


# Annual Report 2019

The Restaurant Group plc

# Contents



# Introduction

**The Restaurant Group operates over 650 restaurants and pub restaurants.** Its principal trading brands are Wagamama, Frankie & Benny's, Chiquito and Coast to Coast. The Group also operates Pub restaurants and a Concessions business which trades principally at UK airports.

## Our brands

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 STATION American Restaurant & Bar

# Highlights and priorities



## Operating highlights

- Delivering the benefits of the Wagamama transaction
  - Market-leading like-for-like (LFL) sales performance of +8.5%
  - Cost synergies ahead of plan, site conversion programme well progressed
  - US Joint Venture (JV) established after year-end to facilitate capital-light growth plan
- Growing our Pubs and Concessions businesses
  - Concessions LFL sales growth of +4.1% well ahead of passenger growth; strong presence in new Manchester terminal secured
  - Pubs LFL sales growth +4.0% consistently outperforming the market; healthy pipeline of new sites in 2020
- Optimising our Leisure brands
  - LFL sales decline of 2.8%, representing an improvement on previous years
  - Delivery sales performing well, supported by targeted operational initiatives to improve food offering and brand proposition
  - Overall estate size reduced by 18 sites to 350 sites via closures and conversions to Wagamama

## Financial highlights

- Group like-for-like sales up 2.7%, with total sales up 56.4% to £1,073.1m (2018: £686.0m)
- Adjusted[1] profit before tax of £74.5m (2018: £53.2m). Statutory loss before tax of £37.3m (2018 Statutory profit: £13.9m)
- Adjusted[1] EBITDA of £136.7m (2018: £87.9m)
- Exceptional pre-tax charge of £111.8m (H1 2019: £115.7m, H2 2019: (£3.9m) credit) primarily related to impairment in our Leisure business recorded in the first half of 2019 (2018: £39.2m)
- Adjusted[1] EPS of 11.9p (2018: 14.7p). Statutory loss per share of 8.2p (2018 earnings per share: 2.4p)
- Operating cash flow of £140.5m (2018: £88.3m)
- Net bank debt of £286.6m (2018: £291.1m) with net debt/EBITDA at 2.1x
- No full year dividend declared to facilitate new strategic priorities

## 2020 to 2021 Strategic priorities

- Grow our Wagamama, Concessions and Pubs businesses
  - Continue selective approach to new sites generating strong returns
  - Maintain like-for-like sales outperformance versus respective benchmarks
- Rationalise our Leisure business
  - Accelerate rationalisation of the estate from 350 sites today to a target of 260-275 sites by the end of 2021
- Accelerate our deleveraging profile
  - Target a reduction in net debt/EBITDA leverage from 2.1x today to below 1.6x by the end of 2021

Temporary suspension of dividend to facilitate strategic priorities

**Footnote to Strategic Report**

1 The Group's adjusted performance metrics such as like-for-like sales and free cash flow are defined within the glossary at the end of this report.

# Our brands

## TRG operates a diverse portfolio of popular brands, each with their own unique and differentiated offering, but all with great hospitality at their core. Our portfolio offers something for everyone.

wagamama

**144***

Sites

Wagamama first opened its doors in 1992 in London's Bloomsbury. Inspired by fast-paced, Japanese ramen bars and a celebration of asian food, Wagamama burst into life creating a unique way of eating. Bringing the fresh, nourishing, flavours of Asia to all.

*This relates to UK full-service restaurants. Wagamama also operated three delivery kitchens and one Mamago site in the UK and 5 restaurants in the US as at 29 December 2019.


Frankie & Benny's

**236**

Sites

Welcome to a place where genuine Italian passion blends with the confidence of New York City, the fusion that created the Frankie & Benny's we all know and love today. Our passion for great Italian American food, a welcoming atmosphere and warm and friendly service is second to none. Welcome to Frankie & Benny's – where "have a nice day" meets "la dolce vita".


Brunning & Price LIMITED

**84**

Sites

Set mostly in rural locations, each pub within the Brunning & Price family is unique, but all share a common love of local cask ales, decent, affordable wines, genuine hospitality and wholesome dishes cooked using the freshest ingredients.

Our characterful buildings are often set in beautiful surroundings and we go to great lengths to restore and preserve them, offering a timeless, calm, informal setting for people who like to meet, eat, drink and talk in a relaxed, friendly atmosphere.

