGU are the same, considering they are all UK based, the nature of assets being tested for impairment is consistent, all CGUs are within the restaurant sector and cash flow projections are compiled in the same way for every CGU.

The key assumptions in the value-in-use calculations are the discount rate applied and the forecast cash flows. An increase or decrease of 1% in the discount rate would give rise to an additional or reduction in impairment of approximately £0.7m. The forecast cash flows are based on Board approved budgets and long term business plans covering the period to December 2020. These forecasts take into account management's experience of the specific sites and its long term expectations of the market. A 10% reduction in these forecast cash flows would result in an additional impairment of circa £1.3m.

Notes to the consolidated accounts
continued

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

3 Revenue
All revenue has been generated from principal trade activities within the United Kingdom.

4 Profit/(loss) for the year

	2017 £'000	2016 Restated (Note 1) £'000
Cost of sales consists of the following:		
Continuing business excluding pre-opening costs	**587,347**	594,756
Pre-opening costs	**2,143**	3,380
Trading cost of sales	**589,490**	598,136
Exceptional charge	**8,386**	119,546
Total cost of sales for the year	**597,876**	717,682

	2017 £'000	2016 £'000
Profit/(loss) for the year has been arrived at after charging/(crediting):		
Depreciation (see Note 12)	**36,514**	41,809
Impairment of property, plant and equipment	**4,185**	68,050
Purchases of food, beverages and consumables	**147,079**	144,467
Staff costs (see Note 5)	**236,981**	239,297
Minimum lease payments	**73,905**	74,616
Contingent rents	**10,093**	10,906
Total operating lease rentals of land and buildings	**83,998**	85,522
Rental income	**(2,007)**	(2,260)
Net rental costs	**81,991**	83,262

	2017 £'000	2016 £'000
Auditor's remuneration:		
Fee payable to the Company's auditor for the audit of the Group's annual accounts	**158**	175
Fees payable to the Company's auditor and their associates for other services to the Group:		
The audit of the Company's subsidiaries	**12**	12
Total audit fees	**170**	187
Audit-related assurance services	**25**	20
Other assurance services	**19**	19
Tax compliance services	**–**	50
Other tax advisory services	**–**	29
Other services	**–**	33
Total non-audit fees	**44**	151
Total auditor's remuneration	**214**	338

Audit fees included in the above total relating to the Company are borne by a subsidiary undertaking. All of the auditor's remuneration in 2017 and 2016 was expensed as administration costs.

Notes to the consolidated accounts
continued

5 Staff costs and numbers

	2017 £'000	2016 £'000
a) Average staff numbers during the year (including executive Directors)		
Restaurant staff	**14,484**	15,222
Administration staff	**315**	348
	14,799	15,570

	2017 £'000	2016 £'000
b) Staff costs (including Directors) comprise:		
Wages and salaries	**217,533**	221,815
Social security costs	**15,722**	14,560
Share-based payments	**2,158**	1,323
Pension costs	**1,568**	1,599
	236,981	239,297

	2017 £'000	2016 £'000
c) Directors' remuneration		
Emoluments	**1,584**	1,627
Termination benefits	**167**	983
Money purchase (and other) pension contributions	**116**	144
	1,867	2,754
Charge/(credit) in respect of share-based payments	**378**	(662)
	2,245	2,092

Further details of the Directors' emoluments and the executive pension schemes are given in the Directors' remuneration report on pages 38 to 56.

6 Exceptional items

	2017 £'000	2016 Restated (Note 1) £'000
Release of onerous lease provision in respect of closed sites now disposed	**(7,299)**	–
Onerous lease provision in respect of distressed and other sites	**11,500**	51,496
Impairment of property, plant and equipment	**4,185**	68,050
Restructuring and strategic review costs	**4,772**	6,944
Exceptional cost before tax	**13,158**	126,490
Credit in respect of tax rate change	**67**	(261)
Tax effect of exceptional Items	**(1,490)**	(18,107)
	(1,423)	(18,368)
Net exceptional cost for the year	**11,735**	108,122

An exceptional pre-tax charge of £13.2m has been recorded in the year (2016: £126.5m), which includes the following:

- onerous lease provisions resulted in a charge of £4.2m in the year (2016: £51.5m, including the prior year restatement of £9.8m). This comprises;
  - a £7.3m credit in respect of unutilised provisions following the successful exit of 21 sites ahead of expectations;
  - a further charge totalling £11.5m was provided for in the year. This comprised a release of £4.5m in respect of certain assets where performance was better than expected, £5.7m in respect of newly identified onerous leases and a charge of £10.3m in respect of sites previously provided for.
- a net impairment charge of £4.2m (2016: £68.1m) was made against the carrying value of specific restaurant assets due to recent changes in certain markets. This comprises an impairment charge of £5.3m partially offset by reversals of previously recognised impairment losses of £1.1m; and
- a £4.8m charge (2016: £6.9m) relating to costs incurred in the restructuring projects that were initiated in 2017 to implement the new business strategy and cost saving initiatives.

Cash expenditure associated with the above exceptional charges was £19.5m in the year (2016: £7.1m) relating to the costs associated with the implementation of the new business strategy £6.8m and the cash cost of the onerous leases of £12.7m. The tax credit relating to these exceptional charges was £1.4m (2016: £18.4m).

Notes to the consolidated accounts
continued

7 Net interest charges

	2017 £'000	2016 £'000
Bank interest payable	746	834
Other interest payable	409	465
Facility fees	365	387
Interest on obligations under finance leases	391	387
Total interest payable	1,911	2,073
Bank interest receivable	–	(5)
Other interest receivable	(2)	(8)
Loan note interest receivable (see Note 14)	(49)	(53)
Total interest receivable	(51)	(66)
Net interest charges	1,860	2,007

8 Tax

	Trading 2017 £'000	Exceptional 2017 £'000	Total 2017 £'000	Total 2016 Restated (Note 1) £'000
a) The tax charge comprises:				
Current tax				
UK corporation tax at 19.25% (2016: 20.00%)	12,266	(1,698)	10,568	7,034
Adjustments in respect of previous years	(1,463)	780	(683)	(116)
	10,803	(918)	9,885	6,918
Deferred tax				
Origination and reversal of temporary differences	94	–	94	27
Adjustments in respect of previous years	1,190	–	1,190	121
Charge/(credit) in respect of rate change on deferred tax liability	(11)	67	56	(261)
Credit in respect of property, plant and equipment writedowns and disposals	–	(572)	(572)	(8,130)
	1,273	(505)	768	(8,243)
Total tax charge for the year	12,076	(1,423)	10,653	(1,325)

b) Factors affecting the tax charge for the year

The tax charged for the year varies from the standard UK corporation tax rate of 19.25% (2016: 20.00%) due to the following factors:

