Annual Report

2018

The
Restaurant
Group plc

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Introduction

The Restaurant Group plc

This has been a pivotal year for the Group, with progress on our strategic initiatives, improved like-for-like sales momentum in our Leisure business, growth in our Pubs and Concessions business, and a transformational acquisition that accelerates our momentum in growth segments.

Our brands

Financial highlights

Strategic highlights

- Acquisition of high quality business in Wagamama which has continued to outperform the sector
- Concessions business opened 21 new units and entered four new airports
- Pubs increasingly outperformed the market and opened a record 21 pubs
- Leisure business improved like-for-like sales momentum in every quarter in 2018
- Group delivered like-for-like sales growth since the World Cup
- Enlarged group now strongly orientated towards growth

Financial highlights

- Like-for-like sales down 2.0%, with total sales up 1.0% to £686.0m (2017: £679.3m)
- Adjusted[1] profit before tax of £53.2m[2] (2017[3]: £57.8m[2]). Statutory profit before tax of £13.9m (2017[3]: £28.2m)
- Exceptional pre-tax charge of £39.2m (2017[3]: £29.7m)
- Adjusted[1] EBITDA of £87.9m (2017[3]: £95.8m)
- Adjusted[1] EPS[4] of 14.7p (2017[3]: 16.7p). Statutory EPS of 2.4p (2017[3]: 6.7p per share)
- Operating cash flow of £88.3m (2017[3]: £107.8m)
- Net debt of £291.1m at year-end (2017[3]: £23.1m) following Wagamama acquisition, with proforma net debt/EBITDA at 2.2x
- The Board proposes a final dividend of 1.47p[5], reflecting the Board's policy of paying a dividend covered two times by adjusted[1] profit after tax

Footnotes to Strategic Report

1 Adjusted reflects pre-exceptional items and is further defined in the glossary at the end of this report.
2 Includes a £2.2m benefit (2017: £0.7m) from lower depreciation following a prior year adjustment to the impairment provision.
3 As restated, refer to Note 1 of the financial statements for details.
4 Earnings per share adjusted for bonus element following the rights issue in both financial years.
5 Full year dividend per share of 8.27p calculated such that the total cash paid out in dividends for the full year is covered twice by adjusted profit after tax. This is stated on the basis of dividends declared and paid not adjusted for the impact of the rights issue.

Our brands

We opened a record 21 new pubs (inclusive of acquisitions) and a record 21 new concessions units during the year.

wagamama

Frankie & Benny's

Brunning & Price
LIMITED

trg concessions

CHIQUITO
RESTAURANT BAR & MEXICAN GRILL

GARFUNKEL'S
RESTAURANT

COAST TO COAST
AMERICAN RESTAURANT & BAR

FIREJACKS
MEAT | FIRE | FRIENDS

JOE'S KITCHEN
FEEL GOOD FOOD • DAY & NIGHT

FILLING FS STATION
American Restaurant & Bar

This has been a pivotal year for the Group, with progress on our strategic initiatives and a transformational acquisition that accelerates our momentum.

"The acquisition of Wagamama and the development of our Pubs and Concessions businesses have accelerated our progress into growth sectors."

Debbie Hewitt
Chairman

2018 was a pivotal year for the Group. The acquisition of Wagamama and the development of our Pubs and Concessions businesses have accelerated our progress into growth sectors and we continue to make improvements to the customer proposition and our execution across our Leisure business.

Total revenues were up 1% to £686m, with like-for-like sales for the 52 weeks ended 30 December 2018 down 2%, representing an improvement on the decline in 2017. The group delivered like-for-like sales growth since the World Cup, with our Pubs business continuing to consistently trade ahead of the pub restaurant sector and our Concessions business trading strongly. Our Leisure business exhibited improved like-for-like sales momentum through 2018.

We opened a record 21 new pubs (inclusive of acquisitions) and a record 21 new concessions units during the year.

Adjusted[1] profit before tax was down 8.1% to £53.2m and Adjusted[1] EPS was down 11.9% to 14.7p per share. Statutory profit before tax was £13.9m (2017[3]: £28.2m) including exceptional charges of £39.2m (2017[3]: £29.7m) which are explained further in the Financial review section. Statutory EPS was 2.4p (2017[3]: 6.7p).

The acquisition of Wagamama formally completed on 24 December 2018. The business has a differentiated, high growth, pan-Asian proposition which has significantly and consistently outperformed its core UK market. It is well aligned to the key structural trends in our sector and addresses customer demand for speed of service, delivery and healthy options. We continue to believe that the acquisition will be transformative for the Group, allowing us to accelerate Wagamama's UK roll-out with selected TRG site conversions, expand the UK concessions presence leveraging our existing relationships, address delivery opportunities via restaurants and delivery kitchens, pilot pan-Asian cuisine 'food-to-go' offerings, explore international growth options and deliver at least £22m of synergies.

The enlarged Group now derives c.70% of outlet EBITDA (on a full-year 2018 pro-forma basis) from high growth segments (Wagamama, Concessions and Pubs) and is well equipped to address compelling growth avenues.

The Board is confident that we have a robust plan and the focus and rigour to deliver value for shareholders.

We were appreciative of the engagement of all of our investors during the process of acquiring Wagamama and the support provided for the rights issue that was undertaken to raise £315m in order to fund the acquisition.

The Group has continued to face external cost pressures throughout 2018, including increases in the national living wage and national minimum wage, 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.

On 14 February 2019, we announced that Andy McCue, CEO, had informed the Board of his decision to leave the Company due to extenuating personal circumstances. Whilst the Board is clearly disappointed that Andy will not be able to provide the long-term leadership for the business, we recognise that his decision to step down is the right one for him and his family. The Board anticipates that Andy will remain in position while his successor is being recruited. An extensive search is well underway to recruit the new CEO. An announcement regarding the appointment will be made in due course.

Other Board changes during the year included the resignation of Paul May as Non-Executive Director in October 2018 and the appointment of Allan Leighton, who joined as a Non-Executive Director in December 2018, at the completion of the Wagamama transaction. Allan is currently Chairman of Co-operative Group Limited and Entertainment One Limited, among others, and has previously been Chief Executive Officer of ASDA Group Limited and Pandora A/S and Chairman of Pace plc and Royal Mail. He knows the Wagamama team well and has extensive experience of managing public and private companies in the retail and hospitality sectors and a wealth of experience in growing consumer businesses.

Simon Cloke, non-executive Director, will step down as Senior Independent Director at the AGM in May 2019 and will be replaced as Senior Independent Director by Allan Leighton.

Although a search had commenced to recruit an additional Non-Executive Director with digital credentials during 2019, the Board decided that it was sensible to postpone this search until such time as the new CEO is recruited. Simon Cloke has agreed to remain on the Board as a non-executive Director for a period of up to a year, to ensure continuity whilst the new CEO is recruited. The Board will then re-commence its search to recruit an additional non-executive Director with technology and digital credentials, and at that point Simon Cloke will step down from the Board.

We have also added to the strength of the senior leadership team, with the appointment of Lisa Hillier as Chief People Officer, joining us from Just Eat plc.

The business continues to generate strong free cash flow, with £59.6m in 2018 (2017[3]: £85.1m). As announced at the time of the acquisition, we will adopt a policy of paying a dividend covered two times by adjusted[1] profit after tax, with this policy reflected in the final dividend that the Board has proposed for 2018 of 1.47 pence per share. The total dividend for the year is, therefore, 8.27 pence per share. The Board believes that this funding structure and dividend policy reflects an appropriate balance between delivering shareholder returns, enabling the Company to invest in further growth and enabling the Company to achieve an appropriate deleveraging profile.

The enlarged Group now employs over 22,000 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.

This has been a pivotal year for the Group, with progress on our strategic initiatives, improved like-for-like sales momentum in our Leisure business, growth in our Pubs and Concessions business, and a transformational acquisition that accelerates our momentum in growth segments. We continue to benefit from strong cash generation and a healthy balance sheet. The Board is confident that we have a robust plan and the focus and rigour to deliver value for shareholders in what is a challenging consumer environment.

Debbie Hewitt MBE
Chairman

15 March 2019

Our Group priorities are to deliver the benefits of the Wagamama acquisition, grow our Concessions and Pub businesses and optimise our Leisure brands.

"The enlarged group is now strongly orientated towards growth."

Andy McCue
Chief Executive Officer

Introduction

Following the acquisition of Wagamama, the enlarged group is now strongly orientated towards growth with Wagamama and our Concessions and Pubs businesses contributing c. 70% of Group outlet EBITDA in the period (on a full-year 2018 pro-forma basis).

Wagamama is a differentiated, high growth pan-Asian proposition that has consistently and significantly outperformed its core UK market. That outperformance is driven by excellent operational standards, as well as being exceptionally well aligned to structural growth drivers as customers demand more convenient, faster, and healthier options.

Our Concessions business is a market leader in UK airports. Our strength in capability to develop and operate a broad range of formats in a wide range of infrastructure types has resulted in a strong track record of like-for-like sales growth, winning new sites and renewing existing space.

Our Pubs business is well positioned in the market with a premium, differentiated food-led offer that is increasingly outperforming the pub restaurant sector. The business benefits from operating and often owning differentiated assets and delivering an exceptional experience. There continue to be opportunities to expand this business and we have a healthy organic pipeline in place.

In our Leisure business we operate multi-brand casual dining restaurants across the UK. While the business is not inherently well exposed to structural growth drivers as a function of either location or proposition form, we are focused on optimising the propositions to maximise profitability. We will also be disciplined in our approach to capital allocation.

Our Group priorities are to:

- deliver the benefits of the Wagamama acquisition;
- grow our Concessions and Pubs businesses and
- optimise our Leisure brands.

1. Deliver the benefits of the Wagamama acquisition

Wagamama

Wagamama has a strong competitive advantage as the only UK pan-Asian brand concept of scale.

The business is well aligned to key structural trends, consistently outperforming the market average on experience ratings[6] in healthiness of food, convenience and speed.

Wagamama benefits from a high quality leadership team which operates the business as a standalone entity and has the freedom to cultivate its unique cohesive culture.

Wagamama has demonstrated an outstanding track record of like-for-like revenue growth. In its quarter three results (12 weeks up to 3 February) Wagamama increased like-for-like sales[7] by 9.1%; resulting in like-for-like sales[7] of 9.7% for its financial year to date (quarters one to three). The Wagamama team have identified clear opportunities to grow like-for-like sales further in 2019, including:

- development of the drinks range to help drive higher participation;
- investment in local marketing and events to drive greater awareness, using new data sources to more effectively target audiences and win share;
- further expansion of the vegan range, including new collaboration hero dish 'Avant Gard'n', which features a vegan 'egg', being launched in partnership with vegan chef Gaz Oakley;
- increased delivery growth via greater reach of aggregators and technology integration both within and between restaurants and
- six major refurbishments planned for this year which will add 300 additional covers (equivalent to two new restaurants).

The business is also progressing well on driving future growth via the levers identified at the time of the transaction:

UK Casual Dining: We expect to open between three and four new restaurants this year in the UK, as well as converting eight Leisure sites to Wagamama.

UK Concessions: The business has won a tender for a site in Heathrow Terminal 3 which is due to open in the second half of this year. A site has also been secured in the planned redevelopment of Manchester airport and is due to open in the first half of 2020. The business is also exploring a variety of other airport opportunities.

Delivery: The delivery kitchen in Battersea has been successfully trialled and we will be rolling out further delivery kitchens in the year.

International: We opened a new restaurant in Murray Hill, NYC earlier this year and will open in Midtown Manhattan in the Summer. A strategic review of our options for the US business has commenced and we will update investors on our plans later in the year.

Food to go formats: The business has developed a new grab and go concept which is to be branded "Mamago". The concept will offer a newly developed Asian menu to capitalise on increased customer demand for convenience. The initial pilot is planned for launch in the second half of this year.

6 Source: Morar/BrandVue Q4 customer ratings.
7 Like-for-like sales as per Wagamama Q3 bond report.

Business review continued

Synergies

We will convert eight Leisure sites to Wagamama restaurants this year, with a similar number expected next year. Teams across the business have well developed people, marketing and design and build plans to ensure the new restaurants launch successfully. The eight sites are in locations which align well with the Wagamama customer demographic, and in competitive markets where we have high confidence that we can take share from less differentiated offerings. The eight TRG sites collectively make a modest profit today and we expect them to generate incremental EBITDA returns in excess of 50% of the cost of capital to convert. The converted sites will open between August and November 2019. We have continued confidence in delivering an incremental EBITDA benefit of at least £7m per annum at maturity in 2021 from our site conversion programme. We are progressing well with our cost synergy plans and collaborative cross-functional working groups across the business have been established. We have continued confidence in delivering at least £15m of cost synergies per annum in 2021. Synergies will be achieved through leveraging scale and consolidating spend across the following cost categories:

- procurement and logistics
- site level overheads
- central costs.

2. Grow our Concessions and Pubs businesses

Concessions

Our Concessions business operates a wide variety of food and beverage formats, across over 35 brands, primarily in UK airports. This includes bespoke concepts designed with airport partners, The TRG Group's own leisure brands, and well-known third-party brands, which operate under franchise arrangements.

Our trading continues to be strong and we continued our strong track record of retaining sites, with c.85% having received contract renewals beyond the term of the initial contract. In particular during 2018 we successfully renewed contracts for existing large spaces at both Gatwick and Heathrow airports. On average our contracts have been extended for 90% of the original concession term.

Our unique capabilities enabling us to consistently deliver high operational standards at high volume and peak-load intensity, along with our format development and partnering skills, position us well for further contract wins in the future.

In 2018 we have been successful in winning 21 new units and adding five new clients in UK travel hubs as well as four new brand partnerships. These new openings were a mix of multiple formats and categories, showcasing our operational capability strength and ability to provide full solutions to airport partners. This included a "Spuntino" restaurant in Heathrow, the first "Brewdog" bar in a UK airport in Edinburgh, two outlets for "Barburrito" and our first "Crepeaffaire" franchise unit. We also developed several in-house concepts such as the "Hawker Bar" in Luton and the "Distilling House" pub in Aberdeen.

We expect to open at least 5 to 10 Concessions units in 2019. In addition to this we have secured a contract to operate a number of significant sites for the planned redevelopment at Manchester airport, due to trade in 2020.

Plans to grow our business outside of UK airports are progressing well. We have developed two new brands, "Mezze Box" and "Grains and Greens" with Sainsbury's. The initial trial has commenced with five counters opened so far this year. We are also building a team to support our longer term plans for growth into international airports.

Pubs

Our Pubs business is well positioned in the market with a premium offering tailored to local markets. The business continued to outperform the pub restaurant sector in 2018, with the extent of outperformance increasing year-on-year.

During the year we optimised our menu pricing architecture and developed a more flexible approach to our menus, with an expansion of the nibbles and sharing sections, and smaller plate options on some of the core dishes. In the year ahead we will be launching a gluten-free menu in all our pubs. We continue to refine our drinks range to ensure we cater for an increasing trend in craft beer and low alcohol/no alcohol drinks.

We continue to look at opportunities to leverage the existing space in our estate. Benefitting from the warm weather over the summer we ran an increased number of events such as our gin and prosecco festivals, as well as live music events which are proving increasingly popular. During the year we opened three new private dining rooms and our first separate function space at the Red Fox pub, which has been used for larger functions, including weddings. Following the successful opening of our first pub with accommodation in September, we opened another in February 2019. We anticipate additional revenue opportunities by continuing to leverage our existing space in the year ahead with further function space, private dining rooms and all-weather external terraces currently under consideration.

Our estate expansion plans are progressing well. We opened 21 new pubs in the year including the acquisitions of Ribble Valley Inns (consisting of four leasehold pubs) and Food & Fuel (consisting of 11 leasehold pubs and café-bars predominately situated in affluent London neighbourhoods). We have now refurbished three of the Ribble Valley sites and these are delivering a sales uplift in excess of 30% post refurbishment. The Food & Fuel sites are trading in line with expectations and plans are in place to further develop these propositions through 2019. Our single site Brunning & Price acquisitions are trading well and we expect to open at least seven more pubs in the coming year.

3. Optimise our Leisure business

The market backdrop for our Leisure business is challenging with a 27% increase in the number of branded restaurants over the past five years. This has been accompanied by a dramatic decrease in the growth rates of both total sales and like-for-like sales every year since 2014. Structural trends, including declining retail footfall, the rapid rise of the delivery sector and fast changing customer preferences towards convenience and healthy options, all create challenges for long established multi-site operators of scale. Profitability has been further challenged by the pressure of rising costs, with the bulk of our restaurant wage bill inflating by around 4%, electricity costs at eight year highs, and rent and rates costs remaining at high levels despite the decreasing consumer demand. In response, we are focused on ensuring our brands are competitively differentiated, increasing our exposure to healthy and convenient options and capitalising on ‘off-trade’ delivery and collection sales. However, given the market backdrop, we are acutely disciplined in how we allocate capital and highly discerning as to lease renewal commitments and the flexibility inherent within them.

Our Leisure estate is disproportionately highly exposed to these pressures. 56% of our estate directly neighbours retail, most of which are in out-of-town locations. As a result of our discipline over recent years, the vast majority of our Leisure portfolio remains EBITDA positive. 41% of our Leisure portfolio also has a lease end or break option within the next five years.

In order to ensure we make the correct property decisions, we have analysed every restaurant in our Leisure estate to determine its potential performance versus its actual performance. In the case of Frankie and Benny’s, 31% of sites are in structurally unattractive locations, and as such, we will seek to exit these locations in future years. Of the remaining Frankie and Benny’s locations, 60% are outperforming or in-line with their local markets; in 40% we believe there is scope for operational improvement.

Frankie and Benny’s

The brand has seen considerable activity over the last twelve months, progressing well on a number of initiatives.

In May, we saw the launch of our new Feel Good Range, offering our customers increased and improved healthier options. The range has proved popular with penetration at c.10% of sales, with the top performers in this range being the Nashville Chicken Skewers and Skinny Chicken Pizza.

We launched on Comparethemarket’s ‘Meerkat Meals’ partner platform in June and have seen really strong engagement, with it becoming one of our most popular promotions.

We launched our Squishies campaign in October through to November where we gave away a free Squishie toy with every kids meal. This proved successful in driving repeat visits.

Our payment at table feature, “pay my bill”, is improving in popularity with customers, with over five percent of transactions being made through this channel.

Our customers are responding to these initiatives, and this has resulted in an improvement in our social review scores throughout the year, as well as improved sales momentum.

We are currently trialling “order ahead” functionality in 25 sites. This gives our customers the ability to order and pay for their meal in advance, alongside a booked table, and have it ready for them when they arrive at the restaurant. Initial feedback from customers has been positive and we will look to roll out more broadly later in the year.

Upcoming activity includes continued improvement in the core proposition via new menus. We will shortly trial a simplified core menu with a large reduction in the number of dishes, to help our teams improve operational consistency. Our marketing campaigns will become increasingly targeted to specific occasions and highlight new food development via limited time offers. We will invest in service and operational improvements in underperforming sites and actively manage the structurally disadvantaged tail.

Chiquito

The brand has evolved its offering over the course of the year with a number of initiatives employed. In January 2018 we launched a new core menu aimed at reinstating value, improving choice, simplifying navigation and focusing on more authentic Mexican dishes such as our ‘build your own’ tortillas option.

We invested in a stronger senior operational team throughout the year. This in turn allowed us to focus on the quality of our General Managers and drive standards up through peer group benchmarking.

Our promotional strategy has become more centred around Mexican favourites, generating a very encouraging take-up from customers.

We also launched a virtual brand “Kick-ass Burrito” which, across all delivery aggregators, now has 131 points of sale.

Our customers are recognising these improvements with a notable increase in our social review scores throughout the year, as well as improved trading momentum, with like-for-like sales improving in every quarter.

Our plans for the year ahead include the launch of a new menu in April which will feature a strong range of dishes catering for people with dietary restrictions, as well as improving our vegan and vegetarian offer, with dishes such as our jackfruit burrito with benefits, beetroot and feta lettuce wrap and bean and red chilli burger. We will also offer exciting trade-up options with premium ingredients such as our Picanha surf & turf dish and Barabacoa beef build your own option.

Summary and current trading

In summary:

- the enlarged group is now strongly orientated towards growth;
- Wagamama like-for-like sales momentum is strong and we are progressing well on the growth avenues unlocked by the acquisition;
- strong growth continues in Concessions and Pubs;
- we remain focused on optimising our Leisure brands and property portfolio and
- current trading for first 10 weeks of the year in line with our expectations with like-for-like sales up 2.8%.

Andy McCue
Chief Executive Officer

15 March 2019

Financial review

The Group delivered like-for-like sales growth since the World Cup.

"Operating cash flows remain strong with free cash flow of £59.6m in the year."

Kirk Davis
Chief Financial Officer

Trading results

Like-for-like sales declined by 2.0% for the year, with total revenue up 1.0% to £686.0m (2017: £679.3m). The like-for-like sales decline reflected the annualisation of the investments we made in price and proposition across our Leisure brands in 2017, along with the impact of the adverse weather and the World Cup in 2018, which were partially offset by a strong like-for-like sales performance from both our Pubs and Concessions businesses. The Group delivered like-for-like sales growth since the World Cup with our Leisure business exhibiting improved like-for-like sales momentum through 2018.

With declining like-for-like sales and the well-known sector specific inflationary cost pressures, the Group's Adjusted[1] operating profit (EBIT) fell by 6.9% to £55.4m (2017[3]: £59.5m) with the Adjusted[1] operating margin falling from 8.8% to 8.1%. On a statutory basis, the Group's operating profit (EBIT) was £16.6m (2017[3]: £29.8m). Adjusted[1] operating profit (EBIT) includes a £2.2m (2017[3]: £0.7m) benefit from lower depreciation following a prior year adjustment to the impairment provision. The prior year adjustment reflects the appropriate allocation of central costs to individual restaurants following a reassessment of our impairment methodology.