Our Managers look upon the pub as their own, making local decisions to reflect what their customers favour, making us very much the heart of the community.


trg concessions

**71**

Sites

TRG Concessions has over 25 years' experience of providing exceptional hospitality to the travelling public and beyond. Our brand portfolio includes table service, counter service, sandwich shops, pubs and bars. We deliver existing TRG brands, create bespoke concepts and establish partnerships to franchise third-party brands. Our record of innovation, partnership, and performance ahead of sector growth will ensure we remain a market leader in this industry.

CHIQUITO
RESTAURANT BAR & MEXICAN GRILL

**79**
Sites

Chiquito has been delivering the best of Mexican cuisine for 30 years. Delivering fantastic food in a fun, fiesta-style environment is what the team are passionate about. Whether you want to embrace our Mexican heritage by wearing our iconic sombreros or just enjoy some classic dishes and drinks, Chiquito offers a fantastic experience for all.

GARFUNKEL'S RESTAURANT

**7**
Sites

Founded in London in 1979, Garfunkel's is proud to be the original British café restaurant serving breakfast, lunch and dinner all day every day. Garfunkel's London restaurants offer guests a place to relax, and they have a loyal following: local residents and workers who have been eating at Garfunkel's for years.

COAST TO COAST
AMERICAN RESTAURANT & BAR

**13**
Sites

FILLING STATION
American Restaurant & Bar

**6**
Sites

Coast to Coast offers a unique and authentic take on American home-style dining with an extensive menu spanning the length of the USA. From the Texan Smoker Burger to the Super Bowl Salad, the best of stateside flavours are showcased alongside a lively cocktail list, proving you don't have to travel halfway around the world to enjoy an all-American night out.

FIREJACKS
MEAT | FIRE | FRIENDS

**5**
Sites

At Firejacks our mantra is simple "Meat. Fire. Friends". We pride ourselves on delivering an unparalleled restaurant experience where food innovation is at the heart. Our steaks and burgers are industry leading and the "Big Smoke Burger" is the first of its kind in the UK.

JOE'S KITCHEN
FEEL GOOD FOOD • DAY & NIGHT

**4**
Sites

Effortlessly relaxed, Joe's Kitchen dishes up modern British comfort food in delightfully laid-back surroundings.

Joe's Kitchen is fun, welcoming, casual, down-to-earth and wonderfully simple.

# Chairman's statement

## We now have a diversified set of brands and a much greater emphasis on growth, providing firm foundations for future earnings.

"The Board is confident that we have a strong strategic plan with the focus and rigour to deliver increased shareholder value."

2019 has been a year of significant progress for the business, with the acquisition of Wagamama transforming the shape of the Group. We now have a diversified set of brands and a much greater emphasis on growth, providing firm foundations for future earnings.

Total revenues in the year were up 56% to £1,073m, with LFL sales up 2.7%, representing an improvement on the decline in LFL sales experienced in 2018. The divisional split of our performance was as follows:

- Wagamama continued to deliver exceptional growth in its first year as part of "TRG", trading well ahead of its core UK market and ahead of management expectations at +8.5% LFL sales;
- Our Concessions business traded strongly at +4.1% LFL sales, despite the impact of the demise of Thomas Cook and subsequent decline in passenger numbers;
- Our Pubs business continued to see LFL sales trade consistently ahead of the pub restaurant sector at +4.0%; and
- Our Leisure business saw a decline of 2.8% in LFL sales, an improvement on the prior year performance reflecting the tough competitive nature of this segment of the market.

Adjusted[1] profit before tax was up 40% to £74.5m and Adjusted[1] EPS was down 19% to 11.9p per share. Statutory loss before tax was £37.3m (2018 Statutory profit: £13.9m) including exceptional charges of £111.8m (2018: £39.2m) which are explained further in the Financial review section. Statutory loss per share was 8.2p (2018 earnings per share: 2.4p).

The Board is excited by the multiple opportunities identified in our three growth businesses (Wagamama, Concessions and Pubs) but is also mindful of the importance of rationalising the Leisure estate alongside reducing our leverage. We have therefore concluded that the temporary suspension of the dividend is the most sensible way to ensure that we retain the flexibility to grow the business, whilst facilitating an acceleration of our Leisure estate rationalisation and strengthening our balance sheet. We are now targeting net debt to EBITDA to be below 1.6x by the end of 2021. The Board is therefore not recommending a final dividend payment and the total dividend for the year is, therefore 2.1 pence per share.

The Group now employs over 21,500 people and they are the lifeblood of our business. The Board would like to record our thanks and appreciation for their continued hard work and commitment.

The Board is confident that we have a strong strategic plan with the focus and rigour to deliver increased shareholder value notwithstanding the current challenging consumer environment.