	Trading 2017 £'000	Exceptional 2017 £'000	Total 2017 £'000	2016 Restated (Note 1) £'000
Profit/(loss) on ordinary activities before tax	56,744	(13,158)	**43,586**	(49,341)
Profit/(loss) on ordinary activities before tax multiplied by the standard UK corporation tax rate of 19.25% (2016: 20.0%)	10,923	(2,533)	**8,390**	(9,868)
Effects of:				
Depreciation/impairment on non-qualifying assets	1,454	234	**1,688**	6,633
Expenses/(income) not deductible for tax purposes	446	29	**475**	3,237
Charge/(credit) in respect of rate change on deferred tax liability	(11)	67	**56**	(261)
Release of tax provisions	(478)	–	**(478)**	–
Business combinations	(182)	–	**(182)**	–
Share options	197	–	**197**	–
Adjustment in respect of previous years	(273)	780	**507**	(1,066)
Total tax charge for the year	12,076	(1,423)	**10,653**	(1,325)

The Finance (No.2) Act 2015 introduced a reduction in the main rate of corporation tax from 20% to 19% from April 2017 and from 19% to 18% from April 2020. These reductions were substantively enacted on 26 October 2015. This resulted in a blended rate of 19.25% being used to calculate the tax liability for the 52 weeks ended 31 December 2017 (20% for the 53 weeks to 1 January 2017).

The Finance Act 2016 introduced a further reduction in the main rate of corporation tax to 17% from April 2020. This was substantively enacted on 6 September 2016. The deferred tax provision at the balance sheet date has been calculated at this rate, resulting in a £0.1m tax charge.

Notes to the consolidated accounts
continued

9 Earnings per share (EPS)

	2017	2016 Restated (Note 1)
a) Basic earnings per share:		
Weighted average ordinary shares for the purposes of basic earnings per share	200,376,258	200,230,299
Profit/(loss) for the year after tax (£'000)	32,933	(48,016)
Basic earnings per share for the year (pence)	16.44	(23.98)
Total profit/(loss) for the year (£'000)	32,933	(48,016)
Effect of exceptional items on earnings for the year (£'000)	11,735	108,122
Earnings excluding exceptional items (£'000)	44,668	60,106
Adjusted earnings per share (pence)	22.29	30.02
b) Diluted earnings per share:		
Weighted average ordinary shares for the purposes of basic earnings per share	200,376,258	200,230,299
Effect of dilutive potential ordinary shares:		
Dilutive shares to be issued in respect of options granted under the share option schemes	280,084	404,829
Shares held by employee benefit trust	688,276	814,855
	201,344,618	201,449,983
Diluted earnings per share (pence)	16.36	(23.98)
Adjusted diluted earnings per share (pence)	22.18	29.84

Diluted earnings per share information is based on adjusting the weighted average number of shares for the purposes of basic earnings per share in respect of notional share awards made to employees in regards of share option schemes and the shares held by the employee benefit trust. The calculation of diluted earnings per share does not assume conversion, exercise or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share.

10 Dividend

	2017 £'000	2016 £'000
Amounts recognised as distributions to equity holders during the year:		
Final dividend for the 53 weeks ended 1 January 2017 of 10.60p (2015: 10.6p) per share	21,240	21,237
Interim dividend for the 52 weeks ended 31 December 2017 of 6.80p (2016: 6.80p) per share	13,626	13,625
Total dividends paid in the year	34,866	34,862
Proposed final dividend for the 52 weeks ended 31 December 2017 of 10.6p (2016 actual proposed and paid: 10.60p) per share	21,240	21,240

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting to be held on 23 May 2018 and is not recognised as a liability in these financial statements. The proposed final dividend reflects the number of shares in issue on 31 December 2017, adjusted for the 0.7m shares owned by the employee benefit trust for which dividends have been waived.

Further details are provided in Note 19.

11 Intangible assets

	£'000
Cost and carrying amount	
27 December 2015, 1 January 2017 and 31 December 2017	**26,433**

Goodwill arising on business combinations is not amortised but is subject to an impairment review annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Therefore, goodwill arising on acquisition is monitored and an impairment test is carried out which compares the value-in-use of each cash-generating unit (CGU) to its carrying value. The intangible assets reported on the balance sheet represent goodwill arising on the acquisition of Blubeckers Limited and Brunning and Price Limited, which now trade as Pub restaurants.

Value-in-use calculations are based on cash flow forecasts derived from the most recent financial budgets and three-year business plans approved by the Board and which are based on management's best estimates at the time. Cash flows are then extrapolated in perpetuity with an assumed annual growth rate. Perpetuity is believed to be reasonable due to the significant proportion of freeholds in the estate and the nature of the leasehold properties. The pre-tax discount rate applied to cash flow projections is 10.2% (2016: 10.6%) which is the rate believed by the Directors to reflect the risks associated with the CGU. The key assumptions in the value-in-use calculations are the discount rate applied and the forecast cash flows.

The Group has conducted a sensitivity analysis taking into consideration the impact on key assumptions arising from a range of possible trading and economic scenarios. The scenarios have been performed separately with the sensitivities summarised as follows:

- An increase in the discount rate of 1%.
- A decrease of 5% on forecast cash flows.

The sensitivity analysis shows that no impairment would result from either an increase in the discount rate or a decrease in forecast cash flows.

Notes to the consolidated accounts
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12 Property, plant and equipment

	Land and buildings £'000	Fixtures, equipment and vehicles £'000	Total £'000
Cost			
At 28 December 2015	489,885	181,836	671,721
Additions	38,445	16,558	55,003
Disposals	(6,536)	(6,801)	(13,337)
At 1 January 2017	521,794	191,593	713,387
Accumulated depreciation and impairment			
At 28 December 2015	154,526	113,555	268,081
Charged during the year	22,533	19,276	41,809
Impairment	54,807	13,243	68,050
Disposals	(3,991)	(6,514)	(10,505)
At 1 January 2017	227,875	139,560	367,435
Cost			
At 2 January 2017	521,794	191,593	**713,387**
Additions	16,192	17,146	**33,337**
Disposals	(17,459)	(8,440)	**(25,899)**
Transfers to provisions	500	–	**500**
At 31 December 2017	521,027	200,298	**721,325**
Accumulated depreciation and impairment			
At 2 January 2017	227,875	139,560	**367,435**
Charged during the year	20,609	15,905	**36,514**
Impairment	3,322	863	**4,185**
Disposals	(14,177)	(7,661)	**(21,838)**
At 31 December 2017	237,629	148,667	**386,296**
Net book value as at 1 January 2017	293,919	52,033	345,952
Net book value as at 31 December 2017	283,398	51,631	**335,029**

The impairment charge comprises a charge of £5.3m partially offset by reversals of previously recognised impairment losses of £1.1m.

Included within the book value of property, plant and equipment are assets under construction of £0.7m (2016: £2.3m) which are not depreciated.