Adjusted[1] profit before tax for the period was £53.2m (2017[3]: £57.8m). Adjusted[1] profit after tax was £41.8m (2017[3]: £45.8m). The Adjusted[1] effective tax rate for the Group increased to 21.4% (2017[3]: 20.9%). On a statutory basis, the effective tax rate of 50.6% (2017[3]: 34.9%) reflects the higher exceptional charges in the year. Adjusted[1] earnings per share were 14.7p (2017[3]: 16.7p). On a statutory basis, profit before tax was £13.9m (2017[3]: £28.2m) and EPS was 2.4p (2017[3]: 6.7p).

Financial review continued

The adjusted measures are summarised below:

	52 weeks ended 30 December 2018 £m	52 weeks ended 31 December 2017[3] £m	% change
Revenue	686.0	679.3	1.0%
Adjusted[1] EBITDA	87.9	95.8	(8.3%)
Adjusted[1] operating profit	55.4	59.5	(6.9%)
Adjusted[1] operating margin	8.1%	8.8%	
Adjusted[1] profit before tax	53.2	57.8	(8.1%)
Adjusted[1] tax	(11.4)	(12.1)	
Adjusted[1] profit after tax	41.8	45.8	(8.6%)
Adjusted[1] EPS (pence)	14.7	16.7	(11.9%)

Cash flow and net debt

Operating cash flows remain strong with free cash flow of £59.6m in the year (2017[3]: £85.1m). Free cash flow in the year reflects the lower EBITDA and higher refurbishment and maintenance capital expenditure. The Group's net debt at the year-end was £291.1m, an increase of £268.0m on the prior year net debt of £23.1m[3] following the acquisition of Wagamama and significant capital investment for the strategic development of our Concessions and Pubs businesses.

Summary cash flow for the year is set out below:

	2018 £m	2017[3] £m
Adjusted[1] operating profit	55.4	59.5
Working capital and non-cash adjustments	0.4	12.0
Depreciation	32.5	36.3
Operating cash flow	88.3	107.8
Net interest paid	(1.0)	(0.7)
Tax paid	(7.4)	(7.1)
Refurbishment and maintenance expenditure	(20.3)	(14.9)
Free cash flow	59.6	85.1
Development expenditure	(33.0)	(18.4)
Acquisitions of RVI and Food and Fuel net of cash acquired	(14.8)	–
Movement in capital creditors	5.8	(5.9)
Dividends	(34.9)	(34.9)
Utilisation of onerous lease provisions	(11.2)	(12.7)
Exceptional restructuring costs	–	(6.8)
Acquisition of Wagamama net of cash acquired	(310.1)	–
Debt acquired on acquisition of Wagamama	(225.0)	–
Acquisition and refinancing exceptional costs	(10.1)	–
Proceeds from issue of share capital	305.8	–
Other items	(0.1)	0.5
Net cash flow	(268.0)	6.9
Net debt brought forward	(23.1)	(30.0)
Net debt carried forward	(291.1)	(23.1)

In December 2018 the Group refinanced its borrowings and now has £220m of revolving credit facilities that expire in December 2021 and a £10m overdraft facility. In addition the £225m Wagamama Bond matures in July 2022. At the year-end we had £161.9m of cash headroom and significant headroom against our banking covenants.

	Group banking covenant	2018	2017
Banking covenant ratios:			
EBITDA/Interest cover	>4x	**47x**	66x
Net debt/EBITDA[8]	<3.5x	**2.2x**	0.2x
Other ratios:			
Fixed charge cover	n/a	**2.0x**	2.1x
Balance sheet gearing	n/a	**63%**	11%

Capital expenditure

During the year the Group invested £68.5m (2017: £33.3m) in capital expenditure (excluding the acquisition of Wagamama). Our investment in refurbishment and maintenance capital expenditure increased to £20.3m (2017: £14.9m) reflecting the Frankie and Benny's capital refreshes on 16 sites and the conversions of four Coast to Coast units to Firejacks. Our investment in new site expenditure increased to £47.8m (2017: £18.4m) reflecting the higher number of new site openings across our Pubs and Concessions businesses in 2018 compared to 2017.

This expenditure included the acquisitions of "Ribble Valley Inns Limited" and "Food & Fuel Limited" which added 15 pubs to our portfolio.

During the year we closed 20 sites, comprising 15 sites from Leisure and five sites from Concessions. Within Concessions two of the sites had reached the end of their contractual life and the other three sites are currently undergoing redevelopments into new Concession units. In the year we also closed 15 Leisure sites, five of which had reached the end of their contractual life and the remainder were sites which no longer generated acceptable cash returns.

8 On a full-year 2018 pro-forma basis.

The table below summarises openings and closures during the year.

	Year-end 2017	Opened	Closed	Transfers	Year-end 2018
Frankie & Benny's	259	1	(12)	–	**248**
Chiquito	85	–	(2)	–	**83**
Coast to Coast/ Filling Station	25	–	(1)	(4)	**20**
Firejacks	1	–	–	4	**5**
Garfunkel's	8	–	–	–	**8**
Joe's Kitchen	4	–	–	–	**4**
Pub restaurants	60	21	–	–	**81**
Concessions	55	21	(5)	–	**71**
Wagamama	–	140	–	–	**140**
Total	497	183	(20)	–	**660**

We expect to spend £55m to £60m on development expenditure in 2019; comprising:

- At least seven new pubs
- Between 5 to 10 new Concessions sites in 2019, including the initial expenditure relating to Manchester terminal redevelopment
- At least six new Wagamama sites
- Eight Leisure site conversions to Wagamama
- Roll-out of delivery kitchens across the enlarged group and pilot of Wagamama Grab and Go concept

Refurbishment and maintenance capital expenditure will range between £30m to £35m. This will include six transformational refurbishments of Wagamama UK sites and several large-scale Concessions redevelopment projects.

Restructuring and exceptional charge

An exceptional pre-tax charge of £39.2m has been recorded in the year (2017[3]: £29.7m, including the prior year restatement of £16.5m), which includes the following:

- Onerous lease review resulted in a charge of £10.0m in the year (2017: £4.2m). This comprises:
  - A £5.2m credit in respect of unutilised provisions following the successful exit of 28 sites ahead of expectations; and
  - A further charge of £15.2m was provided for in the year. This comprised a charge of £11.1m in respect of newly identified onerous leases and a charge of £4.1m in respect of sites previously provided for

Financial review continued

- A net impairment charge of £14.0m (2017[3]: £20.7m, including the prior year restatement of £16.5m) was made against the carrying value of specific restaurant assets due to recent changes in certain markets. This comprises an impairment charge of £17.1m partially offset by reversals of previously recognised impairment losses of £3.1m
- An exceptional charge of £14.8m has been recorded in the year in relation to the acquisitions of Wagamama, Food and Fuel Ltd and Ribble Valley Inns Ltd. Acquisition related costs are items of one-off expenditure, including legal and professional fees, incurred in connection with the acquisitions
- Restructuring and strategic review costs of £nil (2017: £4.8m) relating to costs incurred in the restructuring projects that were initiated in 2017 to implement the new strategy and cost initiatives; and
- An exceptional charge of £0.5m has been recognised in the year as a result of the refinancing which took place to fund the acquisition of Wagamama. The charge relates to the write off of unamortised finance costs connected to the old debt facility

The tax credit relating to these exceptional charges was £4.3m (2017[3]: £2.2m).

Cash expenditure associated with the exceptional charges was £21.3m in the year (2017: £19.5m). Cash costs relate to onerous leases of £11.2m (2017: £12.7m), acquisitions and refinancing costs of £10.1m (2017:£nil) and costs associated with the implementation of the new business strategy of £nil (2017: £6.8m)

Tax

The Adjusted[1] tax charge for the year was £11.4m (2017: £12.1m), summarised as follows:

	2018 £m	2017 £m
Corporation tax	10.4	10.8
Deferred tax	1.0	1.3
Total	11.4	12.1
Effective adjusted tax rate	21.4%	20.9%

The effective Adjusted[1] tax rate for the year was 21.4% compared to 20.9% in the prior year. 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 50.6%, which increased from the 2017[3] rate of 34.9% due to the increase in exceptional charges in the year.

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 2021.

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 December 2018, as part of the Wagamama acquisition, and covers the three-year period to the end of the 2021 financial year. Key assumptions underpinning the three-year plan and the associated cash flow forecasts are the economic outlook, revenue growth expectations, and ability to deliver the stated synergies post-acquisition. 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 £220m revolving credit facility which is in place until December 2021, and the £225m Wagamama secured loan notes. The Group also utilises a repayable on demand overdraft facility which it uses to manage its day-to-day working capital requirements. It will be necessary to refinance this debt within the three year period considered, and it is the Group's expectation that this can be completed on broadly similar terms as the current financing.

As detailed on page 57 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.

Kirk Davis
Chief Financial Officer

15 March 2019

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 2018 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.

Non-Financial reporting information

The Companies Act 2006 requires the Company to disclose certain non-financial reporting information within the annual report and accounts. Accordingly, the required disclosures can be found on the following pages in the Strategic report (or are incorporated into the Strategic report by reference for these purposes from the pages noted):

- information on environmental matters (page 19)
- information on our employees (page 16)
- information on social, community and human rights matters (page 16)
- information on anti-corruption and anti-bribery (page 17)
- information on diversity (page 16 and in the Corporate Governance Report on page 25).

Sustainable and ethical sourcing

We practice responsible sourcing throughout our supply chain, ensuring our customers get good 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 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 sourcing 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 now source all shell eggs and mayonnaise from cage-free and/or free-range sources since 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 2018 we maintained a 2-Star rating that was achieved in 2017. We are targeting a 3-Star rating in 2019 at our next assessment.

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 all 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 kids 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.

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. With over 95% of all products purchased adhering to 2017 Salt targets.

Corporate Social Responsibility continued

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 we have added gluten-free burgers, pastas and pizzas in Frankie & Benny's, to provide greater choice to our guests.

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

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 a wide range of alcohol-free beers, 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 30 December 2018, 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 87% 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

We believe that great customer experience is key to our business success, and therefore our most important assets are our people. At the end of December 2018, we employed more than 22,000 people across all of our brands. Our teams in all of our restaurants and pubs take huge pride in their work and focus on providing the best guest and customer service, they are passionate about food and drink and support each other. In 2018, the Group successfully added a further 42 branches in our highly successful Concessions and Pubs divisions, creating new jobs and opportunities in major transport hubs and within local communities.

The year for us was one to re-examine our people processes, and ensure we can not only attract talent, but have the ability to identify and grow our internal talent, then encourage and support all of our employees so that they can reach their full potential.

Our commitments

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 25.

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 online 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 expense 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 2018.

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 Group. Also, unlike some of our competitors, no card processing administration fee is taken by the Group.

Our year

We conducted our annual all-employee engagement survey in 2018 and were pleased that engagement levels remain high, with almost 85% of employees declaring they were 'Proud to work for TRG' and nearly 80% happy to recommend working here to others. Over 92% of respondents said that they respected their manager, and our overall employee satisfaction rate rose from 74.9% in 2017 to 76.3% in 2018. Our focus areas of work life balance and especially performance management from the previous survey saw significantly higher positive responses this year.

In 2018 we created a charity partnership with Cancer Research UK (CRUK) and all employees from the Leisure brands and our central support office team worked together to raise funds for this incredible cause, chosen by the team members themselves. Some of our colleagues also took time out to volunteer for the charity and in each region charity champions worked hard to coordinate our activities. The champions also had the opportunity to visit one of CRUK's research facilities to see where the funds they were raising were carefully used to improve treatments and learned about the charity's work. The current fundraising total has so far reached almost £150,000, which is a fantastic achievement.

In 2018 we focused on providing communications that were accessible, relevant and interesting to all of our employee population, a significant proportion of whom English is not their first language. We introduced a new communications and engagement tool called Yapster, which is a social media-style application which our team can download to their phones and other devices. The platform has a translate function to help all employees engage with the tool. As well as receiving regular business updates, the team can chat in their branch or regional groups, and collaborate directly with everyone in the organisation, including our central support team. This innovation will be hugely helpful in 2019 as we launch our health and wellness focus, ensuring we nurture our people and give them the support they need in the areas of physical and mental health.

We launched another Save As You Earn share option scheme in 2018, which all employees with more than three months' employment were invited to join. They can purchase TRG shares at a discounted price after saving each month for three years.

In 2018, we reported 56 accidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013, with no deaths or dangerous occurrences. This number continues our recent trend of year-on-year reductions.

Our talent search

We have worked hard building the TRG external recruitment brand to enable us to attract the best external talent. We have increased our presence on LinkedIn and other key recruitment sites and also have an internal employee referral scheme across the Leisure business. We now have 13,000 followers on LinkedIn, and use this application extensively to recruit vacant roles throughout the organisation.

Our internal recruitment team employed 324 managers into our restaurants and pubs for Assistant, Deputy and General Management roles.

Our nurturing and encouragement

We have a dedicated learning and development team whose aim is to ensure all our employees are the best they can be.

In our Pubs division, we launched L2 and L3 Professional Cookery and Level 3 Hospitality Supervisor Apprenticeships. In Leisure and Concessions, we offer 6 Apprenticeships from L2 Team Member and Chef to L4 Foundation Degree for General Managers.

Corporate Social Responsibility continued

We continue to focus on identifying talent and using these identified 'talent pools' for succession planning and internal promotion. With our career pathways and the pipeline of apprentices, we hope to maintain, or even further increase, internal progression and development across the Group.

Our learning and development

On the job learning is an essential part of developing our people and forms the majority of their training. However, to give them the technical knowledge required in areas such as Allergens and Food Safety, and in 2018 especially, GDPR awareness, and to check their understanding, there are also eLearning modules and tests that must be completed.

Everyone in the Group 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. 83,000 eLearning modules were completed on the FLOW system in 2018, up from 74,000 the previous year.

As well as online learning, face-to-face learning is also important, and in 2018 there were 253 workshops run by our in-house dedicated learning & development team. The new management induction programme and all the workshops are now run across brands and give our management teams the chance to learn from each other, share best practice and build on their development plans.

Our future leaders

All new managers into our restaurants are enrolled on the Manager in Training (MIT) programme. This gives them a structured pathway to be a successful leader 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 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.

Our communities

Engaging with our communities is our passion and we are keen to fully support our teams with their fundraising efforts and community activities. Over many years we have supported a number of local and national charities.

In 2018 we formed a new partnership with a national charity, across our Leisure brands and the team in our central support office together. These employees were given the opportunity to pick the charity they would like to work with and they chose **Cancer Research UK (CRUK)**. Teams all over the country have spent the year hosting many different events and giving their time to raise money for this amazing cause. Charity champions in each area were also given the chance to visit one of CRUK's research facilities in Birmingham and were given an insight into the incredible work their scientists are doing to improve treatments and save lives.

Through events such as sponsored runs and walks, mountain climbs, head-shaving, a support office 'bikeathon', bake offs, raffles and all manner of sales, our fantastic teams have raised almost £150,000 in 2018, which is a fantastic achievement.

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

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 £50,000 with donations largely coming from a proportion of the sale of selected dishes sold at some of our Concessions pub brands.

Since 2009, the Concessions team have also raised money for **The Guide Dogs for the Blind Association** and sponsored 17 Guide Dogs through various fundraising activities and sponsored events.

Our Pubs Division is situated in locations that are in the very heart of their local communities. Each individual pub tends to support a local charity to champion throughout the year, examples of which might be the Red Fox on the Wirral's long-standing relationship with Claire House Children's Hospice or Haighton Manor's relationship with Space Centre, in Preston.

In addition, multiple pubs co-ordinate to support national charities, 'National Jumper Day' raising money for **Save the Children**, and participating in 'National coffee morning week' for **Macmillan nurses**.

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 **Dogs Trust**.

Charities Aid Foundation Give As You Earn
The Group has 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.

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

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 2018 the Group has continued to invest in energy-saving technologies by installing intelligent extract controls, cooling and refrigeration controls and trialling both enhanced cold-room insulation and thermostatic radiator valves at certain sites.

The Group still maintains Carbon Saver Gold Standard accreditation, showing nine years independently-verified commitment to reducing carbon emissions. The Group also continued to be accredited by the Sustainable Restaurant Association, scoring highly in the Environment section. 2018 showed an 9th consecutive year of LFL energy consumption reduction. The reduction of over 2,600,000 kWh is equivalent to over 800 tonnes of carbon. This equates to a saving of 2.6% on LFL measurable sites.

In 2018, we continued to track and control our gas volumes using the same operational engagement strategy as electricity. The result was a reduction of over 2,200,000 kWh, which is equivalent to over 400 further tonnes of carbon. This equates to a saving of 3.0% on LFL measurable sites.

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 2018 reporting period, is as follows:

Emission Type	CO_2e tonnes (location-based method) 2018	2017
Scope 1:		
Operation of Facilities	**568**	734
Combustion	**18,180**	18,237
Total Scope 1 Emissions	**18,748**	18,971
Scope 2:		
Purchased Energy (UK)	**34,127**	45,865
Total Scope 2 Emissions	**34,127**	45,865
Total Emissions	**52,875**	64,836

Greenhouse gas emissions intensity ratio

	2018	2017	Year-on-Year Variance
Total Footprint (Scope 1 and Scope 2) – CO_2e	**52,875**	64,836	-11,961
Turnover (£)	**679.1m**	679.2m	n/a
Intensity Ratio – Scope 2 location based method (tCO_2e/£100,000)	**0.078**	0.095	-18.0%

* For comparative purposes, does not include Wagamama.

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 reports 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 2018.
- 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 Business, Energy and Industrial Strategy 2018.
- Change in location-based methodology is driven by a number of variables, primarily:
  - reduced electricity and gas consumption;
  - higher use of propane in pub sites in line with higher sales;
  - the use of vehicles for which emissions are in scope has also fallen;
  - carbon factors (as referenced above) have also decreased significantly year-on-year as efficiencies are made and more renewable fuels are used in the generation mix.

Water

For water, the Group benchmarks restaurants and pubs by average daily usage and uses data validation to highlight high users. Where usage increases or is marked as high, the restaurant or pub is surveyed for efficiency initiatives and leak fixes, ensuring that we prevent water wastage and remain commercially controlled in this area. Previous savings have annualised but we are still currently tracking ongoing savings of over £70,000 in 2018.

The Group continues to take advantage of the de-regulation of the water market. We were able to combine our Scottish and English volumes to achieve preferable terms, as well as added value benefits such as centralised billing and account management.

Waste

The Group has further improved its diversion from landfill to 99.9%, with a significant number of sites diverting 100% of their waste from landfill. We have also started to track the recycling rate which is 44% for 2018. In 2019 we plan to optimise our schedules to improve this performance by segregating more at source.

Pages 4 to 20 form the strategic report.

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

Kirk Davis
Chief Financial Officer

15 March 2019

Corporate Governance report

Chairman's introduction

The purpose of this report is to explain how the Group is directed and controlled by the Board and to summarise how corporate governance arrangements have been implemented throughout the year.

The principal corporate governance rules applying to the Company are contained in the Financial Reporting Council's (FRC) UK Corporate Governance Code and the UK Financial Conduct Authority (FCA) Listing Rules.

The Board is responsible for agreeing our strategy, providing independent oversight of the Company's performance, approving the funding and major capital allocations of the Group including acquisitions, taking account of the needs of all stakeholders and growing shareholder value. The Board delegates day-to-day responsibility for running the Group to the Chief Executive, and passes specific responsibilities of oversight to various Board committees.

As Chairman, my role is to promote a culture of openness, within which the Board receives accurate, timely and clear information, to ensure that we are consulted with on all relevant matters; and to maintain effective communication with all of our stakeholders. My personal objective is to provide clear and cohesive leadership of the Board, ensuring that the Board has the right mix of skills and experience to carry out its role effectively. With the appropriate skills and experience in place, the Board provides constructive challenge and support to the executive Directors and promotes high standards of corporate governance.

The non-executive Directors discuss and agree the strategy and the relevant priorities with the executive Directors and hold the executives accountable for its execution. We ensure that the appropriate culture, values and ethics are applied to promote the Company's long-term success, and that we send out consistent messages on the core values of the Company and acceptable behaviours from ourselves, our people, our suppliers and partners. We have continued our progress in moving towards best corporate governance practice and we regularly review the context, progress and maintenance of these standards, for the benefit of all of our stakeholders.

Debbie Hewitt MBE
Chairman

The Board

The Chairman, Senior Independent non-executive Director and other members of the Board, Audit Committee, Nomination Committee and Remuneration Committee are set out in this Annual Report in the biographies of Directors. The Board was further strengthened this year by two new appointments. In February 2018, Kirk Davis joined as Chief Financial Officer, bringing extensive finance experience within listed leisure and retail businesses as CFO of Greene King plc and, before that, as Finance Director at J D Wetherspoon plc. He has also held senior finance roles at Tesco plc and Marks & Spencer plc.

In December 2018, Allan Leighton, the chairman of Mabel Topco Limited (the parent company of the Wagamama Group) was appointed as non-executive Director on the completion of the Wagamama acquisition. Allan brings a wealth of knowledge of the restaurant and leisure sector and other consumer businesses. He is currently Chairman of a number of consumer-focused businesses including Co-operative Group Limited and Entertainment One Limited, and was previously Chief Executive Officer of ASDA Group Limited and Pandora A/S, and Chairman of Pace plc and Royal Mail. He will become Senior Independent Director in May 2019, taking over the role from Simon Cloke, who will have completed nine years as a non-executive Director and Senior Independent Director. Simon will remain as a non-executive Director until the new CEO is appointed and the subsequent appointment of a new NED. It is anticipated that Simon will step down from the Board by the 2020 AGM.