**Debbie Hewitt MBE**
**Chairman**

25 February 2020

# Business review

## Our three growth businesses of Wagamama, Concessions and Pubs are all out-performing their respective markets and have clear potential for further growth.

"I am particularly pleased with the continued and significant progress made following the acquisition of Wagamama and the integration of the business into the Group."

**Andy Hornby**
**Chief Executive Officer**

### Introduction

We have three Group priorities:

- **Grow our Wagamama, Concessions and Pubs businesses:** These businesses, which contribute c. 75% of Group Outlet EBITDA, are well aligned to structural growth and we have a number of opportunities to invest, whilst delivering attractive returns
- **Rationalise our Leisure business:** Our Leisure business has been particularly impacted by the declining retail footfall, changing customer preferences and rising costs that affect the broader casual dining market. We are therefore focused on maximising the cash return of this division while we exit structurally unattractive sites and optimise our propositions
- **Accelerate our deleveraging profile:** We are targeting a reduction in leverage from 2.1x to below 1.6x by the end of 2021, whilst retaining the flexibility to invest in our growth businesses and rationalise our Leisure business

### 1. Grow our Wagamama, Concessions and Pubs businesses

#### Wagamama

Wagamama is a differentiated, high growth pan-Asian proposition that has consistently and significantly 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 healthier options.

The Wagamama business is underpinned by a unique cohesive culture. In the year the business launched a refreshed set of core values that supported team engagement and saw a further reduction in team turnover to an all-time record low for both front and back of house teams.

The strong performance of our Wagamama business is reinforced by a highly selective approach to opening new sites, based on a methodical, data-driven approach and a capital expenditure investment appraisal that carefully evaluates and scores its key selection criteria, including demographic and competitive dynamics.

New openings continue to generate strong returns – the 23 sites opened between 2016 and 2018 have generated on average a 44% return on invested capital (defined as 2019 rolling 12 months outlet EBITDA/initial invested capital).

These strong foundations uniquely position the business to continue its exceptional track record of out-performing the market.

# **Business review** continued

*2019 performance*

Wagamama delivered a strong performance with the core UK business benefiting from strong in-restaurant and delivery growth. UK like-for-like sales growth remained significantly ahead of the wider market, with like-for-like sales up 8.5% in the period. Adjusted EBITDA (on a rolling 12 months basis) in 2019 grew to £60.7m from £44.6m in 2018.

Delivery sales rose to c.12% of total sales in 2019 from c.10% in the previous year, as we benefited from the implementation of operational and technology improvements such as bespoke delivery stations, Deliveroo tablets and a switch to fully recyclable packaging.

During the year the Wagamama team continued to drive innovation at pace. 2019 saw further menu development leading to an increased participation of our vegan range, with the "Avant Gard'n" dish proving particularly successful.

In 2019 we completed five transformational restaurant refurbishments, adding 200 covers with an expected return on invested capital of c.50%.

We made excellent progress on the cost synergy programme achieving £8m in 2019 and expect to achieve £15m in 2020, effectively delivering the cost synergy plan in only two years. In line with the acquisition plan, we prioritised the renegotiation of supply contracts for food, drinks and consumables, and have implemented a number of other initiatives across the Group.

On the site conversion programme we remain firmly on track to deliver an incremental EBITDA benefit of £7m per annum in 2021 from the conversion of 15 sites. We completed eight conversions in 2019 and these sites are generating an average weekly sales uplift of 120%, with an expected return on invested capital of over 40%. We are planning to convert five to six more sites in 2020 and believe there is scope for further conversions in 2021.

*Growth opportunities*

We continue to see opportunities to increase like-for-like sales in our business for the year ahead:

- 2020 will see further menu innovation, both on core menu dishes (e.g. vegan 'Suika' tuna launched for Veganuary) and through collaborations
- We will also be trialling new "pay-on-phone" functionality as part of a technology upgrade to provide our customers with faster service and remove the need to wait for the bill before paying and leaving
- In 2020 we plan to further develop our delivery operation by installing more bespoke delivery stations in high volume sites to speed up packing and working with our delivery partners
- A further five transformational restaurant refurbishments are planned for 2020, adding an additional 300 covers to those restaurants

As set out below, we also continued to make good progress on the multiple growth opportunities that the Wagamama acquisition has unlocked outside of the core business:

**UK New sites:** We continue to adopt a highly selective approach to new site openings. In 2019 we opened 10 Wagamama sites including eight conversions from our Leisure branded sites and two new sites at "The Bower" in Old Street London and Heathrow Terminal 3. We will continue our selective approach to high quality openings and currently expect to open up to 10 sites in 2020 including five to six conversions from our Leisure branded sites.