	2017 £'000	2016 £'000
Net book value of land and buildings:		
Freehold	**108,418**	109,525
Long leasehold	**3,640**	3,915
Short leasehold	**171,340**	180,479
	283,398	293,919

	2017 £'000	2016 £'000
Assets held under finance leases – Land and Buildings		
Costs at the beginning of the year	**1,961**	1,961
Disposals during the year	**(366)**	–
Costs at the end of the year	**1,595**	1,961
Depreciation		
At the beginning of the year	**1,681**	1,249
Provided during the year	**25**	25
Impairment	**–**	407
Disposals during the year	**(272)**	–
At the end of the year	**1,434**	1,681
Net book value at the end of the year	**161**	280

External valuation of freehold properties

All freehold properties of the Group held were valued by Savills (UK) Limited, an independent and qualified professional valuer, in January 2018. The valuation has been performed in accordance with the RICS Red Book using market comparable data to determine fair value. This valued the Group's freehold and long leasehold assets at £148.2m versus a book value of £110.9m.

13 Stock

Stock comprises raw materials and consumables and has been valued at the lower of cost and estimated net realisable value. The replacement cost at 31 December 2017 is not considered by the Directors to be materially different from the balance sheet value. The Group recognised £147.1m of purchases as an expense in 2017 (2016: £144.5m).

Notes to the consolidated accounts
continued

14 Other receivables

	2017 £'000	2016 £'000
Amounts falling due within one year:		
Other receivables	**15,861**	19,023
Provision for bad debts	**(912)**	(241)
	14,949	18,782

The 2016 comparative has been reclassified as other receivables from trade receivables, following a detailed review of the substance of the receivable.

	2017 £'000	2016 £'000
Movements in the Group provision for other receivables is as follows:		
At the beginning of the year	**(241)**	(241)
Provided for during the year	**(671)**	–
At the end of the year	**(912)**	(241)

The Group has an outstanding long-term receivable of £2.9m from Black House Newco Limited (formerly BH Restaurants Limited), which was fully provided against in 2014 as a result of a detailed review undertaken of the trading performance of Black House Newco Limited and management's assessment and estimate of future cash flows.

Interest was receivable from Black House Newco Limited on a loan note of £2.9m at a rate of LIBOR + 1%. In the 52 weeks ended 31 December 2017, £0.1m of interest accrued (2016: £0.1m). Refer to Note 23 and 27 for further details.

15 Trade and other payables

	2017 £'000	2016 £'000
Amounts falling due within one year:		
Trade payables	**38,206**	42,812
Other tax and social security	**21,621**	20,317
Other payables	**10,389**	10,182
Accruals	**54,022**	48,539
	124,238	121,850

16 Provisions

	2017 £'000	2016 Restated (Note 1) £'000
Provision for onerous leases	**41,805**	51,054
Other provisions	**291**	2,730
Balance at the end of the year	**42,096**	53,784
Analysed as:		
Amount due for settlement within one year	**10,408**	15,415
Amount due for settlement after one year	**31,688**	38,369
	42,096	53,784

	Onerous lease provisions £'000	Other provisions £'000	Total £'000
Balance at 2 January 2017 (Restated – Note 1)	51,054	2,730	**53,784**
Release of onerous lease provision in respect of closed sites now disposed	(7,299)	–	**(7,299)**
Onerous lease provision in respect of distressed and other sites	11,785	–	**11,785**
Provision in respect of restructuring & strategic review costs	–	4,772	**4,772**
Amounts utilised	(14,138)	(7,211)	**(21,349)**
Unwinding of discount	403	–	**403**
Balance at 31 December 2017	41,805	291	**42,096**

The onerous lease provisions are for onerous contracts in respect of lease agreements. The provision comprises the onerous element of expenditure over the life of those contracts which are considered onerous, expiring in 1 to 30 years, and exit costs including the costs of strip out and dilapidations and the costs expected to be incurred over the void period until the property is sublet.

- onerous lease provisions resulted in a charge of £4.5m in the year (2016: £57.6m, including the prior year restatement of £9.8m referred to in Note 1). This comprises;
  - a £7.3m credit in respect of unutilised provisions following the successful exit of 21 sites ahead of expectations;
  - a further charge totalling £11.8m was provided for in the year. This comprised a release of £4.5m in respect of certain assets where performance was better than expected, £5.7m in respect of newly identified onerous leases and a charge of £10.6m in respect of sites previously provided for.

Other provisions are for committed costs arising from the strategic review project. These costs represent the continuation of the restructuring and consulting projects that were initiated in 2016.

Notes to the consolidated accounts
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17 Deferred taxation

	Capital allowances £'000	Share options £'000	Other £'000	**2017 Total £'000**	2016 Total Restated £'000
Balance at the beginning of the year	4,533	(59)	(40)	**4,434**	12,096
Movement in deferred tax balances (net of exceptional credit)	(366)	(218)	107	**(477)**	334
Adjustments in respect of previous years	1,897	–	(707)	**1,190**	121
Other temporary differences	–	–	–	**–**	(307)
Charge/(credit) in respect of rate change	43	25	(12)	**56**	(261)
Exceptional credit in respect of fixed asset writedowns and disposals	–	–	–	**–**	(8,130)
Deferred tax taken directly to the income statement (see Note 8)	1,574	(193)	(612)	**769**	(8,243)
Tax on share-based payments	–	(86)	–	**(86)**	581
Charge in respect of rate change	–	10	–	**10**	–
Deferred tax taken through equity	–	(76)	–	**(76)**	581
Balance at the end of the year	6,107	(328)	(652)	**5,127**	4,434

The prior year balances have been restated as both the 'other temporary differences' item and the 'accelerated capital allowances' figure were overstated by equal and opposite amounts of £8.1m. This restatement only affects the reconciliation itself, and had no impact on the amounts reported in profit or loss or in the balance sheet.

	2017 £'000	2016 £'000
Deferred tax consists of:		
Capital allowances in advance of depreciation	**6,107**	4,533
Share options	**(328)**	(59)
Capital gains rolled over	**330**	330
Capital losses	**(330)**	–
Other temporary differences	**(652)**	(370)
	5,127	4,434

18 Share capital

	Number	£'000
Issued and fully paid		
At 28 December 2015	200,950,672	56,518
Exercise of share options	112,373	32
At 1 and 2 January 2017	**201,063,045**	**56,550**
Exercise of share options	**4,355**	**1**
At 31 December 2017	**201,067,400**	**56,551**

The shares have a par value of 28.125p each (2016: 28.125p).

19 Employee benefit trust

An employee benefit trust (EBT) was established in 2007 in order to satisfy the exercise and vesting of existing and future share awards under the Long-Term Incentive Plan. The EBT purchases shares in the market, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 31 December 2017, the Trustees, Estera Trust (Jersey) Limited, held 0.7m shares in the Company (1 January 2017: 0.7m shares).

There were no cash transactions in the 52 weeks ended 31 December 2017 (53 weeks ended 1 January 2017: nil).

	Number
At 28 December 2015	1,177,229
Transfer of shares to satisfy the exercise of share awards	(488,953)
At 2 January 2017 and 31 December 2017	**688,276**

Details of options granted under the Group's share schemes are given in Note 20.