In October 2018, Paul May stepped down from the role of non-executive Director.

On 14 February 2019, Andy McCue, CEO, informed the Board of his decision to leave the Company due to extenuating personal circumstances. A search is being undertaken to recruit a new CEO using an external search consultant, Sam Allen Associates. They have no other connection with the Company. Andy will remain in position while his successor is being recruited.

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 2018, the Company complied with the principles set out in the Code with the exception that the Remuneration Committee has comprised two independent non-executive directors (in addition to the Company Chairman) instead of three. Simon Cloke will join the Committee in 2019, once he relinquishes the role of Senior Independent Director. It is intended that a third independent non-executive Director will be appointed to the Remuneration Committee during 2019.

In addition, the Board considered it appropriate to exercise the authority conferred by shareholders at the AGM, to hold the general meeting on 28 November 2018 (to approve certain resolutions in relation to the acquisition of Wagamama) on 14 days' notice, instead of the requirement under the Code for 14 working days' notice, given the need to execute the Wagamama transaction as expeditiously as possible.

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 values-based leadership of the Company, within a framework of prudent and effective controls, which enable opportunities to be identified and risks 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.

During the year, the business 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. We acquired the Ribble Valley Inns and Food & Fuel pub chains, and in December, the Group completed the acquisition of Wagamama, a leading pan-Asian restaurant brand.

The Directors who held office during 2018 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.
Kirk Davis	Chief Financial Officer	Appointed February 2018.
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. Resigned October 2018.
Allan Leighton	Non-executive Director	Appointed December 2018. Will become Senior Independent Director from May 2019.

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 30 and 31.

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 the Group's strategy and of day-to-day performance. 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 is available to liaise with any 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.

Meetings and attendance

A summary of the Directors' attendance at meetings of the Board and its Committees that they were eligible to attend during 2018 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	17/17	n/a	3/3	8/8
Andy McCue	n/a	17/17	n/a	n/a	n/a
Kirk Davis[1]	n/a	16/16	n/a	n/a	n/a
Simon Cloke	Audit/Nom	17/17	4/4	3/3	n/a
Graham Clemett[2]	Audit/Nom/Rem	17/17	4/4	3/3	7/8
Paul May[3]	Audit/Nom	11/11	3/3	1/1	n/a
Mike Tye[4]	Audit/Nom/Rem	16/17	4/4	3/3	8/8

1 Kirk Davis was appointed to the Board on 5 February and attended all Board meetings after that date.
2 Graham Clemett missed a Remuneration Committee meeting due to the short notice on which it was called. The meeting dealt with a single item of business which had previously been discussed with all Committee members.
3 Paul May resigned on 15 October.
4 Mike Tye missed one Board meeting. He separately gave his input to the Chairman on the business of the meeting.

Comprehensive papers are provided to the Directors prior to Board meetings and to Committee members prior to Board Committee 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 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 December 2017, the TRG Group became aware of a technical matter relating to the levels of distributable reserves and the payment of interim and final dividends to Shareholders during the period from 2006 to 2017 (the **Relevant Dividends**). Following investigation, at the Board meeting convened to consider what action should be taken (including the calling of a general meeting of the Company to approve certain deeds of release), Debbie Hewitt, Simon Cloke, Graham Clemett, Mike Tye, Paul May and Andy McCue, being Directors of the Company who were also directors of the Company at the time of declaration and payment of a Relevant Dividend, were considered to have a potential conflict of interest. As a consequence, they did not participate in the Board's deliberations and abstained from voting on the resolutions subsequently put to the shareholders at a General Meeting of the Company on 23 May 2018.

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 2018).

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.

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 38 and the Corporate Social Responsibility report on page 16.

The table below sets out the position of the Group on a gender basis as at 30 December 2018:

	Male	Female
Main Board	6 (86%)	1 (14%)
Executive Committee[1]	4 (50%)	4 (50%)
Direct Reports to Executive Committee	45 (69.2%)	20 (30.8%)
TRG Employees at December 2018	11,335 (51.5%)	10,687 (48.5%)

1 Excluding the executive Directors.

Details of the Directors' respective experience are set out in their biographical profiles on pages 30 to 31. The Board considers that each Director is able to allocate sufficient time to the Company to discharge his or her responsibilities effectively.

Corporate Governance report continued

Annual re-election
In accordance with the Code, Allan Leighton is subject to election by shareholders at the Annual General Meeting (AGM) in May 20198. 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 32 to 53.

Director induction
Allan Leighton joined the Board in December 2018 and was 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 2018, presentations were given on the 2018 UK Corporate Governance Code, Directors' Duties and the General Data Protection Regulation.

Board effectiveness review
An externally-facilitated Board and Committee evaluation was conducted in December 2017 and January 2018, with the final report to the Board in February 2018. The external facilitator was Lintstock Limited, which has no other connection with the Company. 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 and
- continued external input to the Board on topical issues such as cybersecurity, the General Data Protection Regulation (GDPR) and digital.

The following actions were taken as a result:

- Allan Leighton was recruited as a non-executive Director, fulfilling the skill set of digital and leisure sector. The Board has determined that an additional non-executive Director appointment will be made in 2019, to add to the digital and technology credentials.
- A deep dive was undertaken on employee engagement, and the business decided to recruit a new Group People Director who has extensive experience in the growth sector of delivery, having previously been the HR Director of Just Eat.
- A review was undertaken of the Company's brokers, with new partners being appointed to represent Numis, and MHP Communications were appointed as Investor Relations PR advisers.

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 is the responsibility of the senior management team together with the Senior Management Risk Committee. For the report of the Risk Committee see pages 56 to 57.

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 2018.

In relation to each of the acquisitions of Food & Fuel and Wagamama during 2018, the Group took out Warranty & Indemnity insurance to cover itself in the event of potential breaches of representations and warranties by the respective sellers.

Risk map

The Board annually reviews the Group's risk map, which includes the principal risks and mitigation plans as set out on page 57.

Remuneration

For information on remuneration see the Remuneration Committee report on pages 40 to 53.

Relations with shareholders

Share capital structure
The Company's issued share capital at 30 December 2018 consisted of 491,496,230 ordinary shares of 28.125 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 290,428,830 new shares were issued pursuant to the 13 for 9 rights issue to partly finance the Wagamama acquisition and to pay certain costs and expenses.

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 2018 AGM, the Directors currently have authority to allot shares in the Company up to an aggregate nominal amount of £18,850,069. This authority will lapse at the 2019 AGM, where it is intended that a resolution granting a similar authority will be put to shareholders.

As granted at the 2018 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 20,106,740 (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 2019 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 2018, the Chairman and the executive Directors held extensive discussions with major shareholders prior to the General Meeting on 28 November 2018 to explain the rationale for the acquisition of Wagamama.

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 engaged ProSearch to locate shareholders with unclaimed dividends up until 30 April 2018, when the programme closed due to minimal activity.

Substantial shareholdings
As at 30 December 2018, 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	49,136,732	10.00
J O Hambro Capital Management	45,674,029	9.29
Schroder Investment Management Ltd	35,353,293	7.19
Royal London Asset Management Ltd	32,412,645	6.59
Columbia Threadneedle Investments	30,480,695	6.20
Aberforth Partners LLP	29,472,995	6.00
Norges Bank Investment Management	23,268,478	4.73
Artemis Fund Managers Ltd	21,006,261	4.27
The Vanguard Group Inc	20,065,325	4.09
BlackRock	19,718,414	4.02
Wellington Management Company	17,040,158	3.47
Polaris Capital Management Inc	15,763,518	3.21
Rathbones	15,486,891	3.15

Since 30 December 2018 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
FMR LLC	49,149,733	10.00
Norges Bank Investment Management	22,961,811	4.67

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 42 to 48 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 Group'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 2019 AGM will be held at 10.00am on Friday 17 May 2019 at the offices of MHP Communications at 6 Agar Street, London WC2N 4HN. 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

15 March 2019

Board of Directors as at 15 March 2019

Debbie Hewitt MBE
Non-executive Chairman

Debbie was appointed as 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 Limited, Visa Europe Limited and BGL (Holdings) Limited and Non-Executive Director of Galaxy Midco 1 Limited (Domestic & General Group). Debbie retired from her role as Senior Non-Executive Director of Redrow plc on 7 November 2018 after 9 years with the company.

Her executive career was spent at RAC plc where she was Group Managing Director and prior to that she was in retail management with Marks & Spencer plc. 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 Officer 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. Andy joined Paddy Power from OC&C Strategy Consultants where he was a Principal.

Andy is currently also a Non-Executive Director and Chairman of the Remuneration Committee of Hostelworld 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

A N R

Graham Clemett
Independent non-executive Director

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 5 years. Prior to RBS, Graham spent 8 years at Reuters Group plc, latterly as Group Financial Controller. He qualified as a chartered accountant with KPMG.

A N

Simon Cloke
Senior Independent non-executive Director

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 house building and building materials clients as well as a number of HSBC's largest UK corporate relationships.

A N R

Mike Tye
Independent non-executive Director

Mike was appointed as a Non-Executive Director on 4 April 2016. He has extensive experience of the Leisure and Hospitality sector and was, until 2015, Chief Executive Officer 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 Limited (the motorway services operator), Chairman of the Haulfryn Group Limited and Vice-Chairman of Prostate Cancer UK.

A N

Allan Leighton
Independent non-executive Director

Allan was appointed as a Non-Executive Director of the Company on 24 December 2018. Allan is currently Chairman of a number of consumer-focused businesses including Co-operative Group Limited and Entertainment One Limited, and was the Chairman of Mabel Topco Limited (the parent company of the Wagamama Group) prior to its acquisition by TRG. He was previously Chief Executive Officer of ASDA Group Limited and Pandora A/S, President & CEO of Wal-Mart Europe and Chairman of Pace plc and Royal Mail.

Allan has also been the Chairman at Race for Opportunity and Business Ambassador for HRH the Prince of Wales, and is a Patron of Breast Cancer Care.

Audit Committee report

Graham Clemett
Chairman of the Audit Committee

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

Membership

- Graham Clemett (Chairman)
- Simon Cloke
- Mike Tye
- Paul May (resigned 15 October 2018)
- Allan Leighton (appointed 24 December)

Director	Attendance
Graham Clemett	4/4
Simon Cloke	4/4
Mike Tye	4/4
Paul May	3/3

Note: Paul May attended all Committee meetings before his resignation. There were no meetings in 2018 following Allan Leighton's appointment on 24 December.

In accordance with the UK Corporate Governance Code 2016 (the "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 30 to 31.

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, supported by the Senior Management Risk Committee;
- 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 review the operational effectiveness of the Company's policies and procedures for detecting fraud or illegal acts and
- consider any other matter that is brought to its attention by the Board or the external auditor.

2018 Committee activities

As required by its terms of reference, four formal meetings of the Committee were held during 2018 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:

- Submitted to the Board two audit firms, with the preference for appointment of Ernst & Young 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 2018 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 57);
- reviewed the Company's internal controls and risk management systems;
- received updates on the Group's General Data Protection Regulation (GDPR) compliance project;
- received updates on the internal review of the IT function, and cybersecurity and
- received regular reports and copies of the minutes from the Chairman of the Senior Management Risk Committee.

Compliance, whistleblowing and fraud

- reviewed the operational effectiveness of the Company's policies and procedures for detecting fraud or illegal acts and
- reviewed the Whistleblowing Policy and the effectiveness of the Company's whistleblowing arrangements.

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, allocation of central costs 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.
Disclosure around prior period adjustments	During the year, the Group identified four matters requiring adjustment within the financial statements. These relate to the accounting for capital contributions, allocation of central costs within impairment testing, classification of certain lease balances, and calculation of finance lease liabilities. The Committee considered the adjustments, and discussed them with both Company management, and the external auditor.
Acquisition accounting	The acquisitions of Ribble Valley Inns, Food & Fuel, and Wagamama require valuations to be performed on both the tangible assets, and any potential intangible assets. The Group has recognised assets relating to the brand names, franchise relationships, and below market leases. A liability has also been recognised for above market leases. These valuations have been performed by experienced third parties, and the Committee has reviewed them with the management team.

Other areas considered included:

- management's approach to the review of distributable reserves, and the resulting rectification of prior dividends;
- 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, or from delivery partners, are recognised in the financial statements.

No issues arose from our consideration of these matters.

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 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 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 14 and the Group's going concern statement on page 55.

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, the Committee takes account of:

- the findings set out in the Financial Reporting Council's (FRC's) Audit Quality Review team's public reports on audit firms;
- 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 2018 year-end, a formal assessment will be conducted after the approval of the financial statements in March 2019. The evaluation to date focused on: robustness of the audit process, quality of delivery, timeliness of addressing key matters, reporting and people. Following this review, it is therefore the Committee's recommendation that the appointment of Ernst & Young be put to shareholders at the Annual General Meeting in May 2019. If appointed, Ernst & Young will hold office until the conclusion of the next Annual General Meeting at which accounts are laid.

External Audit Tender

Having been the Group's external auditor since 2007, it was mutually agreed with Deloitte that following the announcement of the Group's 2017 results it would be an appropriate time to appoint a new audit firm. Deloitte agreed that they would resign once the Group had completed its tender process and confirmed that there were no issues relating to their resignation that needed to be brought to the Audit Committee's attention.

Deloitte had been reappointed as auditor in 2017 following a tender process that involved four audit firms, including one from outside the Big 4. For the 2018 tender process, two audit firms were invited to tender for the audit, this included one firm that had not been involved in the previous tender process. The two prospective audit firms were provided with access to an online data room to enable them to understand the Group's business and key risk areas, and separately met with the Audit Committee Chairman, Chief Executive Officer, Chief Financial Officer and Group Financial Controller. The two audit firms were then invited to attend a face-to-face presentation and discussion with a panel comprising of the Committee Chairman, two other members of the Committee, together with the Chief Financial Officer and Group Financial Controller. Following the presentations, the panel, chaired by the Committee Chairman, assessed the strengths of each audit firm. The Committee Chairman submitted to the Board the two firms as possible firms for appointment but with a clear justified preference to appoint Ernst & Young. The Board discussed the recommendation and appointed Ernst & Young as the Group's auditors upon the resignation of Deloitte on 27 September 2018.

Audit Committee report continued

Auditor independence

To ensure the external auditor remains independent 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; and
- 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.

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 minimising non-audit fees as far as is possible and practicable. To safeguard objectivity and independence the Committee also assess 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.

In 2018 Ernst and Young were engaged to provide support on the acquisition of Wagamama, including the role as Reporting Accountant and work on due diligence, working capital, profit forecast and other assurance work directly related to the transaction. As a result, their non-audit fees for the current year are exceptionally high at £1,295,000, resulting in a ratio of audit fees to non-audit fees of 1:3.7 (2017: 1:0.3). In agreeing that the work could be done by Ernst & Young, the Committee was mindful of the concern that investors have over auditors performing non-audit services and the new guidance in this area. Taking into account the importance of the transaction for the Group, the nature of these assurance related services, and the need to execute the Wagamama acquisition as expeditiously as possible, the Committee considered that it was in the best interests of the Group to have the auditors carry out these services. Ernst & Young separately confirmed that the existing safeguards they had against independence threats were in place and appropriate, and that they had received independent internal approval to provide the requested non-audit services.

Internal controls and risk management

Internal audit function

The Committee keeps under regular review the scope of the Group's internal audit activity, which is currently solely focused on site level operational reviews. Given the recent increase in scale and complexity of the Group, the Committee will be reviewing in 2019 the need for a more extensive and formalised internal audit function.

Senior management Risk Committee

As set out in the Risk Committee's terms of reference, the Committee Chairman received regular reports on its activities during 2018. For further details on the membership, roles and responsibilities and Risk Committee activities during 2018, see page 56.

The Group's principal risk factors are set out on page 57.

Committee Governance

Committee terms of reference

In November 2017, the Committee reviewed its terms of reference and concluded that no changes were necessary to the version adopted in November 2016. The terms were reviewed again in 2018. 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, and concluded in Feb 2018, 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, which reported to the Board in February 2018, 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

15 March 2019

Nomination Committee report

Debbie Hewitt MBE
Chairman of the Nomination Committee

The Nomination 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 three times during the year. Membership and attendance is set out below:

Membership
- Debbie Hewitt (Chairman)
- Graham Clemett
- Simon Cloke
- Mike Tye
- Paul May (resigned 15 October 2018)
- Allan Leighton (appointed 24 December 2018)

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

1 Paul May attended the one meeting of the Committee held before his resignation. No meetings of the Committee were held since Allan Leighton's appointment on 24 December 2018.

Biographies of all Committee members, including a summary of their experience, appear on pages 30 to 31.

Role of the Nomination Committee
The principal role of the Committee is to review the structure, size and composition of the Board and its committees, to identify, evaluate and recommend candidates for appointment to the Board and its committees and to keep under review the Group's broader 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

2018 Committee activities

The Committee is required to hold two meetings per year as set out in its terms of reference. During 2018, the Committee considered the following matters:

- the potential need for a further non-executive Director;
- the exit of a non-executive Director mid-term;
- Gender Pay gap;
- executive succession planning and
- 2018 UK Corporate Governance Code.

In addition, at the end of 2017 and beginning of 2018, the Committee conducted an externally-facilitated effectiveness review. Lintstock Limited was chosen to complete the exercise. Outputs relating to the Nomination Committee included a skills audit of the current Board, a desire to see some external development for selected members of the Executive Committee and a conclusion to recruit a non-executive Director with technology and digital expertise.

Board changes during the year

In October 2018, Paul May stepped down from the role of non-executive director.

On 24 December 2018, Allan Leighton, the chairman of Mabel Topco Limited (the parent company of the Wagamama Group) was appointed as non-executive Director on the completion of the Wagamama acquisition. Allan brings a wealth of knowledge of the restaurant and leisure sector and other consumer businesses. He is currently Chairman of a number of consumer focused businesses including Co-operative Group Limited and Entertainment One Limited and was previously Chief Executive Officer of ASDA Group Limited, and Chairman of Pandora A/S, Pace plc and Royal Mail.

After 9 years as a non-executive director of the Company, Simon Cloke will cease being the Senior Independent non-executive director at the 2019 AGM. Allan Leighton will become Senior Independent Director.

Chief Executive recruitment

On 14 February 2019, Andy McCue, CEO, informed the Board of his decision to leave the Company due to extenuating personal circumstances. The Committee debated extensively the various options to support the CEO but understood that the decision for him to stand down was absolutely in the best interests of him and his family and therefore of the Company. The Committee has agreed with Andy that he will remain in position while his successor is being recruited. An extensive search is well underway to recruit the new CEO using an external search consultant, Sam Allen Associates. They do not have any other connection with the Company. An announcement regarding the appointment will be made in due course.

Given this announcement, the Committee decided that it was sensible to postpone its search for an additional non-executive Director, until such time as the new CEO is recruited. Simon Cloke has agreed to remain on the Board as a non-executive Director for a period of up to a year, to ensure continuity whilst the new CEO is recruited. The Board will then re-commence its search to recruit an additional non-executive Director with technology and digital credentials and, at that point, Simon Cloke will step down from the Board.

The Committee recognises that Simon Cloke has completed 9 years as a non-executive Director and has concluded that in all other aspects other than tenure, he remains independent in his approach and contribution to the Board. It has decided however, as explained above, for Simon to relinquish his responsibility as Senior Independent Director and to ask Allan Leighton to step up to this position.

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 50% female representation.

The Committee also 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 organisations. The Board recognises the value of, and strongly supports, the principle of diversity generally, particularly cognitive diversity 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 colleagues to represent and operate the business effectively for the benefit of all its stakeholders.

Further details on the Group's policy on diversity are included in the Corporate Governance report on page 25 and the Corporate Social Responsibility report on page 16.

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 accountability for management information, decision making and behaviour. A series of meetings takes place with key management and Board colleagues. 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 2018 the Board had specific training on the 2018 UK Corporate Governance Code, Directors' Duties and the General Data Protection Regulation.

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 skill set and tenure of non-executive Directors to ensure the appropriate mix of skill and 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, but as described above will delay that search until the new CEO is appointed. He will step down from being the Senior Independent Director at the 2019 AGM, but will remain on the Board until the new CEO and NED are appointed. The Committee has debated and determined the skill set of candidates to be considered, and the profile reflects technology and 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.

On behalf of the Nomination Committee

Debbie Hewitt MBE
Chairman of the Nomination Committee

15 March 2019

Directors' remuneration report

Mike Tye
Chairman of the Remuneration Committee

Dear Shareholder,

At last year's AGM, shareholders approved the new remuneration policy ("Policy") with 99.2% of votes in favour of the resolution. We are grateful for this strong show of support.

I am pleased to provide the Directors' remuneration report for the year ended 30 December 2018, which is the first application of that Policy. As usual, the annual statement and annual report on remuneration, which provide details of the remuneration earned by Directors in the year and how the Policy will be implemented for the 2019 financial year, will be subject to an advisory shareholder vote at this year's AGM, on 17 May 2019.

Board changes

Kirk Davis joined the Group as Chief Financial Officer on 5 February 2018 and his joining terms were fully reported last year (and set out in the main body of this year's report).

Remuneration in 2018

The 2016 LTIP awards did not meet their performance conditions and have lapsed.