**New formats:** Away from the core UK business, we have made good progress in addressing the other growth opportunities associated with Wagamama. We currently operate three delivery kitchens and expect to open more this year focused on areas not covered by existing restaurants (e.g. Peckham) and towns and cities with demand opportunities (e.g. Leeds). In November 2019 we launched our first food-to-go concept, "Mamago", on Fenchurch Street in London. We expect to spend the next six months optimising the proposition before evaluating further roll-out potential.

**US:** As we previously announced, we launched a strategic review last year of how best to develop the Wagamama US business, given the well-known challenges of developing it as a fully owned business from the UK. Over the course of the last six months we identified and met with a number of potential development partners and are delighted to have entered a joint venture partnership (the "JV") with Conversion Venture Capital ("CVC2") as financial partners and Robert Cornog Jnr and Richard Flaherty as operating partners. Rob and Richard are two experienced US restaurant leaders who share our vision for Wagamama and have the financial support from Conversion Venture Capital, an investment firm that focuses on partnering with entrepreneurs and management teams that value flexible capital. Rob and Richard have a wealth of experience in the Hospitality segment, including most recently as senior leaders of the award-winning restaurant concept, "Punch Bowl Social" ("PBS"). The JV will be a 20:80 partnership (with TRG as the minority investor) and the JV will assume full ownership of the existing operations of the US business. The JV will provide Wagamama's US operations with local operational expertise and expansionary capital with the aim to further expand the brand in the United States. The JV Board will decide the precise scale of the expansion plans but we would expect to be opening approximately 30-40 restaurants over the first five to six years of the JV. TRG retains the option to repurchase the remaining 80% of the business starting in 2026. The JV therefore provides TRG with a capital efficient means for expanding the business in the US, whilst at the same time minimising losses in the near-term. The JV commenced on 31 January 2020 and will license the Wagamama brand.

## Concessions

Our Concessions business operates a wide variety of food and beverage formats, across over 35 brands, primarily in 16 UK airports. Our strong multi-brand portfolio consists of bespoke concepts designed with airport partners (45% of sites), TRG's own brands (15% of sites), and well-known third-party brands, which operate under franchise arrangements (40% of sites). We have established long-standing relationships with our airport partners having operated in this market place for 28 years.

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, has resulted in a strong track record of like-for-like sales growth, winning new sites and renewing existing space.

### *2019 performance*

Our sales continue to trade ahead of passenger growth with like-for-like sales increasing by 4.1% in the year, and we continued our strong track record of retaining sites with 90% of sites having received contract renewals beyond the term of the initial contract following successful renewals on five sites during 2019. On average, our contracts have been extended for 100% of the original concession term.

We opened four new sites in 2019, including our Sonoma site at Gatwick Airport which is our largest Concessions restaurant at c.7,000 square feet, accommodating over 300 covers at a time, as well as the first Shake-Shack restaurant in a UK airport, also at Gatwick.

### *Growth opportunities*

We expect to open six sites in the first phase of the planned Manchester Airport terminal redevelopment which is due to open in the second half of 2020. We are pleased with the broad portfolio of brands we have secured, which include a "Wagamama" restaurant, the first Pub with a brewery "Bridgewater exchange", the first "San Carlo" restaurant and the first ETM affiliated pub "Apiary" in a UK airport.

The market remains attractive with air passenger growth still positive albeit slowing, and airports continuing to invest in terminals, capacity and their offering. We see opportunities to expand our estate and will compete through a disciplined capital approach for forthcoming terminal development opportunities in the UK, including Birmingham, London City, Stansted and Luton airports, which will arise over the next three to four years. We continue to explore opportunities to expand our presence in adjacent markets, and expect to open two sites (both of which are bespoke brands) in locations within Hilton hotels in 2020.

## Pubs

Our estate comprises of 72 Pubs within the "Brunning & Price" ("B&P") family, which are predominantly located in countryside and suburban locations, and 12 Pubs trading under the "Food & Fuel" banner, which are predominantly located in central London. Whilst having distinct difference; for example, the latter has a significantly higher dependence on drink rather than food sales, both are premium propositions focused on delivering for the local customer base.

Our Pubs business has been continuously outperforming the market as measured by the Coffer Peach Pub Restaurants tracker on a like-for-like sales basis for over five years.