Notes to the consolidated accounts
continued

20 Share-based payment schemes

The Group operates a number of share-based payment schemes, details of which are provided in the Directors' remuneration report.

A charge has been recorded in the income statement of the Group in respect of share-based payments of £2.2m (2016: £1.3m).

The other reserves account in the balance sheet reflects the credit to equity made in respect of the charge for share-based payments made through the income statement and the purchase of shares in the market by the EBT in order to satisfy the vesting of existing and future share awards under the Long-Term Incentive Plan (see Note 19).

Long-Term Incentive Plan

The Group operates the 2005 Long-Term Incentive Plan (LTIP), details of which are provided in the Directors' remuneration report.

Awards under the LTIP are granted to executive Directors and senior management in the form of nil-cost options.

Conditional Award share options and Matching Award share options are granted to Directors and selected employees. In respect of the Matching Award share options, the respective Director or employee is required to acquire a number of shares by a specified date, known as 'deposited shares', and retain these shares until the Matching Award share options vest, for these Matching Award share options to be exercisable. The table below summarises the dates of awards under the LTIP and the dates by which Directors and employees were required to acquire their deposited shares.

Date of award	Date by which deposited shares must be acquired
27 February 2014	30 June 2014
3 March 2015	30 June 2015

Vesting of share options under the LTIP is dependent on continuing employment or in accordance with 'good leaver' status as set out in the scheme rules.

In exceptional circumstances, employees may be permitted to exercise options before the normal vesting date.

The Conditional and Matching Awards granted on 27 February 2014 became exercisable on 27 February 2017. The performance criteria was based on total shareholder return (TSR) and Adjusted earnings per share (EPS). For the TSR element of the award, The Restaurant Group plc was ranked in the lower quartile against its comparator group and consequently, none of the TSR element of the award vested. In respect of the Adjusted EPS element of the award, the growth in Adjusted EPS did not meet the performance criteria and therefore none of this part of the award vested.

For those awards granted on 3 March 2015 that vest in 2018, the performance criteria were based on TSR and Adjusted EPS. For the TSR element of the award, The Restaurant Group plc was ranked in the lower quartile against its comparator group and consequently the TSR element of the award will not vest.

The Adjusted EPS element of this award will not vest based on the 2017 performance.

The options from the LTIP scheme will be satisfied through shares purchased via a trust. Further details are provided in Note 19.

Year ended 31 December 2017

Period during which options are exercisable	Type of award	Fair value	Outstanding at the beginning of the year	Granted	Exercised	Lapsed	Outstanding at the end of the year	Exercisable at the end of the year
2017	Conditional – TSR element	431.8p	138,801	–	–	(138,801)	–	–
2017	Conditional – EPS element	658.5p	138,805	–	–	(138,805)	–	–
2017	Matching – TSR element	431.8p	52,201	–	–	(52,201)	–	–
2017	Matching – EPS element	658.5p	52,201	–	–	(52,201)	–	–
2018	Conditional – TSR element	417.5p	164,965	–	–	(77,289)	87,677	–
2018	Conditional – EPS element	731.5p	164,967	–	–	(77,290)	87,677	–
2018	Matching – TSR element	417.5p	52,879	–	–	(22,152)	30,727	–
2018	Matching – EPS element	731.5p	52,879	–	–	(22,152)	30,727	–
2019	Conditional – TSR element	50.4p	405,241	–	–	(189,239)	216,001	–
2019	Conditional – EPS element	395.1p	405,241	–	–	(189,239)	216,001	–
2019	Continued Employment	395.1p	201,907	–	–	(57,907)	144,000	–
2019	Conditional – TSR element	141.1p	75,713	–	–	(75,713)	–	–
2019	Conditional – EPS element	259.9p	75,712	–	–	(75,712)	–	–
2019	Conditional – TSR element	212.5p	141,338	–	–	–	141,338	–
2019	Conditional – EPS element	331.7p	141,337	–	–	–	141,337	–
2020	Conditional – TSR element	201.7p	–	503,826	–	(93,996)	409,830	–
2020	Conditional – EPS element	333.2p	–	503,826	–	(93,996)	409,830	–
2020	Conditional – TSR element	157.4p	–	48,930	–	–	48,930	–
2020	Conditional – EPS element	292.3p	–	48,929	–	–	48,929	–
2020	Conditional – TSR element	134.9p	–	20,751	–	–	20,751	–
2020	Conditional – EPS element	274.7p	–	20,751	–	–	20,751	–
Total number			**2,264,186**	**1,147,013**	**–**	**(1,356,693)**	**2,054,506**	**–**

Notes to the consolidated accounts
continued

20 Share-based payment schemes continued
Year ended 1 January 2017

Period during which options are exercisable	Type of award	Fair value	Outstanding at the beginning of the year	Granted	Exercised	Lapsed	Outstanding at the end of the year	Exercisable at the end of the year
2016	Conditional – TSR element	214.9p	198,077	–	(183,424)	(14,653)	–	–
2016	Conditional – EPS element	418.9p	198,076	–	(183,423)	(14,653)	–	–
2016	Matching – TSR element	214.9p	78,150	–	(57,647)	(20,503)	–	–
2016	Matching – EPS element	418.9p	78,153	–	(57,650)	(20,503)	–	–
2017	Conditional – TSR element	431.8p	177,664	–	(1,861)	(37,002)	138,801	–
2017	Conditional – EPS element	658.5p	177,665	–	(1,861)	(36,999)	138,805	–
2017	Matching – TSR element	431.8p	63,170	–	–	(10,969)	52,201	–
2017	Matching – EPS element	658.5p	63,170	–	–	(10,969)	52,201	–
2018	Conditional – TSR element	417.5p	240,041	–	(1,544)	(73,532)	164,965	–
2018	Conditional – EPS element	731.5p	240,040	–	(1,544)	(73,530)	164,966	–
2018	Matching – TSR element	417.5p	80,978	–	–	(28,099)	52,879	–
2018	Matching – EPS element	731.5p	80,978	–	–	(28,099)	52,879	–
2019	Conditional – TSR element	50.4p	–	541,602	–	(136,361)	405,241	–
2019	Conditional – EPS element	395.1p	–	541,602	–	(136,361)	405,241	–
2019	Continued Employment	395.1p	–	225,720	–	(23,813)	201,907	–
2019	Conditional – TSR element	141.1p	–	75,713	–	–	75,713	–
2019	Conditional – EPS element	259.9p	–	75,712	–	–	75,712	–
2019	Conditional – TSR element	212.5p	–	141,338	–	–	141,338	–
2019	Conditional – EPS element	331.7p	–	141,337	–	–	141,337	–
Total number			1,676,162	1,743,024	(488,954)	(666,046)	2,264,186	–

Save As You Earn

Under the Save As You Earn (SAYE) scheme, the Board may grant options over shares in The Restaurant Group plc to UK-based employees of the Group. Options are granted with a fixed exercise price equal to 80% of the average market price of the shares for the five days prior to invitation. Employees pay a fixed amount from their salary into a savings account each month for the three-year savings period. At the end of the savings period, employees have six months in which to exercise their options using the funds saved. If employees decide not to exercise their options, they may withdraw their funds saved and the options expire. Exercise of options is subject to continued employment within the Group. In exceptional circumstances, employees may be permitted to exercise these options before the end of the three-year savings period. Options were valued using the Stochastic share pricing model.