As announced in last year's report, awards over shares worth 200% and 150% of salary were granted under the LTIP in 2018 to the Chief Executive and the Chief Financial Officer respectively, subject to EPS and TSR targets. Consistent with normal practice, the number of shares subject to these awards has been adjusted using the HMRC standard formula to neutralise the impact of the rights issue, we undertook last year to partly finance the acquisition of Wagamama. The standard calculation of TSR also makes the same adjustment and the Committee adopted the same adjustment to base the EPS figure for outstanding LTIP awards. The Committee will monitor the outturns to ensure that the EPS components continue to operate as intended and are not unintentionally impacted by the Wagamama acquisition and, consistent with best practice guidance, will not result in the targets being easier to achieve than would have been the case but for the acquisition.

In relation to bonus, the Remuneration Committee set challenging Adjusted PBT targets and like-for-like (LFL) sales targets which were not met and stretching employee engagement targets which were met in part. However, for any bonus potential to be paid, the threshold of £57m Adjusted profit before tax had to be achieved. As the threshold Adjusted PBT target was not achieved, no bonuses were awarded to the executive Directors.

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

Remuneration for 2019

For 2019, in view of his resignation, the Chief Executive will not be awarded a bonus, or granted an LTIP award. The Chief Financial Officer will again be eligible for a maximum annual bonus of up to 120% of salary. 50% of any bonus earned will be deferred in shares for three years. The Committee intends to grant an LTIP award of 200% of salary for the CFO (increased from 150% in 2018 to reflect the importance of his role during the transition to a new Chief Executive), 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 121).

A c.2% salary increase was awarded to each of the Chief Executive and Chief Financial Officer for 2019 (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%. While higher increases may have been warranted to reflect the increased scale of the Group following the acquisition of the Wagamama business, this was not considered appropriate at this time.

Andy McCue

On 14 February 2019, Andy McCue, CEO, informed the Board of his decision to leave the Company due to extenuating personal circumstances. Andy will remain in position while his successor is being recruited. Consistent with his contractual terms, he will continue to receive his normal base salary and benefits while working for the Company and may then receive his base salary (and housing allowance for up to 2 months) for any balance of his notice period. His 2016 and 2017 deferred share bonus awards will remain until normal vesting. He will not be eligible for a bonus for 2019/20 and all outstanding LTIP awards will lapse on his departure.

We are committed to ensuring that our 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 resolution to approve the annual report on remuneration at this year's AGM.

Yours faithfully,

Mike Tye
Chairman of the Remuneration Committee

Annual report on remuneration

Implementation of the Remuneration Policy for the 2019 financial year

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

Basic salary	2018	2019 (from 1 January)	Increase
Andy McCue	£515,500	£525,300	1.9%
Kirk Davis[1]	£355,000	£362,100	2%

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

The Committee considered that the increases for the Chief Executive and Chief Financial Officer were in line with the rest of the head office team. The average increase for managerial employees across the Group was 2.1% for the 2019 pay review. Restaurant management and general restaurant employees receive their pay award in April 2019, 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. The Committee has noted that a number of institutional investors favour alignment of rates with staff more generally and would reflect such guidance in any package for a new executive Director.

Performance targets for the annual bonus in 2019

For 2019, the annual bonus will again be based on Group financial measures (70%) and strategic KPIs (30%) and capped at 120% of salary for the Chief Financial Officer. The financial measure will be Adjusted profit before tax (PBT). The other measures will focus on improvement in like-for-like sales and the achievement of agreed strategic KPIs. 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 2019 targets will be provided in next year's report. Executive Directors are required to defer 50% of any bonus earned for three years. The Committee considered the continued relevance of the measures in light of the Wagamama acquisition and decided that, as these measures focus on the Group results which will, for 2019, include Wagamama, they remain appropriate although other measures may be considered for 2020.

We have disclosed the 2018 targets against which performance was assessed on page 44 of this report.

Performance targets for LTIP awards to be granted in 2019

No LTIP awards will be granted to Andy McCue in 2019. The LTIP awards intended to be granted to Kirk Davis in 2019 will be over shares equal to 200% of salary (increased from 150% in 2018 to reflect the importance of his role during the transition to a new Chief Executive), with performance targets based on:

1. TSR element (50%) – the Company's TSR vs the constituents of the FTSE 250 (excluding investment trusts). Nothing vests below median. Threshold (25%) vesting for median performance; 100% vests for upper quartile performance, with a straight-line scale between these two points; and
2. Adjusted EPS element (50%) – the Company delivers Adjusted EPS growth. Nothing vests for growth below 4% pa. Threshold (25%) vesting for growth of 4% pa; 100% vests if growth of 10% pa is achieved, with a straight-line scale between these two points.

We have disclosed the 2018 LTIP targets relating to the awards made to the Chief Executive and Chief Financial Officer on page 46 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:

	2018[1]	2019 (from 1 January)	Increase
Chairman	£215,000	£219,300	2%
Non-executive Directors' base fee	£55,000	£56,200	2.2%
Committee Chair/ senior independent Director fee	£5,000	£5,000	0%

1 From 1 January 2018 or date of appointment.

Non-executive Director fees were benchmarked and reviewed by the Board on 19 January 2019 (subject to no Director taking part in any discussion about his or her own remuneration). A decision was taken to award no increase to the Committee chair or Senior Independent Director fees, but to award a 2.2% increase for base fees of the non-executive Directors. The Chairman's fees were benchmarked and reviewed by the Committee (excluding the Chairman) and a 2% increase was awarded for the Chairman of the Board.

Remuneration received by Directors (audited)

The table below sets out the remuneration received by the Directors in relation to performance for the year ended 30 December 2018 (or for performance periods ending in 2017 in respect of long-term incentives) and the year ended 31 December 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										
2018	215	–	–	–	–	–	–	–	–	**215**
2017	215	–	–	–	–	–	–	–	–	**215**
Andy McCue										
2018	515.5	113	101		–	–	–	–	–	**729.5**
2017	505	113	101	397	–	–	–	–	–	**1,116**
Kirk Davis[4]										
2018	320	10	64							**394**
2017	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**
Simon Cloke										
2018	60	–	–	–	–	–	–	–	–	**60**
2017	58	–	–	–	–	–	–	–	–	**58**
Mike Tye										
2018	60	–	–	–	–	–	–	–	–	**60**
2017	60	–	–	–	–	–	–	–	–	**60**
Graham Clemett										
2018	60									**60**
2017	60	–	–	–	–	–	–	–	–	**60**
Allan Leighton[5]										
2018	–	–	–	–	–	–	–	–	–	**–**
2017	–	–	–	–	–	–	–	–	–	**–**
Former Directors										
Paul May[6]										
2018	43	–	–	–	–	–	–	–	–	**43**
2017	28	–	–	–	–	–	–	–	–	**28**
Barry Nightingale[7]										
2018	–	–	–	–	–	–	–	–	–	**–**
2017	104	4	15	–	–	–	–	–	–	**123**
Sally Cowdry[8]										
2018	–	–	–	–	–	–	–	–	–	**–**
2017	41	–	–	–	–	–	–	–	–	**41**

1 Taxable benefits comprise car allowance, health care, life assurance and housing allowance.
2 The pension payments are salary supplements in lieu of pension contributions.
3 For 2018, no bonus was payable for the year ended 30 December 2018.
4 Kirk Davis joined the company on 5 February 2018 and his remuneration is the amount earned from appointment.
5 Allan Leighton was appointed as a non-executive Director on 24 December 2018. He received no payment in 2018.
6 Paul May resigned on 15 October 2018 and his remuneration is the amount earned up to that date.
7 Barry Nightingale left the Board on 21 April 2017.
8 Sally Cowdry resigned as a non-executive Director on 31 August 2017.

Annual bonus payments for the year ended 30 December 2018 (audited)

The annual bonus for the year under review for the Chief Executive and Chief Financial Officer was based on Adjusted PBT performance, employee engagement scores and a like-for-like sales 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]	CFO % of salary[1]
< Threshold	< £57m	0%	0%
> Threshold	£57m	25%	25%
Maximum	> or = £63.03m	70%	70%
Outcome	£53.2m	0%	0%

1 Pro-rata pay-out between the targets.

A maximum of 10% of the bonus (15% of salary and 12% of salary respectively) was payable for a demonstrable improvement in Employee Engagement scores and a maximum of 20% of the bonus (30% of salary and 24% of salary respectively) related to achieving like-for-like sales improvement targets across the Group, which were not met (the Committee has chosen not to disclose the like-for-like sales improvement targets, which it considers to be commercially sensitive). However, for any bonus potential to be paid, the threshold of £57m Adjusted profit before tax had to be achieved. As the threshold Adjusted PBT target was not achieved, no bonuses were awarded to the executive Directors.

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	Granted	Exercised	Lapsed	Adjusted awards As at 30 December 2018[5]	Exercise price	Date from which exercisable	Expiry date
Andy McCue[4]	2016 LTIP[1]	282,675	–		387,053	–	14.10.2019[2,3]	6 months after vesting[3]
	2017 LTIP[1]	236,424	–	–	323,724	–	17.03.2020[2,3]	6 months after vesting[3]
	2017 LTIP[1]	41,502	–	–	56,826	–	02.10.2020[2,3]	6 months after vesting[3]
	2018 LTIP	399,241			546,661		19.03.2021[2,3]	6 months after vesting
Kirk Davis	2018 LTIP	206,203			282,343		19.03.2021[2,3]	6 months after vesting

1 2016 and 2017 Conditional Award: Details of the performance conditions can be found on page 52 of last year's report. 2018 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.

4 Andy McCue resigned from the Company on 14 February 2019 and therefore all his LTIPs will lapse on his leaving the Company.

5 Consistent with normal practice, the shares subject to outstanding awards were adjusted in accordance with HMRC's standard TERPS formula. This reflects the discount to the then prevailing price at which new shares were offered to existing shareholders and therefore results in the same economic result for a participant as that of a shareholder participating in the rights issue. The base EPS figure for each award has been adjusted on a similar basis.

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[2]	Conditional Awards – nil-cost option	200% of salary of £515,500	244.6p	399,241	£1,031,000	25%	19.03.2018	19.03.2021
Kirk Davis	Conditional Awards – nil-cost option	150% of salary of £355,000	244.6p	206,203	£532,499	25%	19.03.2018	19.03.2021

1 Based on an average share price of 258.24p during the five dealing days ending immediately before the date of grant.

2 Andy McCue resigned from the Company on 14 February 2019 and therefore all his LTIPs will lapse on his leaving the Company.

Directors' remuneration report continued

Details of the performance targets are as follows:

	Weighting (% of total award)	Below threshold (0% vesting)	Threshold (25% vesting)	Maximum (100% vesting)[3]
TSR[1] against FTSE 250 (excluding investment trusts)	50%	Below median	Median	Upper Quartile
Adjusted Earnings per share[2] (EPS)	50%	Less than 4% pa	4% pa	10% pa

1 The TSR performance is benchmarked against the base return index averaged over each weekday in the three month period ending 1 January 2018 to 2021.

2 Company EPS growth based on budgeted PBT for 2018.

3 Vesting is determined on a straight-line basis between threshold and maximum performance.

The 2016 and 2017 grants were subject to similar performance conditions except that the EPS range was 33.0 – 37.0 p (2016) and 6-12% pa (2017), with 10% vesting on achievement of the threshold. Consistent with best practice guidance, the Committee will consider whether any adjustment to the 2017 and 2018 EPS targets is required in light of the Wagamama acquisition, to ensure that the performance conditions operate as intended. This will not make the targets easier to achieve than would have been the case but for the acquisition of Wagamama.

Payments on cessation of office (audited)

No payments on cessation of office were made in respect of the 2018 year. Following the year-end Andy McCue resigned and is working his notice. The proposed terms of his departure are summarised in the Committee Chairman's statement.

Payments to former Directors' (audited)

No payments to former directors were made in respect of the 2018 year.

Statement of Directors' shareholdings and share interests (audited)

Director	Beneficially owned at 1 January 2018	Beneficially owned at 30 December 2018	Outstanding LTIP awards at 30 December 2018	Shareholding % of salary at 30 December 2018	Guideline
Debbie Hewitt	53,638	144,773			n/a
Andy McCue	75,617	329,010	959,842	91%	No
Simon Cloke	7,000	17,111			n/a
Graham Clemett	13,761[1]	34,755			n/a
Kirk Davis	0[2]	58,666	206,203	24%	No
Mike Tye	7,284	17,805			n/a
Allan Leighton	0[3]	0			n/a
Past Directors					
Paul May	0	0[4]			n/a

1 The 2017 Annual Report stated that Graham Clemett held 14,218 Ordinary Shares as at 31 December 2017. On 3 December 2018, the Company was informed that Mr. Clemett in fact held 13,761 Ordinary Shares at 31 December 2017, as a result of a series of sales conducted by his investment manager to fund investment management fees.

2 As at 5 February 2018, his date of appointment.

3 As at 24 December 2018, his date of appointment.

4 As at 15 October 2018, his 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 LTIP award, Andy McCue and Kirk Davis must retain no fewer than 50% of the shares, net of taxes, vesting under the awards until the required shareholding is achieved. Andy McCue and Kirk Davis bought shares during the year and continue to build their respective shareholding following their appointment to the Board. The requirement on Andy McCue to hold shares in the Company will cease upon his leaving the Company, whereupon all his LTIP awards will lapse.

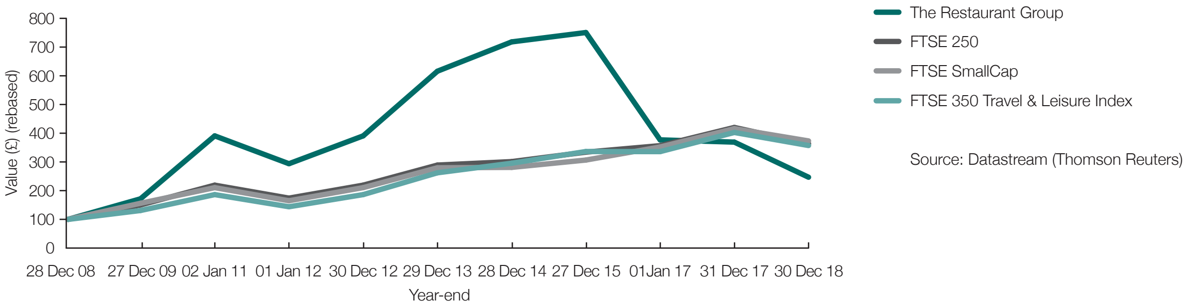
As at the date this report was approved by the Board, there have been no changes in respect of the numbers of shares presented in the table above.

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 30 December 2018, 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 30 December 2018, of £100 invested is as follows:

The Restaurant Group plc (dividends reinvested)	£ 247
FTSE 250 Index	£ 364
FTSE Small Cap Index	£ 373
FTSE 350 Travel & Leisure	£ 357

Total shareholder return



	Andrew Page						Danny Breithaupt			Andy McCue		
£'000	2009	2010	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	2018
Total remuneration	1,669	3,408	4,241	3,070	3,840	4,559	913	1,429	387	242	1,116	730
Annual bonus[1]	100%	100%	86%	100%	100%	75%	75%	69%	0%	20%	52%	0%
Annual LTIP Vesting	85%	90%	100%	82%	93%	100%	94%	93%	–	n/a	n/a	0%

1 As a percentage of maximum.

Directors' remuneration report continued

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 30 December 2018 and 31 December 2017, compared to all employees of the Group.

	Salary change	Benefits change	Bonus change
Chief Executive Officer[1]	2.1%	0%	(100%)
All employees[1]	2.8%[2]	0%	(77.2%)[3]

1 Bonus change is calculated 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	2017	2018	% change
Staff costs	237.0	242.2	2.2%
Dividends[1]	34.9	20.9	(67.0%)
Profit for the year (restated)[1]	45.8	41.8	(9.5%)

1 Dividends and profit for the year are as reported for the trading business and exclude the exceptional 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

Andy McCue has a service contract with an indefinite term which is subject to twelve months' notice by either party. Kirk Davis has a service contract with an indefinite term which is subject to six months' notice by either party. 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 (and continuation of housing allowance for up to 2 months). 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. 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 Remuneration Committee during 2019. Mike Tye is the Committee Chairman and the other members of the Committee are Graham Clemett and Debbie Hewitt. 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 is involved in any decisions 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 acted as its independent advisers until December 2018, after which they were replaced by FIT Remuneration Consultants LLP. Each firm provided services encompassing all elements of the remuneration packages. Neither NBS nor any other part of Aon plc or FIT Remuneration Consultants LLP provided any other services to the Group during the year. Total fees paid to NBS in respect of its services were £34,804 (2017: £60,784) and to FIT were £3,898.

NBS and FIT are each a signatory to the Remuneration Consultants' Code of Conduct. The Committee has reviewed the operating processes in place at NBS and FIT 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 23 May 2018:

Directors' remuneration report		
Votes cast in favour	148,969,248	94.58%
Votes cast against	8,531,434	5.42%
Total votes cast	157,500,682	
Votes withheld	61,829	

The Directors' remuneration policy was last put to shareholders at the AGM held on 23 May 2018 on a binding basis. The voting outcomes were as follows:

Directors' remuneration policy		
Votes cast in favour	156,026,763	99.24%
Votes cast against	1,195,663	0.76%
Total votes cast	157,222,426	
Votes withheld	340,085	

Directors' Remuneration Policy report

This report sets out the main table from the Policy Report approved by shareholders at the AGM held on 23 May 2018. The full policy report is included in last year's annual report.

	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 Company's 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 43 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.

	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 are 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.

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

Mike Tye
Chairman of the Remuneration Committee

15 March 2019

Directors' report

The Directors present their annual report together with the audited financial statements of the Company and the Group for the year ended 30 December 2018 with comparative information for the year ended 31 December 2017.

The Directors' report comprises these pages 54 to 55 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 4 to 20).

Results and dividends

The results for the year are set out in the consolidated income statement on page 69. This shows a Group Adjusted profit after tax of £41.8m (2017 restated: profit of £45.8m). After charging exceptional items, the Group recorded a statutory profit after tax of £6.9m (2017 restated: profit after tax of £18.3m).

The closing mid-market price of the ordinary shares on 28 December 2018 (the last trading day before 30 December 2018) was 138.8p and the range during the financial year was 128.5p to 324.6p.

Dividend		Increase/ decrease
Interim dividend		
Paid on 11 October 2018	6.80p per share	0%
Final dividend		
Subject to shareholder approval, payable on 5 July 2019 to shareholders on the Register of Members at the close of business on 7 June 2019	1.47p per share	(86%)
Total dividend payable in respect of 2018	8.27p per share	(52%)

For more information on the Company's dividends, see Note 10 on page 91 and for details on our dividend policy see page 79.

For definitions of the Adjusted Performance Metrics used by the Group and how these reconcile to statutory measures, see the glossary on page 121.

Directors and Directors' interests

The names of all persons who were Directors during the year can be found on page 23. Directors' interests in the shares of the Company can be found on page 46.

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

Details of the D&O insurance maintained by the Company can be found on page 25.

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 page 20.

Disabled employees

The Company's policy towards disabled employees is included in the corporate social responsibility report on page 16.

Employee participation

The action taken during the year in relation to employee participation is included in the corporate social responsibility report on pages 16 to 18.

Employee benefit trust (EBT) and share awards

Details of the Company's EBT arrangements can be found on page 98 (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 99 to 103 (Note 20).

Substantial shareholdings

Details of substantial shareholdings can be found on pages 28 and 29.

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 28.

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 total revolving credit facilities of £220m in place until December 2021 and a £10m overdraft facility. In addition the Group has a high-yield bond of £225m repayable in July 2022.

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 2018.

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 21 to 29 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 12. 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 57.

Based on the Group's plans for 2019, 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

15 March 2019

Senior Management Risk Committee

The Committee held five meetings in 2018.

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 Company Secretary, the Group Financial Controller, the Chief Information Officer, the Group People Director, the Purchasing Director, Head of Technical Safety and the heads of the business divisions. In addition, employees from across the business attend Committee meetings by invitation in order to assist the Committee in discharging its duties.

Role of the Risk Committee

Board

Overall responsibility for risk management

The Board has ultimate responsibility for ensuring business risks are effectively managed.

Audit Committee

Delegated responsibility with regular review of risk management procedures

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.

Risk Committee

Responsibility, review and management of individual business risks; aggregation of Group risk register

The Risk Committee is responsible for governance over the Company's risk management processes, monitoring and assessing the effectiveness of the internal financial controls and risk management systems and reporting on risk management and risk exposures.

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.

Risk management process

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

Given that some risks are external and not fully within the Group's control, the risk management processes are designed to manage risks, so far as commercially possible, which may have a material impact on the 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 consider these when setting the business model and strategic objectives for the Group to ensure the business operates within appropriate risk parameters.

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.