A combination of factors contributes to this strong and consistently robust performance in B&P:

- Attractive location demographics (within a 10-15 minute drive time) with on average a total population of at least 50,000 with approximately 55% of residents forming part of the higher income classes A to C1 (according to Experian data). The pubs often benefit from limited quality competition nearby due to their semi-rural locations and the B&P operational support network of chefs and operation managers help them to consistently deliver a fresh food-led offering in a relaxed pub environment
- Our approach to running the Pubs business as a collection of individual local pubs, rather than a 'brand' or 'chain'. The aim is to delegate as much decision making as possible to the pub management in order to foster real ownership. Local chefs are able to create 30-50% of their own menu dishes and much of the drinks range is sourced by the manager and crew. This autonomy at site-level allows the pubs to evolve alongside their local community and respond quickly to customer-driven requirements; and
- Strong operational capability and consistent execution with our social media score reviews maintained at 4.4 out of 5 throughout the year

The business also benefits from strong asset backing with approximately 50% of our pubs being freehold. In November 2019, Savill's valued our freehold pub estate at £153 million.

*2019 performance*
The business continued to outperform the pub restaurant sector in 2019 with like-for-like sales increasing by 4.0%, with particularly strong trading over the Christmas period with like-for-like sales increasing by 8% (over the 3 week period ending 5 January).

*Growth opportunities*
We continue to see opportunities to increase like-for-like sales in our business for the year ahead:

- Rapid and flexible menu development and product range changes to respond to new demand and further opportunities such as vegan, vegetarian, set menu occasions, low/no alcohol
- Ongoing evolution of already successful events including beer and gin festivals
- Further utilisation of existing space and external areas with outside bars and BBQ's
- Optimisation of group-managed phone bookings and online bookings – constant review and refinement of the booking algorithms for peak times to ensure maximum availability for customers to book and a steady, manageable flow of orders to assist smooth service

In terms of estate expansion, we opened four sites in 2019, which are trading well and ahead of expectations. We will continue our selective approach to site expansion with three to five sites planned for 2020 and see significant opportunity to expand our geographical reach across the UK.

### 2. Rationalise our Leisure business
Backdrop
The market place remains challenging for our Leisure business with chronic overcapacity in the sector and significant cost pressures particularly due to labour costs. As previously highlighted, we had identified 118 sites that are in structurally unattractive locations and we anticipate that we will exit at least 50% of leases when we are able to exercise a break clause or lease expiry.

*2019 progress*
We continue to take a disciplined approach to our estate optimisation and closed 18 Leisure sites in 2019 (eight of which were conversions to Wagamama) taking the overall size of the estate to 350 sites as at 29 December 2019.

*2020–2021 estate rationalisation plan*
As part of our overall rationalisation plan for the Leisure business we are accelerating our reduction of the estate and are targeting to reach 260-275 sites by end of 2021. We will achieve this through a combination of exercising break clauses, lease expiries, selective conversions and are actively marketing other sites for disposal as follows:

- Conversions – 7-12 sites to be converted to Wagamama over the next two years
- Lease events – at least 31 sites will be exited at break or expiry, with this number potentially increasing if landlord negotiations to sensibly reduce rents and increase lease flexibility are not successful
- Freeholds – 12 freeholds will be sold where the EBITDA multiple delivers the required shareholder return
- Accelerated disposals – Sites are being marketed for sale and given the historic run rate of disposals over the last two years, we expect to dispose of 25-35 sites

Alongside our estate management activity we are focused on initiatives to improve the food offering and brand proposition as well as optimising the delivery opportunity for our Leisure business as set out below.

#### Targeted operational activities
*Grow our delivery business*
The delivery channel and online brands in particular, continue to be a core focus of growth for the Leisure business, with our delivery sales more than doubling in 2019 versus the previous year. We exited 2019 with delivery sales accounting for c.6% of total sales from our Leisure business, of which online only brands contributed c. 50% of total delivery sales.

Activity during the year included the launch a new online brand in the majority of Chiquito sites called 'Chicken Cartel', offering signature South American flavours across a variety of chicken and vegetarian formats (e.g. talera burgers, wraps, salad bowls and glazed chicken). We also continue to pursue opportunities with our existing brand, recently improving and extending the menu of 'Kick-Ass Burrito'. We are also trialling a Caribbean brand collaboration with Levi Roots in 12 sites on Uber eats.

We see further opportunities to extend the reach of delivery sales and have recently introduced a 'Vegan by Frankie's' online brand exclusive to Uber eats. We also trialled three new virtual brands in our Frankie and Benny's estate – pies, wraps and fish & chips – with a view to rolling out the most successful (Pies) across the estate in March 2020.