Year ended 31 December 2017

Period during which options are exercisable	Exercise price	Outstanding at the beginning of the year	Granted	Forfeited	Exercised	Lapsed	Outstanding at the end of the year	Exercisable at the end of the year
2017 – 2018	525.0p	315,784	–	(141,846)	–	–	173,938	173,938
2018 – 2019	546.0p	244,275	–	(23,818)	–	(96,958)	123,499	–
2019 – 2020	307.0p	1,794,762	–	(146,159)	(4,355)	(857,358)	786,890	–
2020 – 2021	243.8p	–	1,022,907	–	–	(34,259)	988,648	–
Total number		**2,354,821**	**1,022,907**	**(311,823)**	**(4,355)**	**(988,575)**	**2,072,975**	**173,938**
Weighted average exercise price		**361.0p**	**243.8p**	**424.4p**	**307.0 p**	**328.3p**	**309.4p**	**525.0p**

Year ended 1 January 2017

Period during which options are exercisable	Exercise price	Outstanding at the beginning of the year	Granted	Forfeited	Exercised	Lapsed	Outstanding at the end of the year	Exercisable at the end of the year
2015 – 2016	283.0p	119,815	–	–	(111,993)	(7,822)	–	–
2017 – 2018	525.0p	1,025,474	–	(51,707)	(380)	(657,603)	315,784	–
2018 – 2019	546.0p	785,884	–	(65,677)	–	(475,932)	244,275	–
2019 – 2020	307.0p	–	1,838,962	(7,035)	–	(37,165)	1,794,762	–
Total number		1,931,173	1,838,962	(124,419)	(112,373)	(1,178,522)	2,354,821	–
Weighted average exercise price		518.5p	307.0p	523.8p	283.8p	525.0p	361.0p	

During 2017, the weighted average market price at date of exercise was 322.2p per share (2016: 499.4p). The weighted average remaining contractual life for the shares outstanding at the end of the period is 2.18 years (2016: 2.54 years).

20 Share-based payment schemes continued

Assumptions used in valuation of share-based payments granted in the year ended 31 December 2017:

Scheme	March 2017 LTIP Award		July 2017 LTIP Award		October 2017 LTIP Award		2017 SAYE
Grant date	TSR element 17/03/2017	Adjusted EPS element 17/03/2017	TSR element 04/07/2017	Adjusted EPS element 04/07/2017	TSR element 02/10/2017	Adjusted EPS element 02/10/2017	20/10/2017
Share price at grant date	360p	360p	319.4p	319.4p	302.5p	302.5p	300.9p
Exercise price	n/a	n/a	n/a	n/a	n/a	n/a	243.76p
No of options originally granted	503,826	503,826	48,930	48,929	20,751	20,751	1,022,907
Minimum vesting period	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Expected volatility[1]	44.0%	n/a	46.3%	n/a	49.2%	n/a	42.0%
Contractual life	5 years	5 years	5 years	5 years	5 years	5 years	3.5 years
Risk free rate	0.07%	n/a	0.33%	n/a	0.51%	n/a	0.57%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.78%
Expected forfeitures	0%	0%	0%	0%	0%	0%	0%
Fair value per option	201.8p	333.3p	156.4p	292.6p	135.7p	276.8p	77.36p

1 Expected volatility is the measure of the amount by which the share price is expected to fluctuate during a period. In order to calculate volatility, the movement in the return index has been calculated (share price plus dividends reinvested) over a period prior to the grant date equal in length to the remaining period over which the performance condition applies. For the discount for the TSR performance condition for the March, July and October 2017 Awards, the calculated volatility based on the movement in the return index over a period of 3 years prior to the grant has been used. For the discount for the SAYE scheme, the calculated volatility based on the movement in the return index over a period of 3.3 years prior to the grant has been used.

21 Reconciliation of profit before tax to cash generated from operations

	2017 £'000	2016 Restated (Note 1) £'000
Profit/(loss) before tax	**43,586**	(49,341)
Net interest charges	**1,860**	2,007
Impairment of property, plant and equipment	**4,185**	68,050
Onerous lease and other property provisions	**8,973**	56,674
Share-based payments	**2,158**	1,323
Depreciation	**36,514**	41,809
(Increase)/decrease in stocks	**(298)**	757
Decrease/(increase) in receivables	**2,185**	(5,973)
Increase in creditors	**8,474**	6,842
Cash generated from operations	**107,637**	122,148

22 Reconciliation of changes in cash to the movement in net debt

	2017 £'000	2016 £'000
Net debt:		
At the beginning of the year	**(28,314)**	(28,382)
Movements in the year:		
Net repayments/(withdrawals) of borrowings	**7,000**	(7,000)
Non-cash movements in the year	**(341)**	(355)
Net cash inflow/(outflow)	**43**	7,423
At the end of the year	**(21,612)**	(28,314)

Represented by:	At 28 December 2015 £'000	Cash flow movements in the year £'000	Non-cash movements in the year £'000	At 1 and 2 January 2017 £'000	Cash flow movements in the year £'000	Non-cash movements in the year £'000	At 31 December 2017 £'000
Cash and cash equivalents	**2,983**	6,585	–	**9,568**	43	–	**9,611**
Overdraft	**(838)**	838	–	**–**	–	–	**–**
Bank loans falling due after one year	**(30,527)**	(7,000)	(355)	**(37,882)**	7,000	(341)	**(31,223)**
	(28,382)	423	(355)	**(28,314)**	7,043	(341)	**(21,612)**

Cash and cash equivalents are comprised of cash at bank and cash floats held on site. The non-cash movements in bank loans are in relation to the amortisation of prepaid facility costs. Bank loans falling due after more than one year are the only liabilities arising from financing activities and the cash flows and non-cash changes are shown above.

23 Financial instruments

The Group finances its operations through equity and borrowings.

Management pay rigorous attention to treasury management requirements and continue to:

- ensure sufficient committed loan facilities are in place to support anticipated business requirements;
- ensure the Group's debt service will be supported by anticipated cash flows and that covenants will be complied with; and
- manage interest rate exposure with a combination of floating rate debt and interest rate swaps when deemed appropriate.

The Board closely monitors the Group's treasury strategy and the management of treasury risk.

Further details on the business risk factors that are considered to affect the Group are included in the strategic report and more specific financial risk management (including sensitivity to increases in interest rates) are included in the Directors report.

Further details on market and economic risk and headroom against covenants are included in the strategic report.