Risk	Mitigating factors
Economic & political risk Risk of adverse economic conditions and a decline in consumer confidence/ discretionary spend in the UK impacting sales growth. Impact of Brexit.	• Regular monitoring of economic climate and appropriate action plans. • Headline offers, competitive pricing and increased discounting to make restaurants more affordable. • Look at alternative selling channels (e.g. Delivery, Click & Collect).
External events Risk of exposure to short-term trading impacts from adverse weather, sporting events (e.g. World Cup) and other major events.	• Development of delivery channels and online only brands. • Increased balance in the portfolio with trading across Leisure, Pubs, Concessions and Wagamama. • Advance planning for upcoming major events. • Diversification of customer offering across food and drink ranges.
Leisure brands strategy Risk that we fail to develop and maintain attractive, desirable brands and that the mix of brands in our estate does not meet customer needs.	• Regular review of brand key metrics (net promoter score, brand awareness and customer ratings). • Monitoring of competitor activity in TRG market segments. • Issuing brand guidelines to ensure consistency of delivery and maintenance of brand standards. • Regular review of social media ratings and customer feedback.
Key suppliers Risk of major failure/disaster at key suppliers jeopardising supply and causing loss of revenue or brand damage. Risk of major health scare (e.g. Foot & Mouth, BSE). Risk of loss or failure of key contractors/service providers to the restaurants. Brexit risk to supply chain.	• Contingency planning established for supply chain and key suppliers. All key products dual-sourced. • Regular monitoring of suppliers and their performance. • Key supplier business continuity plans established. • Communication and cooperation with key suppliers regarding Brexit planning. • Proactive contractor performance management reviews. • New 5-year supply chain agreement in place with key supplier.
Cost price inflation Risk of increased prices of key raw materials (including foreign currency fluctuations), service provision and utilities leading to reduced profitability. Risk of increased duties and taxes leading to further cost pressures.	• Rolling programme of procurement tendering to secure either shorter or longer term contracts to mitigate price inflation. • Operations-led review of cost lines to improve cost efficiency. • Property & buying teams implementing energy saving initiatives to reduce utilities consumption. • Ongoing negotiation with landlords and appeals process with local councils to reduce the impact of rent and rates increases.
Brexit/changes to labour market Risk of tighter Government controls on using foreign workers. Risk that impact of Brexit on non-UK workforce makes it more difficult to attract and retain our workforce. Risk that increased government regulation (National Living Wage, National Minimum Wage and pensions) increases our people costs.	• Improved efficiency and labour deployment through scheduling tools and benchmarking across sites. • Cross-training of employees and apprenticeship schemes established. • New programme being developed to attract, retain and develop the team, including support with consequences of Brexit on non-UK employees.
Cybersecurity Risk of cybersecurity failure or incident leading to data loss, disruption of services, fines and trading or reputational damage.	• Payment Card Industry Data Security Standard (PCI DSS) v3.2 annual compliance certification process. • Security programme established across all IT processes. • Continuing ASV scans and penetration tests and remediation. • Annual external IT audit process.

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

15 March 2019

Kirk Davis
Chief Financial Officer

15 March 2019

Independent auditor's report

to the members of The Restaurant Group plc

Opinion

In our opinion:

- The Restaurant Group plc's group financial statements and parent company financial statements (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 30 December and of the group's profit for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 which comprise:

Group	Parent company
Consolidated balance sheet	Balance sheet
Consolidated income statement	Statement of changes in equity
Consolidated statement of changes in equity	Related notes 1 to 28 to the financial statements including a summary of significant accounting policies
Consolidated cash flow statement	
Related notes 1 to 28 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Independent auditor's report continued

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 57 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 58 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model future performance, solvency or liquidity;
- the directors' statement set out on page 73 in 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 entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 14 in the annual report as to how they have assessed the prospects of the entity, 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 entity 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.

Overview of our audit approach

Key audit matters	• Recognition and valuation of acquired assets and liabilities assumed • Impairment of property, plant and equipment • Onerous lease provisions • Management override in the recognition of revenue • Supplier rebates
Audit scope	• We performed an audit of the complete financial information of the group's restaurant and pub operations, accounted for in its London and Chester offices, respectively; and specific procedures on the Wagamama financial position at 30 December 2018. These three operations were considered as components for our audit. • Together our full and specific scope procedures covered 96% of profit before tax and exceptional items, 98% of revenue and 100% of total assets of the group.
Audit transition	• We developed a detailed audit transition plan, designed to deliver an effective audit transition from the group's predecessor audit firm, Deloitte LLP. Our audit planning and transition commenced on 9 October 2018 following the conclusion of our independence and client acceptance procedures. • Our transition activities included meeting with members of the group's management in key locations, attending Audit Committee meetings, and reviewing Deloitte's 2017 audit work papers. • We held formal audit planning meetings internally and with management to develop our first year audit approach.
Materiality	• Overall group materiality is £2.5m which represents 5% of profit before taxation and exceptional items.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Recognition and valuation of acquired assets and liabilities assumed (2018: £412.4m of assets acquired and £378.9m of liabilities assumed; 2017: £nil) *Refer to the Audit Committee Report (page 34); Accounting policies (page 83); and Note 28 of the Consolidated Financial Statements (page 111).* During the period the group acquired the Wagamama group for a total consideration of £349.0m. The acquisition is accounted for as a business combination in relation to which there are a number of significant and complex judgments involved in the determination of the fair value of the assets acquired and liabilities assumed. In conjunction with external specialists, management performed a purchase price allocation exercise. The most significant elements of the valuation exercise assessed the fair value of the leasehold and freehold restaurant portfolio (£93.0m), the Wagamama brand (£236.0m), the franchise agreements (£21.9m) and favourable operating leases (£1.1m). The remaining amount has been recorded as goodwill (£315.5m). Consideration was also given by management to the assigned useful life of the assets acquired, having taken advice from their external specialists. Given the complexity and the level of judgement involved in this exercise there is a risk over the recognition and valuation of the acquired assets and liabilities assumed.	• We gained an understanding of the process and controls management has in place over the group's acquisition accounting. • We obtained the share purchase agreement (SPA) and consideration documents to validate the amounts paid. • We read the SPA and other relevant documents to identify if there was any contingent consideration, earn out or other specific clauses which could have an accounting impact. • We agreed the assets acquired and liabilities assumed to the financial information of the Wagamama group at the acquisition date. • We obtained the group's external expert's reports and, in conjunction with our business valuation specialists, understood the valuation techniques for each of the assets being valued and considered whether these were consistent with recognised practice. • We assessed, in conjunction with EY valuation specialists, the valuation of the tangible and intangible assets acquired, including the key assumptions applied. • For forecasting information with a higher level of estimation uncertainty we agreed these to appropriate support, challenging whether there is evidence to the contrary. • We checked the arithmetical accuracy of management's calculation of the tangible and intangible assets. • We evaluated the competence and independence of the specialists used by the group and EY specialists by reference to their qualifications and experience. • We assessed whether appropriate disclosure had been included in the group financial statements. Scope of our procedures We performed full scope audit procedures over all the group's acquisitions made during the period. The work was performed by the group audit team.	The provisional purchase price allocation is appropriately recognised and the disclosure in the financial statements is appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of property, plant and equipment (excluding Wagamama) (2018: £341.6m net book value and £14.0m impairment charge; 2017 restated: £327.3m and £20.7m, respectively) *Refer to the Audit Committee Report (page 34); Accounting policies (page 83); and Note 12 of the Consolidated Financial Statements (page 93).* At 30 December 2018 TRG, excluding Wagamama, operated 439 restaurants and 81 pubs, which comprise the majority of the Group's property, plant and equipment (PPE) balance. These sites had a book value at 30 December 2018 of £341.6m (2017 restated: £327.3m). For the year ended 30 December 2018 management assessed for impairment indicators across all the group's cash-generating units (CGUs). Management considered a range of impairment indicators, including a CGU's performance against budget and negative EBITDA. CGUs are considered by management to be individual restaurant sites, or multiple sites that are in close proximity, such as at airports where their trading is highly interdependent. A detailed impairment test was performed where indicators existed. As a result of management's re-assessment of the impairment model, central service costs were incorporated into the value-in-use model. This change necessitated a prior year adjustment as described in note 1. Significant management judgement and estimation uncertainty is involved in this area, where the primary inputs are: • Determining if indicators exist; • Identifying which sites represent CGUs; • Generating cash flow forecasts; • Selecting an appropriate discount rate The impairment charge is treated as exceptional in the Income Statement. Given the quantum of the PPE balance, along with the market challenges faced by the group's leisure brands, we considered this to be a significant risk.	• We gained an understanding of the process and controls management has in place over the impairment process, including identifying sites with impairment indicators and that these indicators had been appropriately identified. • We verified the clerical accuracy of management's impairment model. • We assessed management's determination of which sites constitute a CGU by understanding how the underlying cash flows are generated and understanding the interdependency of the sites. • We met with management, including the group's property director and finance team, to discuss historic and future trading performance, their impairment approach, the judgements and estimates made in assessing for impairment. • We assessed and challenged management on forecast site performance in the context of the group's historic results, as well as wider market trends and expectations. • We worked with our business valuation specialists, assessing the growth rate and discount rate applied in management's impairment model, checking against relevant benchmarks and the impact of sensitising these rates. • We verified that any impairment charges or reversals were reflected and appropriately accounted for in the financial statements. We also verified there is appropriate disclosure. • We verified that the prior period adjustment as discussed in Note 1 to the financial statements was appropriately calculated and recorded in the financial statements. • We assessed whether the exceptional item treatment of the impairment charge is in accordance with the TRG policy and appropriate guidance and practice. **Scope of our procedures** We performed full scope audit procedures on the impairment exercise carried out on all of the group's restaurant and pub portfolio, with the exception of the Wagamama element, which was assessed separately above as part our key audit matter.	The impairment charge for the year is reasonably stated and we confirmed the accounting for the prior period adjustment relating to central cost allocation is appropriate. The impairment and related prior period adjustment disclosures are also appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Onerous lease provisions (excluding Wagamama) (2018: £40.7m closing provision and £10.0m net charge; 2017 restated: £41.8m and £4.2m, respectively) *Refer to the Audit Committee Report (page 34); Accounting policies (page 82); and Note 16 of the Consolidated Financial Statements (page 96).* The group, excluding Wagamama, has a number of onerous contracts at leasehold sites where the cost of exiting the lease is greater than the anticipated income from the site over the minimum remaining lease term. This is driven typically by sites that are underperforming due to factors such as location or changing consumer trends. Management recognised onerous lease provisions at 30 December 2018 of £40.7 million. This followed an exercise to assess existing sites not already provided for, as well as reassessing the existing provisions for sites that are being exited (tail sites), sites underperforming (distressed sites) and sites not yet open (pipeline sites). Significant management judgements and estimates are involved in this exercise, with the primary inputs being cash flow forecasts, discount rate, void periods and lease exit arrangements. Given these complexities and the quantum of the balance, along with the continuing under performance of some of the group's brands, we considered this area to be a significant risk. The net onerous lease charge is treated as exceptional in the Income Statement.	• We gained an understanding of the process and controls management has over the identification of sites with onerous leases, including for completeness an evaluation of loss making sites where no provision is in place. • We verified the key inputs of the calculation such as contractual rent, void costs and any incentives, for a sample of tail, distressed and pipeline sites. • We challenged management's assumptions and estimates used in the supporting provision calculation by reference to appropriate documentation and third party evidence. • We assessed the appropriateness of the discount rate applied against relevant market data, with input from our business valuation specialists, as appropriate. • We performed a sensitivity analysis on key inputs to test for the impact on the provision. • For changes in onerous lease provisions, whether as a result of an exit, improved performance or other reasons, we understood and challenged management's rationale, including reference to supporting documentation. • We assessed whether the exceptional item treatment of the net onerous lease charge is in accordance with the TRG policy and appropriate guidance and practice. **Scope of our procedures** We performed full scope audit procedures on the onerous lease provisions across all of the group's leased restaurant and pub portfolio, with the exception of the Wagamama element, which was assessed separately as part our key audit matter *Recognition and valuation of acquired assets and liabilities assumed.*	The onerous lease charge for the year and provision at year end is reasonably stated and the related disclosures are appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Management override in the recognition of revenue (2018: £686.0m; 2017: £679.3m) *Refer to the Audit Committee Report (page 34); Accounting policies (page 78); and Note 3 of the Consolidated Financial Statements (page 84).* There is a presumption within auditing standards that revenue recognition is a significant risk and a fraud risk. TRG's revenue is typically comprised of a large number of low value and non-complex transactions, with no judgement applied over the amount recorded. Thus, we consider the risk relating to revenue to be around management override of controls and topside journals to revenue across the restaurant and pub portfolio, resulting in revenue overstated or sales not recorded.	• We gained an understanding of the process and controls, including IT elements that management has in place around the recording of revenue, including the recording of manual journal adjustments. • We applied correlation data analysis over the group's revenue journal population to identify how much of the group's revenue is converted to cash and to isolate non-standard revenue transactions for further analysis, focusing our testing on higher risk transactions identified. • We identified any topside journals to revenue and obtained corroborative evidence to support them. • We performed cut-off testing procedures including review of post period end cash receipts and journals and an analytical review of significant variances to assess for completeness. **Scope of our procedures** We performed full scope audit procedures over all of the group's revenue. The work was performed by the group audit team.	We confirmed that revenue correlated to cash collected. We did not identify any instances of management override in relation to revenue.
Supplier rebates (2018 receivable: £15.6m; 2017: £14.5m) *Refer to the Audit Committee Report (page 34); Accounting policies (page 76); and Note 14 of the Consolidated Financial Statements (page 95).* The group earns supplier income primarily through volume discounts. These are received based typically on the number of units purchased from suppliers. For the year ended 30 December 2018, the rebates receivable was £15.6m. Supplier rebates are recorded as credits to cost of sales, being a reversal of the original line item where they were recorded, and also as a trade receivable as the majority of these come direct from the wholesaler. Whilst there is little management judgement required in recognising this income, given the quantum we consider there to be a risk over this figure. This is focused on the system controls over the inputs, any changes to volume discount arrangements and the recognition of rebates in the appropriate period.	• We gained an understanding of management's processes and controls over the recognition of rebates. • For a sample of supplier arrangements, we agreed the key terms through seeking direct or indirect external confirmations and recalculating amounts recorded. • We challenged a sample of the year end rebate estimates by considering the outturn of prior period rebate estimates. • For a sample of rebates we verified they had been appropriately recorded in the correct period through reference to supplier statements and post year end settlements. • We assessed the recoverability of unsettled rebates with reference to the terms of the rebate agreement and the settlement history. **Scope of our procedures** We performed full scope audit procedures over all of the group's supplier rebates. The work was performed by the group audit team.	Supplier rebate amounts are appropriately recognised in the income statement and balance sheet.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each component.

The group's operations are based solely in the United Kingdom with separate finance functions for each of the group's three components. All audit procedures are completed by the group audit team at these locations. The audit team includes tax, IT, property valuation and business valuation specialists.

We performed an audit of the complete financial information of the group's restaurant and pub operations, accounted for in its London and Chester offices, respectively; and specific procedures on the Wagamama financial position at 30 December 2018. These three operations were considered as components for our audit.

Together our full and specific scope procedures covered 96% of profit before tax and exceptional items, 98% of revenue and 100% of total assets of the group. We obtained an understanding of the entity-level controls of the group which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £2.5 million, which is 5% of profit before taxation and exceptional items. We believe that the profit before taxation and exceptional items is considered to be the primary area of focus of the group's stakeholders. We exclude the impact of one-off items which do not reflect the underlying trading performance of the Group.

We determined materiality for the parent company to be £8.9 million, which is 2% of net assets.

Starting basis	• **Profit before tax – £13.9m (Consolidated income statement)**
Adjustments	• **Exceptional items before tax – £39.2m (Note 6)**
Materiality	• **Profit before taxation and exceptional items – £53.1m (materiality basis)** • **Materiality of £2.6m (5% of materaility basis)**

The above materiality is our reassessment based on the final results for the year. Our audit was conducted at a lower preliminary materiality of £2.5m.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £1.2 million. We have set performance materiality at this percentage reflecting the incidence of prior year adjustments and that this is a first year audit.

Independent auditor's report continued

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. The range of performance materiality allocated to components was £0.5 million to £0.9 million, using a basis appropriate to each component.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1 million, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 58 and 120 to 124, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 58** – the statement 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 performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 32** – 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 set out on page 58** – 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.

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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 58, 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 and 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are the reporting framework (IFRS, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations as disclosed within risk and uncertainties of the group's business on pages 56 to 57 including The Pubs Code etc. Regulations 2016, Health & Safety Regulations, the General Data Protection Regulation, and Licensing Regulations.
- We understood how The Restaurant Group plc is complying with those frameworks by making inquiries of management, those responsible for legal and compliance procedures including the group company secretary. We corroborated our enquiries through the attendance at meetings held by the audit committee, which receives updates on such matters from divisional and functional management. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the committees and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations.

Independent auditor's report continued

- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence management to manage earnings and revenue by overriding internal controls. We considered the controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how senior management monitors those controls.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions, taking into account our understanding of the group; enquiries of management at all components; and focussed testing as referred to in the key audit matters section above.

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

Other matters we are required to address

- We were appointed by the company on 9 October 2018 to audit the financial statements for the 52 week period ending 30 December 2018 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 5 months since our appointment on 9 October 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

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.

Bob Forsyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
15 March 2019

Notes

1 The maintenance and integrity of The Restaurant Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

	Note	52 weeks ended 30 December 2018 Trading business £'000	52 weeks ended 30 December 2018 Exceptional items (Note 6) £'000	52 weeks ended 30 December 2018 Total £'000	52 weeks ended 31 December 2017 Restated (Note 1) Trading business £'000	52 weeks ended 31 December 2017 Restated (Note 1) Exceptional items (Note 6) £'000	52 weeks ended 31 December 2017 Restated (Note 1) Total £'000
Revenue	3	686,047	–	686,047	679,282	–	679,282
Cost of sales	4	(603,332)	(23,997)	(627,329)	(588,594)	(24,894)	(613,488)
Gross profit/(loss)		82,715	(23,997)	58,718	90,688	(24,894)	65,794
Administration costs		(27,313)	(14,775)	(42,088)	(31,188)	(4,772)	(35,960)
Operating profit/(loss)		55,402	(38,772)	16,630	59,500	(29,666)	29,834
Interest payable	7	(2,233)	(467)	(2,700)	(1,712)	–	(1,712)
Interest receivable	7	1	–	1	51	–	51
Profit/(loss) on ordinary activities before tax		53,170	(39,239)	13,931	57,839	(29,666)	28,173
Tax on profit/(loss) from ordinary activities	8	(11,361)	4,312	(7,049)	(12,076)	2,249	(9,827)
Profit/(loss) for the year		41,809	(34,927)	6,882	45,763	(27,417)	18,346
Earnings per share (pence)							
Rights adjusted basic	9	14.67		2.42	16.66		6.68
Rights adjusted diluted	9	14.63		2.41	16.58		6.65

EBITDA	87,855	(24,802)	63,053	95,755	(8,973)	86,782
Depreciation, amortisation and impairment	(32,453)	(13,970)	(46,423)	(36,255)	(20,693)	(56,948)
Operating profit/(loss)	55,402	(38,772)	16,630	59,500	(29,666)	29,834

Consolidated balance sheet

	Note	At 30 December 2018 £'000	At 31 December 2017 Restated (Note 1) £'000
Non-current assets			
Intangible assets	11	613,685	26,433
Property, plant and equipment	12	434,298	327,320
Fair value lease assets	13	1,361	–
		1,049,344	353,753
Current assets			
Inventory		8,678	5,930
Other receivables	14	22,912	14,949
Prepayments		31,096	17,473
Cash and cash equivalents	22	65,903	9,611
		128,589	47,963
Total assets		1,177,933	401,716
Current liabilities			
Corporation tax liabilities		(2,702)	(2,129)
Trade and other payables	15	(211,705)	(114,841)
Other payables	24	(272)	(164)
Provisions	16	(9,377)	(10,408)
		(224,056)	(127,542)
Net current liabilities		(95,467)	(79,579)
Long-term borrowings	22	(354,420)	(31,223)
Other payables	24	(27,521)	(24,596)
Fair value lease liabilities	13	(10,426)	–
Deferred tax liabilities	17	(52,674)	(4,301)
Provisions	16	(50,244)	(33,888)
		(495,285)	(94,008)
Total liabilities		(719,341)	(221,550)
Net assets		458,592	180,166
Equity			
Share capital	18	138,234	56,551
Share premium		249,686	25,554
Other reserves	19,20	(7,158)	(7,753)
Retained earnings		77,830	105,814
Total equity		458,592	180,166

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 69 to 114 were approved by the Board of Directors and authorised for issue on 14 March 2019 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 2 January 2017 – Restated	1	56,550	25,542	(9,987)	122,334	194,439
Profit for the year (Restated)	1	–	–	–	18,346	18,346
Issue of new shares	18	1	12	–	–	13
Dividends	10	–	–	–	(34,866)	(34,866)
Share-based payments – credit to equity		–	–	2,158	–	2,158
Deferred tax on share-based payments taken directly to equity	17	–	–	76	–	76
Balance at 31 December 2017 – Restated	1	56,551	25,554	(7,753)	105,814	180,166
Balance at 1 January 2018		**56,551**	**25,554**	**(7,753)**	**105,814**	**180,166**
Profit for the year		–	–	–	6,882	6,882
Rights issue of new shares	18	81,683	224,132	–	–	305,815
Dividends	10	–	–	–	(34,866)	(34,866)
Share-based payments – credit to equity		–	–	761	–	761
Deferred tax on share-based payments taken directly to equity	17	–	–	(42)	–	(42)
Purchase of treasury shares		–	–	(124)	–	(124)
Balance at 30 December 2018		**138,234**	**249,686**	**(7,158)**	**77,830**	**458,592**

There is no comprehensive income other than the profit for the year in the year ended 30 December 2018 or the year ended 31 December 2017.

Other reserves represents the Group's share-based payment transactions, shares held by the employee benefit trust and treasury shares held by the Group (Note 20).