*Improve our food credentials*

As part of Frankie & Benny's October 2019 menu launch there was a particular focus on investing in food quality, targeting our grills category with an improved quality steak, as well as upgrading our pasta sauces (carbonara, meatballs). Customer and colleague feedback on the menu developments has been positive, and there are further plans to continue this momentum in 2020 with further quality investments and innovation in the pipeline. Additionally, to support the kitchen teams to consistently deliver the menu, we have reduced the number of items by 10%. The introduction of our vegan range at the start of 2019 helped meet our customers' needs and allowed us to attract new customers to the brand, with the most recent vegan campaign in January 2020 seeing the participation of vegan products climb to 10% of sales.

In Chiquito's, key food initiatives for the brand in the year included the launch of dedicated vegan and breakfast menus, which helped to extend the brand's reach to a broader range of customers and in our October menu launch we also enhanced our mainstream authentic Mexican offer and significantly reduced operational complexity.

*New management team*

We were delighted to announce the appointment of Mark Chambers as CEO of our Leisure Business, and Jacqui McManus as People Director for Leisure. Mark brings with him a wealth of experience in customer led multi-site retail businesses having most recently been Managing Director of the Retail business at GVC Group (owners of Ladbrokes Coral). Mark was responsible for a Retail estate of 3,500 shops (employing approximately 20,000 colleagues) and the Ladbrokes Coral Retail business has strongly out-performed the market under his leadership over the past few years.

Jacqui joined us in January from TGI Fridays where for the past ten years she has led the HR transformation agenda focused on people, culture and engagement with significant success (demonstrated through both significantly improved employee turnover and impressive business performance).

### 3. Accelerate our deleveraging profile

We are focused on reducing our leverage to a level that is sustainable and prudent through the cycle and over the course of 2019, we reduced leverage on an absolute basis and on a multiple basis, whilst growing the business. We have today announced the temporary suspension of the dividend to enable the Group to accelerate its deleveraging profile, whilst maintaining the ability to continue investing in our high growth segments (Wagamama, Concessions and Pubs) and provide the flexibility required to rationalise our Leisure estate. We are targeting leverage of below 1.6x by the end of 2021.

### Summary

In summary:

- Strong financial performance by Wagamama in 2019 emphasising significant potential for future growth
- Concessions and Pubs continue to outperform their respective benchmarks with multiple opportunities for growth ahead
- Focused restructuring plan for the Leisure business
- Temporary suspension of dividend to facilitate strategic priorities

**Andy Hornby**
**Chief Executive Officer**

25 February 2020

# Financial review

> Like-for-like sales and total sales increases reflect the benefit of the Wagamama acquisition, as well as a strong performance from our Concessions and Pubs businesses"

**Kirk Davis**
**Chief Financial Officer**

**Trading results**

Like-for-like sales increased by 2.7% for the year, with total revenue up 56.4% to £1,073.1m (2018: £686.0m). Like-for-like sales and total sales increases reflect the benefit of the Wagamama acquisition, as well as a strong performance from our Concessions and Pubs businesses. In the period, we saw a strong performance from Wagamama, which has continued to significantly outperform the UK market delivering +8.5% like-for-like sales growth. Our Concessions business saw like-for-like sales increase by 4.1% (despite being impacted by the Thomas Cook collapse), well ahead of passenger growth. Our Pubs business delivered like-for-like sales growth of +4.0%, maintaining its outperformance to the market. Like-for-like sales in our Leisure business declined by 2.8%, representing an improvement on the rate of decline versus previous years.

Adjusted[1] operating profit increased by 64.4% to £91.1m (2018: £55.4m) with the adjusted[1] operating margin rising to 8.5% from 8.1%, reflecting the combined business post acquisition and cost synergies delivered from a successful integration programme. On a statutory basis, the Group's operating loss was £20.7m (2018: operating profit: £16.6m), reflecting an exceptional pre-tax charge of £111.8m predominantly relating to impairment and onerous lease provisions in our Leisure business.

Adjusted[1] profit before tax for the period was £74.5m (2018: £53.2m). Adjusted[1] profit after tax was £58.3m (2018: £41.8m). The Adjusted[1] effective tax rate for the Group increased to 21.8% (2018: 21.4%). On a statutory basis, the increase in exceptional charges in the year led to an overall loss for the period, and resulted in an effective tax rate of 8.3% (2018: 50.6%). Adjusted[1] earnings per share were 11.9p (2018: 14.7p). On a statutory basis, loss before tax was £37.3m (2018 statutory profit: £13.9m). On a statutory basis, loss after tax was £40.4m (2018 statutory profit: £6.9m) and statutory loss per share was 8.2p (2018 earnings per share: 2.4p).