23 Financial instruments continued

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while looking to maximise returns to shareholders. The capital structure of the Group consists of equity (comprising issued share capital, other reserves and retained earnings), borrowings and cash and cash equivalents. The Group monitors its capital structure on a regular basis through cash flow projections and consideration of the cost of financing its capital.

The Group is subject to externally imposed capital requirements in respect of its bank loan. The Group is required to maintain a required net debt to EBITDA ratio and EBITDA to net finance charge ratio. These requirements are monitored as part of the capital management process on a regular basis and have been complied with for the current financial period.

Financial assets and liabilities

Financial assets

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

	2017 £'000	2016 £'000
Cash and cash equivalents	9,611	9,568
Other receivables	14,949	18,782
Total financial assets	**24,560**	**28,350**

Cash and cash equivalents include £0.5m (2016: £0.4m) held on account in respect of deposits paid by tenants under the terms of their rental agreement.

Financial liabilities

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

	2017 £'000	2016 £'000
Overdraft	–	–
Trade and other payables	102,621	101,533
Finance lease payable	164	393
Short-term financial liabilities	**102,785**	**101,926**
Long-term borrowings – at floating interest rates*	32,000	39,000
Bank fees	(777)	(1,118)
Finance lease payable	2,548	2,950
Long-term financial liabilities	**33,771**	**40,832**
Total financial liabilities	**136,556**	**142,758**

* Total financial liabilities attracting interest were £32.0m (2016: £39.0m). Interest is payable at floating interest rates which fluctuate and are dependent on LIBOR and base rate. The average rate of interest charged during the year on the Group's debt was 2.22% (2016: 2.26%).

On 2017 results, net interest was covered 65.6 times (2016: 60.3 times) by earnings before interest, tax, depreciation and exceptional items ('Adjusted EBITDA'). Based on year-end debt and earnings for 2017, a 1% rise in interest rates would reduce interest cover to 53.5 times (2016: 50.3 times).

At 31 December 2017 the Group had a cash balance of £9.6m (2016: £9.6m).

The Group has a £10m overdraft facility, which is repayable on demand, on which interest is payable at the bank's overdraft rate.

At 31 December 2017 the Group has £108.0m of committed borrowing facilities in excess of gross borrowings (1 January 2017: £101.0m) and £10.0m of undrawn overdraft (1 January 2017: £10.0m of undrawn overdraft).

The maturity profile of anticipated gross future cash flows, including interest, relating to the Group's non-derivative financial liabilities, on an undiscounted basis, are set out below:

At 31 December 2017

	Overdraft £'000	Trade and other payables £'000	Floating rate loan £'000	Finance lease payable £'000	Total £'000
Within one year	–	102,621	669	164	**103,454**
Within two to five years	–	–	33,204	658	**33,862**
After five years	–	–	–	8,140	**8,140**
	–	102,621	33,873	8,962	**145,456**

At 1 January 2017

	Overdraft £'000	Trade and other payables £'000	Floating rate loan £'000	Finance lease payable £'000	Total £'000
Within one year	–	101,533	8,009	393	109,935
Within two to five years	–	–	32,348	1,572	33,920
After five years	–	–	–	11,676	11,676
	–	101,533	40,357	13,641	155,531

Notes to the consolidated accounts
continued

23 Financial instruments continued

Offsetting financial assets and financial liabilities

Financial assets

At 31 December 2017

	Gross amount of recognised financial assets £'000	Gross amounts of recognised financial liabilities set off in the balance sheet £'000	Net amount of financial assets presented in the balance sheet £'000
Cash and cash equivalents	**23,121**	**(13,510)**	**9,611**

At 1 January 2017

	Gross amount of recognised financial assets £'000	Gross amounts of recognised financial liabilities set off in the balance sheet £'000	Net amount of financial assets presented in the balance sheet £'000
Cash and cash equivalents	21,514	(11,946)	9,568

Fair value of financial assets and liabilities

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

Financial risk management

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial losses to the Group. Counterparties for cash balances are large established financial institutions. The Group is exposed to credit related losses in the event of non-performance by the financial institutions but does not expect them to fail to meet their obligations.

As a retail business with trading receipts settled either by cash or credit and debit cards, there is very limited exposure from customer transactions. The Group is exposed to credit risk in respect of commercial discounts receivable from suppliers but the Directors believe adequate provision has been made in respect of doubtful debts and there are no material amounts past due that have not been provided against. Receivables that are neither past due nor impaired are expected to be fully recoverable.

The Group has an outstanding long-term receivable of £2.9m from Black House Newco Limited (formerly BH Restaurants Limited). As a result of a detailed trading review of the business, the Board made full provision against the loan note due within the financial year ended 2014 (further details are provided in Note 14).

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represent the Group's maximum exposure to credit risk.

(b) Liquidity risk
The Group has built an appropriate mechanism to manage liquidity risk of the short, medium and long-term funding and liquidity management requirements.

Liquidity risk is managed through the maintenance of adequate cash reserves and bank facility by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group's loan facility, which matures in June 2020 (as set out in Note (a) above) ensures continuity of funding, provided the Group continues to meet its covenant requirements (as detailed in the Directors report).

(c) Foreign currency risk
The Group is indirectly exposed to changes in foreign currency rates through its supply chain and does not use foreign exchange forward contracts.

(d) Interest rate risk
Exposure to interest rate movements has been controlled historically through the use of floating rate debt and interest rate swaps to achieve a balanced interest rate profile. The Group does not currently have any interest rate swaps in place as the continued reduction in the level of debt combined with current market conditions results in a low level of exposure. The Group's exposure will continue to be monitored and the use of interest rate swaps may be considered in the future.

24 Lease commitments
Future lease payments in respect of finance leases are due as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Within one year	**164**	393	**164**	393
Within two to five years	**658**	1,572	**627**	1,204
After five years	**8,140**	11,676	**1,921**	1,746
	8,962	13,641		
Less: future interest payments	**(6,250)**	(10,298)		
Present value of lease obligations	**2,712**	3,343	**2,712**	3,343
Analysed as:				
Amount due for settlement within one year			**164**	393
Amount due for settlement after one year			**2,548**	2,950
Present value of lease obligations			**2,712**	3,343

Lease commitments are in respect of property leases where the initial term of the lease is in excess of 25 years and the conditions of the lease are in keeping with a finance lease. There are no finance leases where the Group itself is the lessor. The interest rate applied in calculating the present value of the payments is the incremental borrowing cost of the Group in relation to each lease.

24 Lease commitments continued

The total future minimum rentals payable and receivable under operating leases over the remaining lives of the leases are:

Payments due:	Payable 2017 £'000	Receivable 2017 £'000	Payable 2016 £'000	Receivable 2016 £'000
Within one year	**73,606**	**2,037**	74,494	2,138
Within two to five years	**263,256**	**6,499**	264,390	7,485
After five years	**512,931**	**17,312**	547,689	18,301
	849,793	**25,848**	886,573	27,924

The Group has entered into a number of property leases on standard commercial terms, both as lessee and lessor. There are no restrictions imposed by the Group's operating lease arrangements, either in the current or prior year.