Consolidated cash flow statement

	Note	52 weeks ended 30 December 2018 £'000	52 weeks ended 31 December 2017 Restated (Note 1) £'000
Operating activities			
Cash generated from operations	21	**88,307**	107,819
Interest received		**10**	55
Interest paid		**(1,013)**	(751)
Tax paid		**(7,364)**	(7,068)
Cash outflows from exceptional onerous leases provisions	6	**(11,183)**	(12,738)
Cash outflows from exceptional restructuring costs	6	**–**	(6,792)
Cash outflows from exceptional acquisition and refinancing costs	6	**(10,103)**	–
Net cash flows from operating activities		**58,654**	80,525
Investing activities			
Purchase of property, plant and equipment		**(47,514)**	(39,275)
Purchase of intangible assets		**(1,532)**	–
Proceeds from disposal of property, plant and equipment		**370**	828
Purchase of subsidiaries	28	**(364,197)**	–
Cash acquired on acquisition of subsidiaries	28	**39,270**	–
Net cash flows from investing activities		**(373,603)**	(38,447)
Financing activities			
Net proceeds from issue of ordinary share capital	18	**305,815**	13
Repayments of borrowings	22	**(170,000)**	(106,500)
Drawdown of borrowings	22	**272,000**	99,500
Upfront loan facility fee paid	22	**(1,500)**	–
Dividends paid to shareholders	10	**(34,866)**	(34,866)
Finance lease principal payments	22	**(208)**	(182)
Net cash flows used in financing activities		**371,241**	(42,035)
Net increase in cash and cash equivalents		**56,292**	43
Cash and cash equivalents at the beginning of the year	22	**9,611**	9,568
Cash and cash equivalents at the end of the year	22	**65,903**	9,611

Notes to the consolidated accounts

for the year ended 30 December 2018

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 30 December 2018 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 30 December 2018 was a 52 week period, with the comparative year to 31 December 2017 being a 52 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 16	Leases
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions

1 Accounting policies for the consolidated accounts continued

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 £1,137m at 30 December 2018 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.

Changes to accounting policies
The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' which have been adopted by the Group. The implementation of these accounting standards, with effect from 1 January 2018, has not had a material impact on the Group. There have been no other changes to the accounting standards in the current year that have materially impacted the Group financial statements.

(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
Intragroup balances and any gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

(e) Foreign currency
(i) Transactions and balances
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. The resulting exchange differences are booked into reserves and reported in the consolidated income statement.

(ii) Group companies
On consolidation, the assets and liabilities of foreign operations are translated into sterling at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI.

(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).

Intangible assets – Trademarks
Trademarks represent amounts arising on acquisition of subsidiaries. Licences are stated at fair value less any accumulated impairment losses. Trademarks are stated at cost less any accumulated impairment losses. Trademarks are allocated to cash generating units. Trademarks are not subject to amortisation but are formally tested for impairment at least annually or when an impairment trigger has arisen (see accounting policy k).

1 Accounting policies for the consolidated accounts continued

Intangible assets – Franchise agreements
Franchise agreements represent amounts arising on acquisition of subsidiaries. Franchise agreements are stated at fair value less any accumulated amortisation and accumulated impairment losses. Franchise agreements are amortised to the income statement using the straight-line method over 15 years, which is the shorter of their estimated useful lives and periods of contractual rights.

Software and IT development
Software and IT development are stated at cost less any accumulated amortisation and accumulated impairment losses. Software and IT development are amortised to the income statement using the straight-line method over 5 years.

Fair value lease assets and liabilities
Lease assets and lease liabilities recognised upon acquisition arise where operating lease rentals are either favourable or unfavourable to current market terms. A mark to market adjustment is applied to the operating leases to calculate the present values the difference between contractual and market rents until that difference is extinguished.

Lease assets and liabilities recognised upon acquisition are released against the rental expense over the life of the lease so that the income statement charge reflects current market terms.

(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 pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(i) Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is determined in accordance with the weighted average inventory 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, Brunning and Price Limited, Wagamama (Mabel Topco Limited), Food and Fuel Limited and Ribble Valley Inns Limited.

(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.

1 Accounting policies for the consolidated accounts continued

(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.

Where the Group acts as a franchisor in a trading relationship, franchise fees comprise on-going royalties based on the sales results of the franchisee and up front initial site and territory fees. Royalty revenue is accrued in line with reported sales performance once revenue can be reliably measured. Up front initial site and territory fees are deferred and recognised on opening of the associated franchisee restaurant.

(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) Treasury shares
Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

1 Accounting policies for the consolidated accounts continued

(v) Restatement of comparatives

During the year, management have identified five items for which we have retrospectively amended the financial statements.

	As originally disclosed £'000	Capital contributions (i) £'000	Rent free periods (ii) £'000	Finance lease (iii) £'000	Dilapidations provision (iv) £'000	Impairment and onerous leases (v) £'000	As restated £'000
Consolidated income statement for the 52 weeks ended 31 December 2017							
Cost of sales before exceptional items	(589,490)	387	–	(199)	–	708	(588,594)
Exceptional cost of sales	(8,386)	–	–	–	–	(16,508)	(24,894)
Interest payable	(1,911)	–	–	199	–	–	(1,712)
Trading tax on profit from ordinary activities	(12,076)	–	–	–	–	–	(12,076)
Exceptional tax credit	1,423	–	–	–	–	826	2,249
Profit after tax	32,933	387	–	–	–	(14,974)	18,346
Adjusted EBITDA	95,118	842	–	(205)	–	–	95,755
Depreciation and amortisation	(36,514)	(455)	–	6	–	708	(36,255)
Consolidated balance sheet at 31 December 2017							
Property, plant and equipment	335,029	16,460	–	84	–	(24,253)	327,320
Trade and other payables – current	(124,238)	(841)	8,038	–	2,200	–	(114,841)
Other payables – non-current	(2,548)	(15,232)	(8,038)	1,222	–	–	(24,596)
Deferred tax liabilities	(5,127)	–	–	–	–	826	(4,301)
Provisions – non-current	(31,688)	–	–	–	(2,200)	–	(33,888)
Retained earnings	127,548	387	–	1,306	–	(23,427)	105,814
Consolidated statement of changes in equity							
Retained earnings as at 1 January 2017	129,481	–	–	1,306	–	(8,453)	122,334

	As originally disclosed	Capital contributions (i)	Rent free periods (ii)	Finance lease (iii)	Dilapidations provision (iv)	Impairment and onerous leases (v)	As restated
Basic and diluted earnings per share							
Weighted average ordinary shares for the purposes of basic earnings per share	200,376,258	–	–	–	–	–	200,376,258
Weighted average ordinary shares for the purposes of diluted earnings per share	201,344,618	–	–	–	–	–	201,344,618
Total profit for the year (£'000)	32,933	387	–	–	–	(14,974)	18,346
Basic profit/(loss) per share for the year (pence) (Note 9)	16.44	0.19	–	–	–	(7.47)	9.16
Diluted profit/(loss) per share (pence) (Note 9)	16.36	0.19	–	–	–	(7.44)	9.12
Adjusted basic profit/(loss) per share for the year (pence) (Note 9)	22.29	0.19	–	–	–	–	22.48
Adjusted diluted profit/(loss) per share (pence) (Note 9)	22.18	0.19	–	–	–	–	22.37

(i) Lease incentives – capital contributions

The Group has historically recognised contributions received from landlords to offset against the cost of fitting out a restaurant as a reduction in Property, plant and equipment. Management has identified this error in the year, and reclassified to Trade and other payables, split between current and non-current. Whereas these have previously been depreciated each year, over the lease life, all lease incentives are now recognised within Cost of sales in the income statement. The prior year credit was also reclassified from Depreciation into Cost of sales. This has resulted in:

- An increase in the Property, plant and equipment as at 1 January 2017 of £16.9m, representing the reversal of prior incentives, with a corresponding increase in Trade and other payables balance for the remaining incentives to recognise over the lease life.
- An increase in the Depreciation charge for 2017 of £0.5m and a decrease in rent of £0.8m.

(ii) Lease incentives – rent free periods

The Group has previously accounted for rent free lease incentives as a current liability, despite them being recognised in the income statement over the life of the lease. The Group has reclassified amounts that will be unwound to the income statement after one year to non-current Other payables. This has resulted in:

- An £8.0m increase in non-current Other payables as at 1 January 2017, and a corresponding decrease in current Trade and Other payables.
- There is no impact on the 2017 income statement as the incentive was released appropriately.

1 Accounting policies for the consolidated accounts continued

(iii) Finance lease
The historical accounting for finance leases on a number of sites was incorrect. A mechanical calculation error had led to the future cash outflows being overstated. This has resulted in:

- A £1.7m reduction in non-current Other payables, and a corresponding reduction in Retained earnings as at 1 January 2017. There is less than a £0.1m impact on Property, plant and equipment as these sites have been fully impaired.
- The impact on the income statement for 2017 is considered immaterial, and has not been adjusted.

(iv) Dilapidations provision
The Group historically recorded dilapidation provisions within current Trade and other payables. The Group has corrected the reclassification of dilapidations to non-current Provisions. This has resulted in:

- A £2.2m increase in non-current Provisions, and a corresponding decrease in current Trade and other payables as at 1 January 2017.
- No impact on the income statement for 2017 as these were recognised prior to 1 January 2017.

(v) Impairment and onerous leases
As part of the year-end process, management reviewed and re-assessed the method by which central costs are allocated to the individual CGUs for the purposes of impairment testing. As a result an appropriate portion of the central costs were allocated to the CGUs to more accurately determine their future cash flows. This change has been applied retrospectively to the 1 January 2017 balance sheet. This has resulted in:

- A write down of the 1 January 2017 Property, plant and equipment values of £8.5m and corresponding reduction in opening Retained earnings; and
- An additional 2017 Exceptional impairment charge of £16.5m and a reduction in Depreciation of £0.7m, totalling a £15.8m impact on Profit before tax.

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.

(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 30 December 2018 for all CGUs was based on the Group's weighted average cost of capital of 9.2% (year ended 31 December 2017: 10.2%). The Directors believe the risks associated with each CGU are the same, 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 Group makes judgements in relation to impairment decisions based on the value-in-use estimates of each CGU.

(c) Acquisition accounting

When assets are acquired, management determines whether the assets form a business combination. A fair value exercise of both the consideration paid and the net assets acquired is performed once it is determined that a business combination has taken place.

Business combinations are accounted for using the acquisition method. Acquisition costs incurred are taken to the income statement. When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost being the excess of the acquisition date fair value transferred over the net identifiable amounts of the assets acquired and liabilities assumed in exchange for the business combination. Identifiable intangible assets, meeting either the contractual-legal or separability criterion, are recognised separately from goodwill. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

The Group makes judgements in relation to the fair value of the consideration, of the net assets acquired and whether the purchase represents a business combination.

2 Segmental analysis

The Group trades in one business segment (that of operating restaurants) primarily within the United Kingdom. In addition, the Group operates restaurants in the United States and generates revenues from franchise royalties primarily in the Middle East and Europe. The segmentation between geographical location and restaurant operations and royalty revenues are not considered significant to be reportable segments under IFRS 8.

3 Revenue

Revenue has been generated from the operation of restaurants, with approximately 99% of revenue generated within the United Kingdom. The remainder is attributable to restaurants within the United States and from franchise royalties primarily in the Middle East and Europe.

4 Profit for the year

	2018 £'000	2017 Restated (Note 1) £'000
Cost of sales consists of the following:		
Continuing business excluding pre-opening costs	601,928	586,451
Pre-opening costs	1,404	2,143
Trading cost of sales	603,332	588,594
Exceptional items (Note 6)	23,997	24,894
Total cost of sales for the year	627,329	613,488

	2018 £'000	2017 Restated (Note 1) £'000
Profit for the year has been arrived at after charging/(crediting):		
Amortisation (Note 11)	342	–
Depreciation (Note 12)	32,111	36,255
Impairment of property, plant and equipment (Note 12)	13,970	20,693
Purchases of food, beverages and consumables	149,586	147,079
Staff costs (Note 5)	242,375	236,981
Minimum lease payments	78,182	73,063
Contingent rents	12,515	10,093
Total operating lease rentals of land and buildings	90,697	83,156
Rental income	(2,300)	(2,007)
Net rental costs	88,397	81,149

	2018 £'000	2017 £'000
Current auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Group's annual accounts	338	158
Fees payable to the Company's auditor and their associates for other services to the Group:		
The audit of the Company's subsidiaries	15	12
Total audit fees	353	170
Audit-related assurance services	20	25
Other assurance services	10	19
Total trading non-audit fees	30	44
Exceptional non-audit fees		
Historical financial information assurance	855	–
Synergy assurance	250	–
Profit forecast assurance	160	–
	1,265	–
Total current auditor's remuneration	1,648	214
Previous auditor's remuneration:		
Audit-related assurance services	21	–
Other assurance services	45	–
Total previous auditor's remuneration	66	–
Total auditor's remuneration	1,714	214

Audit fees included in the above total relating to the Company are borne by a subsidiary undertaking. All of the auditor's remuneration in 2018 and 2017 was expensed as administration costs. In the current year, the Group appointed Ernst and Young as its auditors. Prior years audit fees are all in relation to the previous auditor, Deloitte.

5 Staff costs and numbers

	2018	2017
a) Average staff numbers during the year (including Directors)		
Restaurant staff	15,375	14,484
Administration staff	321	315
	15,696	14,799

	2018 £'000	2017 £'000
b) Staff costs (including Directors) comprise:		
Wages and salaries	224,486	217,533
Social security costs	14,723	15,722
Share-based payments	761	2,158
Pension costs and salary supplements	2,405	1,568
	242,375	236,981

	2018 £'000	2017 £'000
c) Directors' remuneration		
Emoluments	1,398	1,584
Termination benefits	–	167
Salary supplements	165	116
	1,563	1,867
(Credit)/charge in respect of share-based payments	(85)	378
	1,478	2,245

Further details of the Directors' emoluments and the executive pension schemes are given in the Directors' remuneration report on pages 40 to 53.

6 Exceptional items

	2018 £'000	2017 Restated (Note 1) £'000
Included within cost of sales:		
– Onerous lease provisions in respect of closed and other sites	10,027	4,201
– Impairment of property, plant and equipment	13,970	20,693
	23,997	24,894
Included within administration costs:		
– Acquisition related costs	14,775	–
– Restructuring and strategic review costs	–	4,772
	14,775	4,772
Included within interest payable:		
– Refinancing costs	467	–
Exceptional items before tax	39,239	29,666
Credit in respect of tax rate change	219	176
Tax effect of exceptional Items	(4,531)	(2,425)
	(4,312)	(2,249)
Net exceptional items for the year	34,927	27,417

An exceptional pre-tax charge of £39.2m has been recorded in the year (2017 Restated: £29.7m), which includes the following:

- Onerous lease provisions resulted in a charge of £10.0m in the year (2017: £4.2m). This comprises:
  - A £5.2m credit in respect of unutilised provisions following the successful exit of 28 sites ahead of expectations;
  - A further charge totalling £15.2m was provided for in the year. This comprised a charge of £11.1m in respect of newly identified onerous leases and a charge of £4.1m in respect of sites previously provided for.
- A net impairment charge of £14.0m (2017 Restated: £20.7m) was made against the carrying value of specific restaurant assets due to continuing challenging trading conditions in the markets in which the Group's restaurants operate as well as a challenging outlook, and has had a significant impact on the Group and the wider casual dining market. There has been an improvement in trading conditions and outlook at certain of the Group's restaurants which has resulted in the reversal of some previous historic impairment charges. The net charge comprises an impairment charge of £17.1m partially offset by reversals of previously recognised impairment losses of £3.1m.
- An exceptional charge of £14.8m has been recorded in the year in relation to the acquisitions of Wagamama, Food and Fuel and Ribble Valley Inns. Refer to Note 28 for further details.
- Restructuring and strategic review costs of £nil (2017: £4.8m) relating to costs incurred in the restructuring projects that were initiated in 2017 to implement the new strategy and cost initiatives.
- An exceptional charge of £0.5m has been recognised in the year as a result of the refinancing which took place to fund the acquisition of Wagamama. Refer to Note 22 for further details.

The tax credit relating to these exceptional charges was £4.3m (2017 Restated: £2.2m).

Cash expenditure associated with the above exceptional charges was £21.3m in the year (2017: £19.5m) relating to the cash cost of the onerous leases of £11.2m (2017: £12.7m), the cash cost of the acquisitions and refinancing of £10.1m (2017: £nil), and costs associated with the implementation of the new business strategy of £nil (2017: £6.8m).

7 Net finance charges

	2018 £'000	2017 Restated (Note 1) £'000
Bank interest payable	1,355	746
Onerous lease interest	375	409
Amortisation of facility fees	333	365
Interest on obligations under finance leases	170	192
Trading borrowing costs	2,233	1,712
Exceptional refinancing costs (Note 6)	467	–
Total borrowing costs	2,700	1,712
Other interest receivable	(1)	(2)
Loan note interest receivable (Note 27)	–	(49)
Total interest receivable	(1)	(51)
Trading net finance charges	2,232	1,661
Total net finance charges	2,699	1,661

8 Tax

	Trading 2018 £'000	Exceptional 2018 £'000	Total 2018 £'000	2017 Restated (Note 1) £'000
a) The tax charge comprises:				
Current tax				
UK corporation tax at 19% (2017: 19.25%)	10,183	(2,447)	7,736	10,568
Adjustments in respect of previous years	191	–	191	(683)
	10,374	(2,447)	7,927	9,885
Deferred tax				
Origination and reversal of temporary differences	1,832	–	1,832	94
Adjustments in respect of previous years	(634)	–	(634)	1,190
Charge/(credit) in respect of rate change on deferred tax liability	(211)	219	8	165
Credit in respect of fixed asset impairment	–	(2,084)	(2,084)	(1,507)
	987	(1,865)	(878)	(58)
Total tax charge for the year	11,361	(4,312)	7,049	9,827

The adjustments in respect of previous years predominantly relates to allocations of property, plant and equipment between qualifying and non-qualifying expenditure.

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% (2017: 19.25%) due to the following factors:

	Trading 2018 £'000	Exceptional 2018 £'000	Total 2018 £'000	2017 Restated (Note 1) £'000
Profit on ordinary activities before tax	53,170	(39,239)	**13,931**	28,173
Profit on ordinary activities before tax multiplied by the standard UK corporation tax rate of 19% (2016: 19.25%)	10,102	(7,455)	**2,647**	5,423
Effects of:				
Depreciation/impairment on non-qualifying assets	1,266	570	**1,836**	3,720
Expenses not deductible for tax purposes	518	2,354	**2,872**	475
(Credit)/charge in respect of rate change on deferred tax liability	(211)	219	**8**	165
Adjustment in respect of previous years	(443)	–	**(443)**	507
Release of tax provisions	(15)	–	**(15)**	(478)
Business combinations	(80)	–	**(80)**	(182)
Share options	224	–	**224**	197
Total tax charge for the year	11,361	(4,312)	**7,049**	9,827

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.

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 £nil tax charge (2017 restated: £0.2m).

9 Earnings per share

	2018	2017 Restated (Note 1)
a) Basic earnings per share:		
Weighted average ordinary shares for the purposes of basic earnings per share	284,959,978	274,616,270
Total profit for the year (£'000)	6,882	18,346
Basic earnings per share for the year (pence)	2.42	6.68
Total profit for the year (£'000)	6,882	18,346
Effect of exceptional items on earnings for the year (£'000)	34,927	27,417
Earnings excluding exceptional items (£'000)	41,809	45,763
Adjusted earnings per share (pence)	14.67	16.66
b) Diluted earnings per share:		
Weighted average ordinary shares for the purposes of basic earnings per share	284,959,978	274,616,270
Effect of dilutive potential ordinary shares:		
Dilutive shares to be issued in respect of options granted under the share option schemes	64,070	383,856
Shares held by employee benefit trust	688,276	943,284
	285,712,324	275,943,410
Diluted earnings per share (pence)	2.41	6.65
Adjusted diluted earnings per share (pence)	14.63	16.58

On the 14 December 2018 the group issued 290,428,830 new ordinary shares of 28.125p each through a rights issue. To reflect the rights issue, the number of shares previously used to calculate basic and diluted earnings per share and adjusted earnings per share have been amended in the table above in accordance with IAS 33. A bonus adjustment factor of 1.3705 has been applied, based on the ratio of an adjusted closing share price of 200.0p per share on 30 October 2018, the business day before the shares started trading ex rights price at that date of 108.5 pence per share.

Prior to this re-presentation, the EPS for the year ended 31 December 2017 as restated (Note 1) was 9.16 pence (basic), 9.12 pence (diluted), 22.48 pence (adjusted basic) and 22.37 pence (adjusted diluted).

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 anti dilutive effect on earnings per share.

10 Dividend

	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders during the year:		
Final dividend for the 52 weeks ended 31 December 2017 of 10.60p (2016: 10.60p) per share	21,240	21,240
Interim dividend for the 52 weeks ended 30 December 2018 of 6.80p (2017: 6.80p) per share	13,626	13,626
Total dividends paid in the year	34,866	34,866
Proposed final dividend for the 52 weeks ended 30 December 2018 of 1.47p (2017 actual proposed and paid: 10.60p) per share	7,232	21,240

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting to be held on 17 May 2019 and is not recognised as a liability in these financial statements. The proposed final dividend payable reflects the number of shares in issue on 30 December 2018, adjusted for the 0.7m shares owned by the employee benefit trust for which dividends have been waived.

Further details on the employee benefit trust are provided in Note 19.