The adjusted measures (as shown on the face of the Income Statement) are summarised below:

| | 52 weeks ended 29 December 2019 £m | 52 weeks ended 30 December 2018 £m | % change |
|---|---|---|---|
| Revenue | 1,073.1 | 686.0 | +56.4% |
| **Adjusted[1] EBITDA** | 136.7 | 87.9 | +55.6% |
| **Adjusted[1] operating profit** | 91.1 | 55.4 | +64.4% |
| Adjusted[1] operating margin | 8.5% | 8.1% | |
| **Adjusted[1] profit before tax** | 74.5 | 53.2 | +40.2% |
| Adjusted[1] tax | (16.3) | (11.4) | |
| **Adjusted[1] profit after tax** | 58.3 | 41.8 | +40.5% |
| Adjusted[1] EPS (pence) | 11.9 | 14.7 | (19.2%) |

## Cash flow and net debt

Operating cash flows remain strong, with free cash flow of £81.2m in the year (2018: £59.6m). The increased free cash flow generated in the year reflects the cash generated from the Wagamama operations, partially offset by the increased cost of financing. The Group's net debt at the year-end was £286.6m (2018: £291.1m), a decrease of £4.5m on the prior year. The decrease in net debt was driven by the increase in free cash flow generated by the business. In the year, we also completed the sale and leaseback of our head-office building raising gross proceeds of £26.9m and incurred acquisition and integration expenditure relating to Wagamama of £28.5m.

Summary cash flow for the year is set out below:

| | 2019 £m | 2018 £m |
|---|---|---|
| Adjusted[1] operating profit | 91.1 | 55.4 |
| Working capital and non-cash adjustments | 3.8 | 0.4 |
| Depreciation and amortisation | 45.6 | 32.5 |
| Operating cash flow | 140.5 | 88.3 |
| Net interest paid | (14.5) | (1.0) |
| Tax paid | (10.3) | (7.4) |
| Refurbishment and maintenance expenditure | (34.5) | (20.3) |
| Free cash flow | 81.2 | 59.6 |
| Development expenditure | (38.8) | (33.0) |
| Movement in capital creditors | (5.0) | 5.8 |
| Dividends | (17.5) | (34.9) |
| Utilisation of onerous lease provisions | (12.6) | (11.2) |
| 2018 acquisitions* net of cash acquired | – | (324.9) |
| Debt acquired on acquisition of Wagamama | – | (225.0) |
| Integration costs | (11.2) | – |
| Acquisition and refinancing costs | (17.3) | (10.1) |
| Proceeds from issue of share capital | – | 305.8 |
| Proceeds from disposals | 27.3 | – |
| Other items | – | (0.1) |
| Cash movement | 6.1 | (268.0) |
| Group net debt brought forward | (291.1) | (23.1) |
| Non-cash movement in net debt | (1.6) | – |
| Group net debt carried forward | (286.6) | (291.1) |

*Relates to Wagamama, Food & Fuel and Ribble Valley Inns acquisitions

In December 2018 the Group refinanced its borrowings and currently has £220m of revolving credit facilities that expire in December 2021 and a £10m overdraft facility repayable on demand. In addition the £225m Wagamama Bond matures in July 2022. At the year-end we had over £160m of cash headroom and significant headroom against our banking covenants.

## Capital expenditure

During the year the Group invested £73.3m (2018: £68.5m excluding the acquisition of Wagamama). Our investment in refurbishment and maintenance capital expenditure increased to £34.5m (2018: £20.3m) reflecting an additional £16.0m in relation to Wagamama, which included five transformational refurbishment projects that created 200 additional covers in those restaurants. Our investment in new site expenditure of £38.8m (2018: £33.0) included £17.5m in relation to our Wagamama business. This investment included eight conversions of our leisure sites to Wagamama, three new Wagamama restaurants (including one in the US), two new delivery kitchens and one "Mamago" site. We also opened four new Concessions sites and four new Pubs in the year.