Included within the minimum rentals are amounts payable on properties where the rental payment is based on turnover. For these properties, primarily in the Group's Concessions business, the amount included above is the minimum guaranteed rent as detailed in the concession agreement.

25 Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2017 £'000	2016 £'000
Authorised and contracted for:	**23,450**	37,268

26 Contingent liabilities

The Group has assigned a number of leases to third parties that were originally completed prior to 1 January 1996 and are therefore unaffected by the Landlord and Tenant (Covenants) Act 1995 and also a number of leases completed after this date that were the subject of an Authorised Guarantee Agreement. Consequently, should the current tenant default, the landlord has a right of recourse to The Restaurant Group plc, or its subsidiaries, for future rental payments. As and when any liability arises, the Group will take whatever steps necessary to mitigate the costs. The possibility of any outflow is deemed to be remote, however, we estimate contingent liabilities to be £2.0m (2016: £2.0m) on an undiscounted basis and represents terms of 3 to 6 years.

27 Related party transactions

There were no related party transactions in the 52 weeks ended 31 December 2017, other than as described below.

In the 52 weeks ended 31 December 2017, the Group received £0.1m (2016: £0.1m) of loan note interest from Black House Newco Limited (formerly BH Restaurants Ltd), all of which was recognised in the income statement. Capital repayments of £0.4m (2016: £0.3m) were received in the year. The Group holds a convertible loan note receivable of £2.9m (2016: £3.3m), which confers the Group the right to vote on certain matters. This is considered a related party given the Group's significant influence over Black House Newco Limited. The loan note receivable has been fully provided for in prior years; refer to Note 14 for further details.

Remuneration in respect of key management personnel, defined as the Directors for this purpose, is disclosed in Note 5. Further information concerning the Directors' remuneration is provided in the Directors' remuneration report 38 to 56.

Company balance sheet

	Note	At 31 December 2017 £'000	At 1 January 2017 £'000
Fixed assets			
Investments in subsidiary undertakings	2	**146,952**	143,029
Current assets			
Debtors			
Amounts falling due within one year from Group undertakings		**56,855**	334,937
Total assets		**203,807**	477,966
Creditors			
Amounts falling due within one year to Group undertakings		**(50,433)**	(322,614)
Net current assets		**6,422**	12,323
Total assets less current liabilities		**153,374**	155,352
Net assets		**153,374**	155,352
Capital and reserves			
Called up share capital		**56,551**	56,550
Share premium account		**25,554**	25,542
Other reserves		**(6,586)**	(8,744)
Profit and loss account		**77,855**	82,004
Shareholders' funds		**153,374**	155,352

The Company's profit for the year was £30.7m (2016: 30.7m).

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 109 to 113 were approved by the Board of Directors and authorised for issue on 7 March 2018 and were signed on its behalf by:

Andy McCue (CEO) **Kirk Davis (CFO)**

Statement of changes in equity

	Note*	Share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Balance at 28 December 2015		56,518	25,255	(9,838)	86,149	158,084
Issue of shares	18	32	287	–	–	319
Employee share-based payment schemes		–	–	(442)	–	(442)
Other reserve movements		–	–	1,536	–	1,536
Total comprehensive income		–	–	–	30,717	30,717
Dividends	10	–	–	–	(34,862)	(34,862)
Balance at 1 January 2017		56,550	25,542	(8,744)	82,004	155,352
Balance at 2 January 2017		**56,550**	**25,542**	**(8,744)**	**82,004**	**155,352**
Issue of shares	18	**1**	**12**	**–**	**–**	**13**
Employee share-based payment schemes		**–**	**–**	**2,158**	**–**	**2,158**
Total comprehensive income		**–**	**–**	**–**	**30,717**	**30,717**
Dividends	10	**–**	**–**	**–**	**(34,866)**	**(34,866)**
Balance at 31 December 2017		**56,551**	**25,554**	**(6,586)**	**77,855**	**153,374**

* Refers to the relevant note in the consolidated financial statements.

Other reserves represent the Group's share-based payment transactions and the shares held by the employee benefit trust.

Notes to the Company accounts

1 Accounting policies and basis of preparation

Basis of preparation

The Company accounts have been prepared under the historical cost convention and in accordance with UK Accounting Standards. As permitted under FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, business combinations, financial instruments, fair values, presentation of a cash flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements are presented in sterling, rounded to the nearest thousand.

Going concern basis

The financial statements have been prepared on a going concern basis as, after making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future at the time of approving the financial statements.

Investments

Investments are valued at cost less any provision for impairment.

Dividends

In accordance with IAS 10 'Events after the Balance Sheet Date', dividends declared after the balance sheet date are not recognised as a liability at that balance sheet date, and are recognised in the financial statements when they have received approval by shareholders.

Share-based payment transactions

The Group operates a share option programme which allows employees of the Group to acquire shares in the Company. The fair value of options granted is recognised as an employee expense in the company in which the employees are employed with a corresponding increase in capital contribution. The Company recognises an increase in the investment held by the Company in the subsidiary in which the employees are employed.

The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The Stochastic, Black-Scholes and Finnerty valuation models are used to measure the fair value of the options granted, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market based conditions not achieving the threshold for vesting. Refer to note 20 in the consolidated financial statements for further details.

Notes to the Company accounts
continued

2 Investment in subsidiary undertakings

	Shares £'000	Long term loans and capital contributions £'000	Total £'000
Cost			
At 1 January 2017	91,829	52,622	**144,451**
Share-based payment schemes	–	2,158	**2,158**
Reclassification of amounts falling due from subsidiary undertakings	–	1,765	**1,765**
At 31 December 2017	91,829	56,545	**148,374**
Amounts written off			
At 1 January 2017 and 31 December 2017	888	534	**1,422**
Net book value at 1 January 2017	90,941	52,088	143,029
Net book value at 31 December 2017	90,941	56,011	**146,952**

The Company's subsidiaries are listed below:

	Registered office address	Status	Proportion of voting rights and ordinary shares held
Direct subsidiary			
TRG (Holdings) Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Holding	100%
Indirect subsidiaries			
The Restaurant Group (UK) Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Trading	100%
Chiquito Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Trading	100%
Blubeckers Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Trading	100%
Caffe Uno Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Dormant	100%
Factmulti Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Holding	100%
Adams Rib Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Dormant	100%
G.R. Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Holding	100%
Strikes Restaurants Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Dormant	100%
Black Angus Steak Houses Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Dormant	100%
J.R. Restaurants Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Dormant	100%
DPP Restaurants Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Dormant	100%
Garfunkels Restaurants Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Dormant	100%
Frankie & Benny's (UK) Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Dormant	100%
City Centre Restaurants (UK) Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Dormant	100%
Est Est Est Group Limited	5-7 Marshalsea Road, Borough, London, SE1 1EP	Holding	100%
Number One Leicester Square Limited	1 George Square, Glasgow, G2 1AL	Dormant	100%
Brunning and Price Limited	Yew Tree Farm Buildings, Saighton, Chester, Cheshire, CH3 6EG	Trading	100%

The Company's operating subsidiaries are registered in England and Wales, and operate restaurants in the United Kingdom. All other subsidiary undertakings are wholly owned by the Company or one of its subsidiaries and are either non-trading or dormant.