11 Intangible assets

	Goodwill £'000	Trademarks and licences £'000	Franchise agreements £'000	Software and IT development £'000	Total £'000
Cost					
At 2 January and 31 December 2017	26,433	–	–	–	26,433
Accumulated amortisation					
At 2 January and 31 December 2017	–	–	–	–	–
Cost					
At 1 January 2018	26,433	–	–	–	26,433
Additions	–	–	–	1,532	1,532
Additions on acquisition of subsidiaries (Note 28)	–	479	–	1,207	1,686
Intangibles recognised on acquisition of subsidiaries (Note 28)	326,476	236,000	21,900	–	584,376
At 30 December 2018	352,909	236,479	21,900	2,739	614,027
Accumulated amortisation					
At 1 January 2018	–	–	–	–	–
Charged during the year	–	–	28	314	342
At 30 December 2018	–	–	28	314	342
Net book value as at 31 December 2017	26,433	–	–	–	26,433
Net book value as at 30 December 2018	352,909	236,479	21,872	2,425	613,685

11 Intangible assets continued

The intangible assets reported on the balance sheet represent goodwill, trademarks and licences, franchise agreements and software and IT development arising on the previous acquisition of Blubeckers Limited and Brunning and Price Limited, which now trade as pub restaurants, and current year acquisitions of Ribble Valley Inns Limited, Food and Fuel Limited and Wagamama. Refer to Note 28 for further details of intangible assets recognised on acquisition of subsidiaries.

Goodwill and trademarks arising on business combinations are not amortised but are subject to an impairment review annually, or more frequently if events or changes in circumstances indicate that they might be impaired. Therefore, goodwill and trademarks arising on acquisition are 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 recoverable amount of the goodwill and trademark CGU's is £352.9m and £236.5m as at 30 December 2018 respectively. The recoverable amounts have been based on value in use estimates using cash flow projections based on one year budgets approved by the Board. The value in use estimates differ depending upon the area of the business. The projected cash flows have been discounted using a rate based on the Group's pre tax. Weighted Average Cost of Capital of 9.2% (2017: 10.2%) that reflects the risk of these assets. Cash flows are extrapolated in perpetuity with an annual growth rate of 2%. Perpetuity is believed to be reasonable due to the significant proportion of freeholds in the estate and the nature of the leasehold properties. It was concluded that the value in use for the CGU's is higher than its carrying value and therefore did not require impairment.

The Group has conducted a sensitivity analysis taking into consideration the impact on key impairment test 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.

12 Property, plant and equipment

	Land and buildings £'000	Fixtures, equipment and vehicles £'000	Total £'000
Cost			
At 1 January 2017 – Restated (Note 1)	541,655	191,593	733,248
Additions	16,192	17,146	33,338
Disposals	(17,459)	(8,440)	(25,899)
Transfers to provisions	500	–	500
At 31 December 2017 – Restated (Note 1)	540,888	200,299	741,187
Accumulated depreciation and impairment			
At 1 January 2017 – Restated (Note 1)	239,163	139,594	378,757
Provided during the year – Restated (Note 1)	20,353	15,902	36,255
Impairment – Restated (Note 1)	16,249	4,444	20,693
Disposals	(14,177)	(7,661)	(21,838)
At 31 December 2017 – Restated (Note 1)	261,588	152,279	413,867
Cost			
At 1 January 2018	540,888	200,299	**741,187**
Additions	38,374	14,913	**53,287**
Additions on acquisition of subsidiaries	67,900	32,346	**100,246**
Disposals	(569)	(751)	**(1,320)**
At 30 December 2018	646,593	246,807	**893,400**
Accumulated depreciation and impairment			
At 1 January 2018	261,588	152,279	**413,867**
Provided during the year	18,498	13,613	**32,111**
Impairment	14,582	(612)	**13,970**
Disposals	(141)	(705)	**(846)**
At 30 December 2018	294,527	164,575	**459,102**
Net book value as at 31 December 2017	279,300	48,020	327,320
Net book value as at 30 December 2018	352,066	82,232	**434,298**

The impairment charge comprises a charge of £17.1m partially offset by reversals of previously recognised impairment losses of £3.1m. Refer to Note 6 for further details.

Included within the book value of property, plant and equipment are assets under construction of £2.8m (2017: £0.7m) which are not depreciated.

During the period the Group amended its estimate of residual values for property, plant and equipment by reference to an external valuation.

12 Property, plant and equipment continued

Impairment testing on the Group's property, plant and equipment has been based on value in use estimates using cash flow projections based on one year budgets approved by the Board. The value in use estimates differ depending on the area of the business. The projected cash flows have been discounted using a rate based on the Group's pre tax Weighted Average Cost of Capital of 9.2% (2017: 10.2%) that reflects the risk of these assets. Cash flows are extrapolated in perpetuity or to the end of the lease life with an annual growth rate of 2%.

The key assumptions in the value in use estimates are the discount rate applied and the forecast cash flows. An increase of 1% in the discount rate would give rise to an additional impairment charge of approximately £1.2m, whilst a decrease of 1% in the discount rate would give rise to a reduction in impairment of approximately £0.5m. The forecast cash flows 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 charge of approximately £2.8m.

	2018 £'000	2017 Restated (Note 1) £'000
Net book value of land and buildings:		
Freehold	114,919	108,419
Long leasehold	4,102	3,640
Short leasehold	233,045	167,241
	352,066	279,300

	2018 £'000	2017 Restated (Note 1) £'000
Assets held under finance leases		
Costs		
At the beginning of the year	1,595	1,961
Disposals during the year	–	(366)
At the end of the year	1,595	1,595
Depreciation		
At the beginning of the year	1,434	1,681
Provided during the year	11	25
Disposals during the year	–	(272)
At the end of the year	1,445	1,434
Net book value at the end of the year	150	161

13 Fair value lease assets and liabilities

	2018 £'000	2017 £'000
Fair value lease assets	1,361	–
Fair value lease liabilities	(10,426)	–

Fair value lease assets and liabilities have been recognised on acquisition of subsidiaries in the year. See Note 28 for further details.

14 Other receivables

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Other receivables	23,709	15,861
Expected credit losses	(950)	(912)
Fair value lease assets	153	–
	22,912	14,949

Other receivables principally relate to amounts receivable from suppliers and distributors.

Movements in the Group provision for bad debts of trade and other receivables is as follows:

	2018 £'000	2017 £'000
At the beginning of the year	(912)	(241)
Provided for during the year	(38)	(671)
At the end of the year	(950)	(912)

During the year the Group has written off an outstanding long-term receivable of £2.9m from Black House Newco Limited (formerly BH Restaurants Limited), which was fully provided against in 2014. Refer to Note 27 for further details.

15 Trade and other payables

	2018 £'000	2017 Restated (Note 1) £'000
Amounts falling due within one year:		
Trade payables	78,764	38,206
Other tax and social security	45,696	21,621
Other payables	18,996	10,389
Accruals	67,427	44,625
Fair value lease liabilities	822	–
	211,705	114,841

Other payables principally relate to wages and related items payable to Directors and employees.

16 Provisions

	2018 £'000	2017 Restated (Note 1) £'000
Provision for onerous leases	57,421	41,805
Other provisions	2,200	2,491
Balance at the end of the year	**59,621**	44,296
Analysed as:		
Amount due for settlement within one year	9,377	10,408
Amount due for settlement after one year	50,244	33,888
	59,621	44,296

	Onerous contracts & other property provisions £'000	Other £'000	Total £'000
Balance at 1 January 2018 – Restated (Note 1)	41,805	2,491	**44,296**
Transfer from other provisions	291	(291)	**–**
Provisions acquired (Note 28)	16,758	–	**16,758**
Release of onerous lease provision in respect of closed sites now disposed	(5,214)	–	**(5,214)**
Onerous lease provision in respect of distressed and other sites	14,669	–	**14,669**
Amounts utilised	(11,263)	–	**(11,263)**
Unwinding of discount	375	–	**375**
Balance at 30 December 2018	57,421	2,200	**59,621**

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, 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 £9.5m in the year (2017: £4.5m). This comprises:
  - A £5.2m credit in respect of unutilised provisions following the successful exit of 28 sites ahead of expectations;
  - A further charge totalling £14.7m was provided for in the year. This comprised a charge of £11.1m in respect of newly identified onerous leases and a charge of £3.6m in respect of sites previously provided for.

During the year £16.8m of provisions were acquired through business combinations. Refer to Note 28 for further details.

Included in the opening balance is a £2.2m reclassification of dilapidations to other provisions, which are expected to be utilised within three years. Refer to Note 1 for further details.

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 £0.3m. 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 £1.0m. A 1% increase in the risk free rate would reduce the provision by £1.7m while a reduction of similar magnitude would result in an additional provision of £1.9m.

17 Deferred taxation

	Capital allowances £'000	Intangible assets £'000	Share options £'000	Other £'000	2018 Total £'000	2017 Total Restated (Note 1) £'000
Balance at the beginning of the year – Restated (Note 1)	5,281	–	(328)	(652)	4,301	4,434
Movement in deferred tax balances (net of exceptional credit)	(954)	–	79	623	(252)	(1,412)
Adjustments in respect of previous years	(515)	–	–	(119)	(634)	1,190
Credit/(debit) in respect of rate change	98	–	(24)	(66)	8	165
Deferred tax taken directly to the income statement (Note 8)	(1,371)	–	55	438	(878)	(57)
Deferred tax arising on acquisition	6,914	42,295	–	–	49,209	–
Tax on share-based payments	–	–	50	–	50	(86)
Credit in respect of rate change	–	–	(8)	–	(8)	10
Deferred tax taken through equity	–	–	42	–	42	(76)
Balance at the end of the year	10,824	42,295	(231)	(214)	52,674	4,301

	2018 £'000	2017 £'000
Deferred tax consists of:		
Capital allowances in advance of depreciation	10,824	5,281
Intangible assets	42,295	–
Share options	(231)	(328)
Capital gains rolled over	330	330
Capital losses	(330)	(330)
Other temporary differences	(214)	(652)
	52,674	4,301

18 Share capital

	Number	£'000
Authorised, issued and fully paid		
At 2 January 2017	201,063,045	56,550
Exercise of share options	4,355	1
At 31 December 2017 and 1 January 2018	201,067,400	56,551
Exercise of share options		
Rights issue	290,428,830	81,683
At 30 December 2018	491,496,230	138,234

The shares have a par value of 28.125p each (2017: 28.125p).

18 Share capital continued

Rights issue

On 30 October 2018, the Group invited its shareholders to subscribe to a rights issue of 290,430,689 ordinary shares at an issue price of 108.5p per share on the basis of 13 shares for every 9 fully or partly paid ordinary shares held, with such shares to be issued on, and rank for dividends after, 13 December 2018. The shareholders subscribed to a total of 290,428,830 shares.

The Group raised gross proceeds of £315.1m and incurred directly attributable expenses of £9.3m, and as a result on 14 December 2018 the Company's share capital increased by £81.7m and share premium by £224.1 million.

	Number	£'000
Treasury shares		
At 2 January 2017	–	–
Deferred bonus shares	18,181	61,285
At 31 December 2017 and 1 January 2018	**18,181**	**61,285**
Deferred bonus shares	**48,774**	**124,731**
At 30 December 2018	**66,955**	**186,016**

The treasury shares are held to satisfy the Group's long term deferred bonus incentive scheme.

19 Other reserves

An employee benefit trust (EBT) was established in 2007 in order to satisfy the exercise or 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 30 December 2018, the Trustees, Estera Trust (Jersey) Limited, held 688,276 shares in the Company (31 December 2017: 688,276 shares).

There were no cash transactions in the 52 weeks ended 30 December 2018 (52 weeks ended 31 December 2017: £nil).

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

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 £0.8m (2017: £2.2m).

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 (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 have been 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
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 3 March 2015 became exercisable on 3 March 2018. 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 below the median of 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.

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

20 Share-based payment schemes continued

Year ended 30 December 2018

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
2018	Conditional – TSR element	417.5p	87,677	–	–	(87,677)	–	–
2018	Conditional – EPS element	731.5p	87,677	–	–	(87,677)	–	–
2018	Matching – TSR element	417.5p	30,727	–	–	(30,727)	–	–
2018	Matching – EPS element	731.5p	30,727	–	–	(30,727)	–	–
2019	Conditional – TSR element	50.4p	216,001	–	–	–	216,001	–
2019	Conditional – EPS element	395.1p	216,001	–	–	–	216,001	–
2019	Continued Employment	395.1p	144,000	–	–	–	144,000	–
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	409,830	–	–	–	409,830	–
2020	Conditional – EPS element	333.2p	409,830	–	–	–	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	–
2021	Conditional – TSR element	138.6p	–	809,166	–	–	809,166	–
2021	Conditional – EPS element	244.1p	–	809,166	–	–	809,166	–
2021	Conditional – TSR element	149.0p	–	37,684	–	–	37,684	–
2021	Conditional – EPS element	276.6p	–	37,684	–	–	37,684	–
Total number			**2,054,506**	**1,693,700**	**–**	**(236,808)**	**3,511,398**	**–**

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	164,966	–	–	(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	405,240	–	–	(189,239)	216,001	–
2019	Conditional – EPS element	395.1p	405,240	–	–	(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	–

20 Share-based payment schemes continued

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 30 December 2018

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	173,938	–	342	–	(174,280)	–	–
2018 – 2019	546.0p	123,499	–	(4,313)	–	(32,649)	86,537	86,537
2019 – 2020	307.0p	786,890	–	(44,255)	–	(331,315)	411,320	–
2020 – 2021	243.8p	988,648		(41,927)	–	(331,440)	615,281	–
2021 – 2020	239.5p	–	526,132	(751)	–	(9,769)	515,612	–
Total number		**2,072,975**	**526,132**	**(90,904)**	**–**	**(879,453)**	**1,628,750**	**86,537**
Weighted average exercise price		**309.4p**	**239.5p**	**287.8p**	**0.0p**	**334.5p**	**274.4p**	**546.0p**

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	307.0p	328.3p	309.4p	525.0p

The weighted average market price at date of exercise was 322.2p per share (2017: 322.2p). The weighted average remaining contractual life for the shares outstanding at the end of the period is 1.78 years (2017: 2.18 years).

Assumptions used in valuation of share-based payments granted in the year ended 30 December 2018:

Scheme	March 2018 LTIP Award		September 2018 LTIP Award		2018 SAYE
Grant date	TSR element 19/03/2018	Adjusted EPS element 19/03/2018	TSR element 10/09/2018	Adjusted EPS element 10/09/2018	19/10/2018
Share price at grant date	244.1p	244.1p	276.6p	276.6p	290.2p
Exercise price	n/a	n/a	n/a	n/a	239.52p
No. of options originally granted	809,161	809,161	37,684	37,684	526,132
Minimum vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility[1]	45.73%	n/a	36.90%	n/a	36.90%
Contractual life	5 years	5 years	3 years	3 years	3.4 years
Risk free rate	0.88%	n/a	0.79%	n/a	0.87%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	6.00%
Expected forfeitures	0.00%	0.00%	0.00%	0.00%	0.00%
Fair value per option	138.6p	244.1p	149.0p	276.6p	64.57p

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 share price over a period prior to the grant date has been calculated. For the discount for the TSR performance condition for the March and September 2018 Awards, the calculated volatility based on the movement in share price over a period of 5 years prior to the grant has been used. For the discount for the SAYE scheme, the calculated volatility based on the movement in share price over a period of 5 years prior to the grant has been used.

21 Reconciliation of profit before tax to cash generated from operations

	2018 £'000	2017 Restated (Note 1) £'000
Profit before tax	13,931	28,173
Net interest charges	2,232	1,661
Impairment of property, plant and equipment	13,970	20,693
Onerous lease and other property provisions	10,027	4,201
Restructuring costs	–	4,772
Acquisition costs	14,775	–
Refinancing costs	467	–
Share-based payments	761	2,158
Amortisation	342	–
Depreciation	32,111	36,255
Loss on disposal of property, plant and equipment	104	–
Decrease/(increase) in inventory	83	(298)
(Increase)/decrease in receivables	(3,983)	2,185
Increase in payables	3,487	8,019
Cash generated from operations	88,307	107,819

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

	2018 £'000	2017 Restated (Note 1) £'000
Net debt:		
At the beginning of the year	**(23,102)**	(29,966)
Movements in the year:		
Net (withdrawals)/repayments of borrowings	**(102,000)**	7,000
Debt acquired on acquisition of subsidiary	**(226,164)**	–
Unamortised loan fees acquired on acquisition of subsidiary	**2,493**	–
Upfront loan facility fee	**1,500**	–
Finance leases	**208**	182
Non-cash movements in the year	**(359)**	(361)
Net cash inflow	**56,292**	43
At the end of the year	**(291,132)**	(23,102)

Represented by:	At 2 January 2017 £'000	Cash flow movements in the year £'000	Non-cash movements in the year £'000	At 31 December 2017 & 1 January 2018 £'000	Cash flow movements in the year £'000	Debt acquired on acquisition £'000	Unamortised loan fees acquired on acquisition £'000	Upfront loan facility fee £'000	Non-cash movements in the year £'000	At 30 December 2018 £'000
Cash and cash equivalents	**9,568**	43	–	**9,611**	56,292	–	–	–	–	**65,903**
Bank loans falling due after one year	**(37,882)**	7,000	(341)	**(31,223)**	(102,000)	(225,000)	2,493	1,500	(190)	**(354,420)**
Finance leases	**(1,652)**	182	(20)	**(1,490)**	208	(1,164)	–	–	(169)	**(2,615)**
	(29,966)	7,225	(361)	**(23,102)**	(45,500)	(226,164)	2,493	1,500	(359)	**(291,132)**

Cash and cash equivalents are comprised of cash at bank and cash floats held on site. The cash and cash equivalents balance includes credit card receipts that were cleared post year end.

The non-cash movements in bank loans are in relation to the amortisation of prepaid facility costs.

23 Financial instruments and derivatives

The Group adopted IFRS 9 Financial instruments during the year and performed an impact assessment which highlighted that there is no material impact.

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.

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 revolving credit facilities. The Group is required to maintain a 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.

(a) 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:

	2018 £'000	2017 £'000
Cash and cash equivalents	65,903	9,611
Other receivables	22,912	14,949
Total financial assets	88,815	24,560

Cash and cash equivalents include £0.7m (2017: £0.5m) held on account in respect of deposits paid by tenants under the terms of their rental agreement.

23 Financial instruments and derivatives continued

Financial liabilities

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

	2018 £'000	2017 £'000
Trade and other payables	166,009	93,220
Finance lease payable	272	164
Short-term financial liabilities	166,281	93,384
Long-term borrowings – at fixed interest rates	225,000	–
Long-term borrowings – at floating interest rates[1]	134,000	32,000
Bank fees	(4,580)	(777)
Other payables – Restated (Note 1)	27,521	24,596
Long-term financial liabilities	156,941	55,819
Total financial liabilities	323,222	149,203

1 Total financial liabilities attracting interest were £359.0m (2017: £32.0m). 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 3.02% (2017: 2.22%).

On 2018 results, net interest excluding onerous lease interest was covered 47.3 times (2017: 76.5 times) by earnings before interest, tax, depreciation and exceptional items. Based on year-end debt and earnings for 2018, a 1% rise in interest rates would reduce interest cover to 27.9 times (2017: 61.1 times).

At 30 December 2018 the Group had a cash balance of £65.9m (2017: £9.6m).

Total Group borrowing facilities consist of a £200m revolving credit facility, a £20m revolving credit facility and a £225m high-yield bond. The Group has a £10m overdraft facility, which is repayable on demand, on which interest is payable at the bank's overdraft rate. At 30 December 2018 the Group has £86.0m of committed borrowing facilities in excess of gross borrowings (2017: £108.0m) and £10.0m of undrawn overdraft (2017: £10.0m of undrawn overdraft).

The interest rates on the Group's debt facilities are as follows: a range of 1.5% to 3.0% above LIBOR on the £200m revolving credit facility; a range of 2.5% to 3.0% above LIBOR on the £20m revolving credit facility; and a fixed rate of 4.125% on the high-yield bond. The maturity dates on the Group's debt facilities are as follows: December 2021 for the £200m revolving credit facility; December 2021 for the £20m revolving credit facility; and July 2022 for the high-yield bond.

During the year the Group refinanced to fund the acquisition of Wagamama. On the 24 December 2018 the previous revolving credit facility was repaid in full and a new revolving credit facility was drawn down. An exceptional charge of £0.5m has been recognised in the year as a result of the refinancing which took place to fund the acquisition of Wagamama. The charge relates to the write off of unamortised finance costs connected to the cancelled debt facility. Total borrowing costs of £2.1m were capitalised against the new debt facility in the year.

Secured liabilities and assets pledged as security

The Group has pledged certain assets in order to fulfil the collateral requirements of the revolving credit facility and high-yield bond.

The high-yield bond and £20m of the revolving credit facility are secured by a fixed charge over the fixtures and fittings of £35.3m (at acquisition: £35.5m), other receivables of £7.5m (at acquisition: £6.8m), trademarks and licences of £0.5m (at acquisition £0.5m), and assets arising from a finance leases of £1.0m (at acquisition £1.0m). The fixed charge also covers 90 (at acquisition: 90) off balance sheet operating leases. The revolving credit facility and high-yield bond are secured by a floating charge over the assets not effectively charged by way of fixed charge. This includes leasehold properties of £76.4m (at acquisition: £76.6m), software and IT development of £1.2m (at acquisition: £1.2m), stock of £2.6m (at acquisition £2.6m), prepayments of £9.4m (at acquisition: £10.3m) and cash of £38.0m (at acquisition: £37.6m).