3 Profit attributable to members of the Company

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account has not been presented for the Company. During the year the Company recorded a profit of £30.7m, representing paid and accrued intra-group preference dividend income (2016: £30.7m representing paid and accrued intercompany internal preference dividend income). Remuneration of the auditor is borne by a subsidiary undertaking (refer to note 4 in the consolidated financial statements).

4 Employee costs and numbers

All costs of employees and Directors are borne by a subsidiary undertaking. At 31 December 2017 the Company employed six persons, being the directors (1 January 2017: seven persons). Refer to the Directors remuneration report for further details of remuneration paid for services.

5 Related parties

In December 2017, the Company became aware of a technical matter relating to the levels of distributable reserves and the payment of interim and final dividends to its shareholders during the period from 2006 to 2017 (‘the Relevant Dividends’). Throughout this period, the Group had adequate reserves in subsidiary companies to enable payment of the Relevant Dividends, and each year payment of the final dividends was approved by the Company’s shareholders at its annual general meeting. However, a review of historical intra-group transactions revealed that internal dividends paid up through the Group structure in the period from 2006 to 2017 did not, due to a technicality, create distributable reserves in the manner that had been intended. As a consequence, the Relevant Dividends were not paid out of distributable reserves and were therefore not paid in accordance with the Companies Act 2006.

The Group is undertaking a series of administrative steps in order to rectify this issue and put the Company and its subsidiaries, insofar as possible, in the position that was originally intended with respect to the creation of distributable reserves. The majority of these steps were implemented prior to 31 December 2017. In addition, the Company will in due course put a resolution to shareholders which, if passed, would put all potentially affected parties, insofar as possible, in the position they would be had the Relevant Dividends been paid in accordance with the requirements of the Companies Act 2006. Full details will be included in the circular and notice of general meeting to be sent to shareholders. The general meeting to consider the resolution will be held on 23 May 2018.

Group financial record

	2017 £'000	2016 Restated (Note 1) £'000	2015 £'000	2014 £'000	2013 £'000
Revenue	**679,282**	710,712	685,381	635,225	579,589
Adjusted operating profit	**58,604**	79,156	88,891	80,450	74,916
Net interest charges	**(1,860)**	(2,007)	(2,046)	(2,385)	(2,231)
Adjusted profit before tax	**56,744**	77,149	86,845	78,065	72,685
Exceptional (charges)/credits	**(13,158)**	(126,490)	–	6,862	–
Profit/(loss) on ordinary activities before tax	**43,586**	(49,341)	86,845	84,927	72,685
Tax	**(10,653)**	(638)	(17,959)	(17,928)	(16,495)
Profit/(loss) for the year	**32,933**	(49,979)	68,886	66,999	56,190
Basic earnings per share	**16.44p**	(23.98)	34.55p	33.39p	28.02p
Adjusted earnings per share	**22.29p**	30.02p	33.80p	29.96p	28.02p
Proposed total ordinary dividend per share for the year	**17.40p**	17.40p	17.40p	15.40p	14.00p
Special dividend per share	**–**	–	–	3.45p	–
Dividend cover (excluding exceptional items and special dividends)	**1.28**	1.73	1.94	1.95	2.00
Employment of finance					
Property, plant and equipment	**335,029**	345,952	403,640	368,576	337,519
Other non-current assets	**26,433**	26,433	26,433	26,433	26,433
Net current liabilities	**(88,976)**	(87,164)	(98,398)	(92,224)	(80,168)
Long-term liabilities	**(70,586)**	(83,635)	(48,115)	(58,261)	(67,819)
	201,900	201,586	283,560	244,524	215,965
Financed by:					
Equity	**201,900**	201,586	283,560	244,524	215,965
Net debt	**(21,612)**	(28,314)	(28,382)	(38,578)	(41,857)
Gearing	**10.7%**	14.0%	10.0%	15.8%	19.4%

Glossary

The directors believe the Adjusted Performance Metrics used within this report, and defined below, provide additional useful information for shareholders to evaluate and compare the performance of the business from period to period. These are also the KPIs used by the directors to assess performance of the business. The adjusted metrics are reconciled to the statutory results for the year on the face of the income statement and the relevant supporting notes.

Trading business	Represents the performance of the business before exceptional costs and is considered as the key metrics for shareholders to evaluate and compare the performance of the business from period to period.
Like-for-like (LFL) sales	This measure provides an indicator of the underlying performance of our existing restaurants. There is no accounting standard or consistent definition of 'like-for-like sales' across the industry. Group like-for-like sales are calculated by comparing the performance of all mature sites in the current period versus the comparable period in the prior year. Sites that are closed, disposed or disrupted during a financial year are excluded from the LFL calculation.
Adjusted EBITDA	Earnings before interest, tax, depreciation, amortisation and exceptional items. Calculated by taking the Trading business operating profit and adding back depreciation.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Net debt	Net debt is calculated as the net of the long-term borrowings less cash and cash equivalents.
Free cash flow	EBITDA less working capital and non-cash movements (excluding exceptional items), tax payments, interest payments and maintenance capital expenditure.
Adjusted operating profit	Earnings before interest, tax and exceptional items.
Adjusted EPS	Calculated by taking the profit after tax of the business pre-exceptional items divided by the weighted average number of shares in issue during the year.
Adjusted diluted EPS	Calculated by taking the profit after tax of the business pre-exceptional items divided by the weighted average number of shares in issue during the year, including the effect of dilutive potential ordinary shares.
Adjusted profit before tax	Calculated by taking the profit before tax of the business pre-exceptional items.

Shareholder information

Directors
Debbie Hewitt
Non-executive Chairman

Andy McCue
Chief Executive Officer

Kirk Davis
Chief Financial Officer

Simon Cloke
Senior independent non-executive Director

Graham Clemett
Independent non-executive Director

Mike Tye
Independent non-executive Director

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

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

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

Telephone number
020 3117 5001

Company number
SC030343

Registered office
1 George Square
Glasgow G2 1AL

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
0371 384 2426

Auditor
Deloitte LLP
2 New Street Square
London EC4A 3BZ

Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Goodman Derrick LLP
10 St Bride Street
London EC4A 4AD

Brokers
JPMorganCazenove
25 Bank Street
London E14 5JP

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

Annual General Meeting
Wednesday 23 May 2018

Proposed final dividend – 2017
Announcement – 7 March 2018
Ex-dividend – 7 June 2018
Record date – 8 June 2018
Payment date – 5 July 2018

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

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