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 30 December 2018

	Trade and other payables excluding tax £'000	Fixed rate loan £'000	Floating rate loan £'000	Finance lease debt £'000	Total £'000
Within one year	164,685	9,281	5,322	272	**179,560**
Within two to five years	–	248,343	144,617	1,089	**394,049**
After five years	–	–	–	12,370	**12,370**
	164,685	257,624	149,939	13,731	**585,979**

At 31 December 2017

	Trade and other payables excluding tax £'000	Fixed rate loan £'000	Floating rate loan £'000	Finance lease debt £'000	Total £'000
Within one year	91,895	–	669	164	92,728
Within two to five years	–	–	33,204	658	33,862
After five years	–	–	–	8,140	8,140
	91,895	–	33,873	8,962	134,730

23 Financial instruments and derivatives continued

Offsetting financial assets and financial liabilities

Financial assets

	2018 £'000	2017 £'000
Gross amount of recognised financial assets	65,988	23,121
Gross amounts of recognised financial liabilities set off in the balance sheet	(85)	(13,510)
Net amount of financial assets presented in the balance sheet	65,903	9,611

Fair value of financial assets and liabilities

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

(b) 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. The Directors make regular assessments of the recoverability of commercial discount receivables based on their knowledge of the customer, historic payments and relevant macroeconomic factors. An appropriate provision will be made if it is considered the amounts will not be recovered, either partially or in full. This is consistent with the previous period. Receivables that are neither past due nor impaired are expected to be fully recoverable.

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.

(c) 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 December 2021 (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).

(d) Foreign currency risk

Foreign currency risk relates to the US business and a significant proportion of this risk is mitigated by a natural hedge given that employees and suppliers of the US business are predominantly paid in US dollars from sales revenue generated in the USA. The Group has used forward contracts to lock in exchange rates for known capital expenditure commitments to manage its remaining foreign exchange risk as part of an overall FX risk management strategy.

(e) 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 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	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Within one year	**272**	164	**272**	164
Within two to five years	**1,089**	658	**779**	627
After five years	**12,370**	8,140	**1,564**	699
	13,731	8,962		
Less: future interest payments	**(11,116)**	(7,472)		
Present value of lease obligations	**2,615**	1,490	**2,615**	1,490
Analysed as:				
Amount due for settlement within one year			**272**	164
Amount due for settlement after one year			**2,343**	1,326
Present value of lease obligations			**2,615**	1,490

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.

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

Payments due:	Payable 2018 £'000	Receivable 2018 £'000	Payable 2017 £'000	Receivable 2017 £'000
Within one year	**97,481**	**2,253**	73,606	2,037
Within two to five years	**322,856**	**6,451**	263,256	6,499
After five years	**717,132**	**22,064**	512,931	17,312
	1,137,469	**30,768**	849,793	25,848

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

	2018 £'000	2017 £'000
Authorised and contracted for:	12,259	23,450

At 30 December 2018, the Group had commitments of £12.3m (2017: £23.5m) relating to expenditure contracted for the fit out of pubs and restaurants which have not yet incurred.

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 £1.6m (2017: £2.0m), calculated on an undiscounted basis to the end of the lease term, up to a period of 5 years.

27 Related party transactions

There were no related party transactions in the 52 weeks ended 30 December 2018, other than as described below. In the 52 weeks ended 30 December 2018, the Group received £0.1m (2017: £0.1m) of loan note interest from Black House Newco Limited, all of which was recognised in the income statement. Capital repayments of £nil (2017: £0.4m) were received in the year. Black House Newco Limited is a previous joint venture in which the Group was a party to. They are considered a related party given the Group's significant influence over Black House Newco Limited. Up until 2018 the Group held a convertible loan note receivable of £2.9m (2017: £2.9m). The loan note receivable was fully provided for in prior years and fully written off during 2018.

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 on pages 40 to 53.

At the year end the Group owes £123,862 to the Executive Directors in relation to the 2017 deferred bonus share awards, net of tax. This is in accordance with the Group's remuneration policy that executive directors are required to defer 50% of any bonus earned for three years, which the Group will then pay as shares.

28 Acquisition of wholly owned subsidiaries

Acquisitions in 2018

During the year the Group undertook three business combinations. Details of the purchase consideration, the provisional fair value of the identifiable assets and liabilities acquired and goodwill are as follows:

	Ribble Valley Inns £'000	Food and Fuel £'000	Wagamama £'000	Total £'000
Purchase consideration				
Cash paid	939	14,263	348,995	**364,197**
Total purchase consideration	939	14,263	348,995	**364,197**
Assets				
Trademark (Note 11)	–	–	236,000	**236,000**
Franchise agreements (Note 11)	–	–	21,900	**21,900**
Intangible assets (Note 11)	–	–	1,686	**1,686**
Fair value lease assets	–	417	1,115	**1,532**
Property, plant and equipment (Note 12)	835	6,366	93,045	**100,246**
Cash and cash equivalents	114	268	38,888	**39,270**
Prepayments	–	339	10,265	**10,604**
Other receivables	50	98	6,834	**6,982**
Corporation tax receivable	–	37	–	**37**
Inventory	44	145	2,641	**2,830**
	1,043	7,670	412,374	**421,087**
Liabilities				
Fair value lease liabilities	–	(1,102)	(10,183)	**(11,285)**
Trade payables	(284)	(842)	(27,398)	**(28,524)**
Other payables	(202)	–	(9,226)	**(9,428)**
Accruals	(120)	(518)	(18,479)	**(19,117)**
Other tax and social security	(63)	(455)	(21,760)	**(22,278)**
Corporation tax liability	–	–	(47)	**(47)**
Deferred tax liability	(28)	(846)	(48,335)	**(49,209)**
Provisions	–	–	(16,758)	**(16,758)**
Long term liabilities	–	–	(4,213)	**(4,213)**
Secured loan notes (Note 22, Note 23)	–	–	(222,507)	**(222,507)**
	(697)	(3,763)	(378,906)	**(383,366)**
Total identifiable net assets at fair value	346	3,907	33,468	**37,721**
Goodwill arising on acquisition (Note 11)	593	10,356	315,527	**326,476**
Total purchase consideration	939	14,263	348,995	**364,197**

Notes to the consolidated accounts continued

28 Acquisition of wholly owned subsidiaries continued

The net cash flow impact of the acquisition is:

	Ribble Valley Inns £'000	Food and Fuel £'000	Wagamama £'000	Total £'000
Cash consideration	(939)	(14,263)	(348,995)	**(364,197)**
Cash acquired	114	268	38,888	**39,270**
	(825)	(13,995)	(310,107)	**(324,927)**

The Group made fair value adjustments on acquisition in respect of trademarks, franchise agreements, goodwill, property, plant and equipment and lease assets and lease liabilities. The accounting for the acquisitions made in the year is provisional and will be finalised in the window allowed by IFRS 3.

Ribble Valley Inns

On 21 May 2018, Brunning and Price Limited acquired 100% of issued shares in Ribble Valley Inns Limited, a pubs business, for consideration of £0.9m. The Group acquired Ribble Valley Inns in order to accelerate its expansion strategy of its pubs division.

The goodwill premium on acquisition was paid to allow the Group to quickly expand the successful pubs business through acquisitions.

In the year to 30 December 2018 acquisition related costs of £0.2m have been recognised within exceptional acquisition and refinancing related costs totalling £15.2m (see Note 6).

Since 21 May 2018 Ribble Valley Inns Limited has contributed revenue of £2.0m, EBITDA loss of £0.4m, operating loss of £0.5m and loss before tax of £0.5m.

If the acquisition of Ribble Valley Inns Limited had taken place at the start of the financial period, the enlarged TRG Group would have recognised revenue of £3.2m, EBITDA loss of £0.5m, operating loss of £0.8m and loss before tax of £0.8m. The Group refurbished three out of the four pubs in the period since acquisition with the pubs shut for an extended period during that time. The group also invested in marketing and training to coincide with the relaunch.

Food and Fuel
On 29 August 2018, Brunning and Price Limited acquired 100% of issued shares in Food and Fuel Limited, a premium pubs business, for consideration of £14.3m. The Group acquired Food and Fuel in order to accelerate its expansion strategy of its pubs division.

The goodwill premium on acquisition was paid to allow the Group to quickly expand the successful pubs business through acquisitions.

The fair value lease assets and liabilities recognised upon acquisition of £0.4m and £1.1m arise due to current rental on operating leases being favourable or unfavourable to current market terms. The mark to market adjustment on operating leases values the difference between contractual and market rents until that difference is extinguished. The market rents were sourced from external property advisors. An income approach and discounted cash flow methodology was applied to fair value the mark to market lease adjustments. A discount rate of 6% was applied based on average retail property yields in the UK, which implicitly reflect future rental growth expectations. The fair value lease assets and liabilities are being amortised over the life of the leases, which is up to 24 years.

In the year to 30 December 2018 acquisition related costs of £0.5m have been recognised within exceptional acquisition and refinancing related costs totalling £15.2m (Note 6).

Since 29 August 2018 Food and Fuel Limited has contributed revenue of £4.2m, EBITDA of £0.4m, operating profit of £0.2m and profit before tax of £0.2m.

If the acquisition of Food and Fuel Limited had taken place at the start of the financial period, the enlarged TRG Group would have recognised revenue of £12.7m, EBITDA of £1.0m, operating profit of £0.4m and profit before tax of £0.4m.

Wagamama
On 24 December 2018, The Restaurant Group plc acquired 100% of issued shares in Mabel Topco Group, which operates a chain of pan-Asian style noodle bars, trading in the UK through Wagamama Limited, and in the USA through Wagamama Inc. The UK business also operates as a franchisor of the brand in all territories in which Wagamama trades outside of the UK and USA. The consideration paid consists of funding through a rights issue and bank loan.

The acquisition of Wagamama provided the enlarged TRG Group the opportunity to deliver on multi pronged growth strategies and provide the enlarged group clear scale advantages as Wagamama is a differentiated high growth brand with clear structural advantages.

Goodwill of £315.5m represents the buyer specific synergies the Group will be able to achieve from acquiring Wagamama, the potential for future franchise agreements, growth potential in the UK and US through further roll-out and access to a workforce with vast experience in operating a successful pan-Asian restaurant chain.

28 Acquisition of wholly owned subsidiaries continued

Trademark intangibles of £236.0m have been recognised upon acquisition on the basis that Wagamama is a large and well recognised Casual Dining brand, with high awareness among casual dining chains and is highly advocated, with one of the highest Net Promoter Scores amongst its competitors. The brand is particularly strong with young, affluent consumers who are familiar with international cuisine. A relief-from-royalty valuation approach was used to value the trademark. The trademark is deemed to have an indefinite useful life.

Franchise agreements of £21.9m have been recognised upon acquisition following a valuation of the agreements that were in place as at the acquisition date. A multi-period excess earnings method was used in the valuation. Franchise agreements are being amortised over a useful economic life of 15 years.

The valuation of leasehold improvements and fixtures and fittings has resulted in a downward fair value adjustment of £19.0m. The depreciated direct replacement cost approach has been applied to value the tangible assets and the replacement cost has been based on the cost of recent fit out projects undertaken for Wagamama. Depreciation has been based on the existing accounting depreciation.

The fair value lease assets and liabilities recognised upon acquisition of £1.1m and £10.2m arise due to current rental on operating leases being favourable or unfavourable to current market terms. The mark to market adjustment on operating leases values the difference between contractual and market rents until that difference is extinguished. The market rents were either sourced from advice provided by external property advisors, current lease negotiations or ongoing monitoring of restaurant rental levels in connection with the day to day management of the lease portfolio. An income approach and discounted cash flow methodology was applied to fair value the mark to market lease adjustments. A discount rate of 5% was applied for locations in London and 7% for locations outside of London based on average retail property yields in the UK, which implicitly reflect future rental growth expectations. The fair value lease assets and liabilities are being amortised over the life of the leases, which is up to 24 years.

In the year to 30 December 2018 acquisition related costs of £14.5m have been recognised within exceptional acquisition and refinancing related costs totalling £15.2m (Note 6). A further £2.1m of upfront loan fees have been capitalised against the new revolving credit debt facility (Note 23) and £9.3m of share issue costs have been recognised in share premium.

Since 24 December 2018 the Wagamama Group has contributed revenue of £7.0m, adjusted EBITDA of 1.1m, operating profit of £0.7m and profit before tax of £0.5m.

If the acquisition of the Wagamama Group had taken place at the start of the financial period, the enlarged TRG Group would have recognised revenue of £328.3m, adjusted EBITDA of £44.6m, EBITDA of £34.5m, adjusted operating profit of £27.5m, operating profit of 17.4m, adjusted profit before tax of £17.9m and profit before tax of £7.8m.

Company balance sheet

	Note	At 30 December 2018 £'000	At 31 December 2017 £'000
Non-current assets			
Investments in subsidiary undertakings	3	346,431	146,952
Long term loan	4	150,408	–
		496,839	146,952
Current assets			
Receivables			
Amounts falling due within one year from Group undertakings		87,572	56,855
		87,572	56,855
Total assets		584,411	203,807
Payables			
Amounts falling due within one year to Group undertakings		(140,937)	(50,433)
Net current assets		(53,365)	6,422
Total assets less current liabilities		443,474	153,374
Net assets		443,474	153,374
Capital and reserves			
Called up share capital		138,234	56,551
Share premium account		249,686	25,554
Other reserves		(5,825)	(6,586)
Profit and loss account		61,379	77,855
Shareholders' funds		443,474	153,374

The Company's profit for the year was £18.4m (2017: £30.7m).

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 115 to 119 were approved by the Board of Directors and authorised for issue on 14 March 2019 and were signed on its behalf by:

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

Statement of changes in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Balance at 2 January 2017	56,550	25,542	(8,744)	82,004	155,352
Issue of shares	1	12	–	–	13
Employee share-based payment schemes	–	–	2,158	–	2,158
Total comprehensive income	–	–	–	30,717	30,717
Dividends	–	–	–	(34,866)	(34,866)
Balance at 31 December 2017	56,551	25,554	(6,586)	77,855	153,374
Balance at 2 January 2017	**56,551**	**25,554**	**(6,586)**	**77,855**	**153,374**
Issue of shares	**81,683**	**224,132**	**–**	**–**	**305,815**
Employee share-based payment schemes	**–**	**–**	**761**	**–**	**761**
Total comprehensive income	**–**	**–**	**–**	**18,390**	**18,390**
Dividends	**–**	**–**	**–**	**(34,866)**	**(34,866)**
Balance at 30 December 2018	**138,234**	**249,686**	**(5,825)**	**61,379**	**443,474**

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.

Long term loan
All loans are initially recognised at fair value of consideration transferred. After initial recognition, interest-bearing loans are measured at amortised cost using the effective interest method.

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.

2 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. Remuneration of the auditor is borne by a subsidiary undertaking (refer to Note 4 in the consolidated financial statements).

3 Investment in subsidiary undertakings

	Shares £'000	Loans and other £'000	Total £'000
Cost			
At 1 January 2018	91,829	56,545	**148,374**
Share-based payment schemes	–	761	**761**
Acquisition of Wagamama	198,718	–	**198,718**
At 30 December 2018	290,547	57,306	**347,853**
Amounts written off			
At 31 December 2017 and 30 December 2018	888	534	**1,422**
Net book value at 31 December 2017	90,941	56,011	**146,952**
Net book value at 30 December 2018	289,659	56,772	**346,431**

The investment carrying value of £198.7m in Wagamama represents the cash consideration paid of £349.0m less the long term receivable of £150.4m.

The Company's subsidiaries are listed below:

	Status	Proportion of voting rights and shares held at 30 December 2018
Leisure & Concessions		
TRG (Holdings) Limited	Holding	100%
The Restaurant Group (UK) Limited	Trading	100%
Chiquito Limited	Trading	100%
Caffe Uno Limited	Dormant	100%
Number One Leicester Square Limited	Dormant	100%
Adams Rib Limited	Dormant	100%
G.R. Limited	Holding	100%
Strikes Restaurants Limited	Dormant	100%
Black Angus Steak Houses Limited	Dormant	100%
J.R. Restaurants Limited	Dormant	100%
DPP Restaurants Limited	Dormant	100%
Garfunkels Restaurants Limited	Dormant	100%
Frankie & Benny's (UK) Limited	Dormant	100%
City Centre Restaurants (UK) Limited	Dormant	100%
City Hotels Group Limited	Dormant	100%
Est Est Est Group Limited	Holding	100%
Factmulti Limited	Holding	100%

	Status	Proportion of voting rights and shares held at 30 December 2018
Pubs		
Brunning and Price Limited	Trading	100%
Blubeckers Limited	Trading	100%
Ribble Valley Inns Limited	Trading	100%
Food & Fuel Limited	Trading	100%
Front Page Holdings Limited	Trading	100%
Front Page Pubs Limited	Trading	100%
Wagamama		
Mabel Topco Limited	Holding	100%
Mabel Midco Limited	Holding	100%
Mabel Mezzco Limited	Holding	100%
Mabel Bidco Limited	Holding	100%
Wagamama Finance Plc	Holding	100%
Wagamama Group Limited	Holding	100%
Wagamama Limited	Trading	100%
Wagamama International (Franchising) Limited	Trading	100%
Wagamama CPU Limited	Trading	100%
Wagamama Newco Limited	Dormant	100%
Ramen USA Limited	Holding	100%
Wagamama USA Holdings Inc	Holding	100%
Wagamama Inc	Trading	100%
Wagamama USA 2015 LLC	Trading	100%
Wagamama NY 1011 3rd LLC	Holding	100%
Wagamama NY 210 5th LLC	Holding	100%
Wagamama NY 53 3rd LLC	Holding	100%
Boston One LLC	Holding	100%

The Company's operating subsidiaries are registered in England, Wales and the United States, and operate restaurants in the United Kingdom and the United States.

All other subsidiary undertakings are wholly owned by the Company or one of its subsidiaries and are either non-trading or dormant.

4 Long term loan

The loan was issued on 24th December 2018 to Mabel Midco Limited, being repayable on demand. Interest is payable at 3% plus LIBOR per annum with payments made quarterly.

5 Employee costs and numbers

All costs of employees and Directors are borne by a subsidiary undertaking. At 30 December 2018 the Company employed six persons, being the directors (31 December 2017: six persons). Refer to the Directors remuneration report for further details of remuneration paid for services.

Group financial record

	2018 £'000	2017 Restated (Note 1) £'000	2016 Restated (Note 1) £'000	2015 Restated (Note 1) £'000	2014 Restated (Note 1) £'000
Revenue	**686,047**	679,282	710,712	685,381	635,225
Adjusted operating profit	**55,402**	59,500	78,963	88,706	80,272
Underlying interest	**(2,232)**	(1,661)	(1,814)	(1,861)	(2,207)
Adjusted profit before tax	**53,170**	57,839	77,149	86,845	78,065
Non-trading (charges)/credits	**(39,239)**	(29,666)	(134,943)	–	6,862
Profit on ordinary activities before tax	**13,931**	28,173	(57,794)	86,845	84,927
Tax	**(7,049)**	(9,827)	(638)	(17,959)	(17,928)
Profit for the year	**6,882**	18,346	(58,432)	68,886	66,999
Basic earnings per share	**2.42p**	6.68p	(29.18p)	34.55p	33.39p
Adjusted earnings per share	**14.67p**	16.66p	30.02p	33.80p	29.96p
Proposed total ordinary dividend per share for the year	**8.27p**	17.40p	17.40p	17.40p	15.40p
Special dividend per share	**–**	–	–	–	3.45p
Dividend cover (excluding non-trading items and special dividends)	**1.77**	0.96	1.73	1.94	1.95
Employment of finance					
Property, plant and equipment	**434,298**	327,320	354,463	421,560	368,576
Other non-current assets	**615,046**	26,433	26,433	26,433	26,433
Net current liabilities	**(95,467)**	(79,579)	(79,276)	(91,664)	(92,224)
Long-term liabilities	**(495,285)**	(94,008)	(106,748)	(70,967)	(58,261)
	458,592	180,166	194,872	285,362	244,524
Financed by:					
Equity	**458,592**	180,166	194,872	285,362	244,524
Net debt	**(291,132)**	(23,102)	(28,314)	(28,382)	(38,578)
Gearing	**63.5%**	12.8%	14.5%	10.0%	15.8%

Glossary

Trading business	Represents the performance of the business before exceptional items and is considered as the key metrics for shareholders to evaluate and compare the performance of the business from period to period.
Exceptional items	Those items that, by virtue of their unusual nature or size, warrant separate additional disclosure in the financial statements in order to fully understand the performance of the Group.
Like-for-like sales	This measure provides an indicator of the underlying performance of our existing restaurants. There is no accounting standard or consistent definition of 'like-for-like sales' across the industry. Group like-for-like sales are calculated by comparing the performance of all mature sites in the current period versus the comparable period in the prior year. Sites that are closed, disposed or disrupted during a financial year are excluded from the like-for-like sales calculation.
EBITDA	Earnings before interest, tax, depreciation, amortisation and impairment.
Outlet EBITDA	EBITDA directly attributable to individual sites and therefore excluding corporate and central costs.
Adjusted EBITDA	Earnings before interest, tax, depreciation, amortisation and exceptional items. Calculated by taking the Trading business operating profit and adding back depreciation and amortisation.
Net debt	Net debt is calculated as the net of the long-term borrowings and finance lease obligations 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.
Adjusted tax	Calculated by taking the tax of the business pre-exceptional items.

Shareholder information

Directors
Debbie Hewitt
Non-executive Chairman

Andy McCue
Chief Executive Officer

Kirk Davis (from 5 February 2018)
Chief Financial Officer

Simon Cloke
Senior independent non-executive Director

Graham Clemett
Independent non-executive Director

Mike Tye
Independent non-executive Director

Allan Leighton (from 24 December 2018)
Independent non-executive Director

Company Secretary
Jean-Paul Rabin (from 16 January 2019)

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10 St Bride Street
London EC4A 4AD

Brokers
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25 Bank Street
London E14 5JP

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

Annual General Meeting
Friday 17 May 2019

Proposed final dividend – 2018
Announcement – 15 March 2019
Ex-dividend – 6 June 2019
Record date – 7 June 2019
Payment date – 5 July 2019

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