During the year we closed 16 sites, comprising 10 sites from Leisure, four sites from Concessions, one Pub and one Wagamama restaurant in the US. The table below summarises openings and closures during the year.

| | Year-end 2018 | Opened | Closed | Conversions | Year-end 2019 |
|---|---|---|---|---|---|
| Frankie & Benny's | 248 | – | (9) | (3) | **236** |
| Chiquito | 83 | – | – | (4) | **79** |
| Other Leisure Brands | 37 | – | (1) | (1) | **35** |
| Pub restaurants | 81 | 4 | (1) | – | **84** |
| Concessions | 71 | 4 | (4) | – | **71** |
| Wagamama* | 140 | 6 | (1) | 8 | **153** |
| Total | 660 | 14 | (16) | – | **658** |

*Note: Wagamama sites include five Wagamama restaurants in the US, three delivery kitchens and one "Mamago" site in the UK

## Restructuring and exceptional charge

An exceptional pre-tax charge of £111.8m has been recorded in the year (2018: £39.2m), which includes the following:

- A net impairment charge of £108.4m (2018: £14.0m) has been recognised in the period. Of this £102.1m was booked in the first half of the year and comprised two main elements:
  - (i) In the Leisure business we have recognised an impairment charge across sites that were identified as structurally unattractive; and
  - (ii) In addition, given the well documented over capacity and continued like-for-like sales decline in the casual dining market, and ongoing cost headwinds we have taken a more cautious medium term outlook when assessing the Leisure business for impairment
- Onerous lease provisions resulted in a charge of £7.5m in the year (2018: £10.0m). The overall full-year charge comprises the following elements:
  - A £1.0m credit in respect of unutilised provisions following the successful exit of eight sites ahead of expectations;
  - A further charge totalling £8.5m was provided for in the year. This comprised a charge of £7.9m in respect of newly identified onerous leases and an additional charge of £0.6m in respect of sites previously provided for.
- Acquisition and integration costs of £11.2m (2018: £14.8m) relating to costs incurred in the integration of Wagamama and the project costs to achieve the synergy cost saving and site conversion programme;
- An impairment of assets held for sale for £2.0m (2018: £nil) was incurred relating to Wagamama US sites which were under strategic review and
- An exceptional profit of £17.2m has been recognised on the sale and leaseback of our freehold Head Office building.

The tax credit relating to these exceptional charges was £13.1m (2018: £4.3m).

Cash expenditure associated with the above exceptional charges was £13.8m in the year (2018: £21.3m) relating to the cash cost of the onerous leases of £12.6m (2018: £11.2m), and the cash cost of the acquisitions and refinancing of £28.5m (2018: £10.1m). This was offset by the £27.3m received in the year for the sale of our head office and one leisure freehold site.

## Tax

The Adjusted[1] tax charge for the year was £16.3m (2018: £11.4m), summarised as follows:

| | 2019 £m | 2018 £m |
|---|---|---|
| Corporation tax | 15.5 | 10.4 |
| Deferred tax | 0.8 | 1.0 |
| **Total** | **16.3** | 11.4 |
| Effective adjusted[1] tax rate | 21.8% | 21.4% |

The effective adjusted[1] tax rate for the year was 21.8% compared to 21.4% 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 8.3%, a decrease from the 2018 rate of 50.6%. This was due to an increase in exceptional charges in the year and an overall loss for the period.

## FY20 Guidance

- 2020 development capital expenditure – £40m to £45m:
  - Three to four new Pubs;
  - Eight new Concessions sites, including six sites in phase one of Manchester Airport terminal redevelopment;
  - Three to four new Wagamama sites in the UK and
  - Five to six Leisure site conversions to Wagamama.
- 2020 refurbishment and maintenance capital expenditure – £30m to £35m, including five further transformational refurbishments of Wagamama sites
- Net cost inflation expected to be £15m, which is £2m–£3m higher than previous expectations due predominately to the recently announced 6.2% increase in National Minimum Wage and National Living Wage.

## Viability Statement for Draft Accounts

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 2022.

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 projections covers the three-year period to the end of the 2022 financial year. Key assumptions underpinning the three-year plan and the associated cash flow forecasts are the economic outlook, revenue growth expectations, impact of expected inflationary cost pressures, new site development opportunities and the rationalisation of our Leisure estate. The three-year plan considers cash flow forecasts, cash headroom 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 which mature in July 2022. The Group also utilises a repayable on demand overdraft facility which it uses to manage its day-to-day working capital requirements. The period of review exceeds the term of both the revolving credit facility and the loan notes and so there is an inherent risk in the refinancing of the business. This has been discussed by the Board and based on external advice from the Company's bankers and advisors, it is expected that the debt will be refinanced before expiry. Should this not be possible, the Group also has contingency plans. On this basis, the Group is deemed to be viable.

As detailed on page 59 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**

25 February 2020

# 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 2019 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 18)
- information on our employees (page 15)
- information on social, community and human rights matters (page 15)
- information on anti-corruption and anti-bribery (page 16)
- information on diversity (page 15 and in the Corporate Governance Report on page 24).

## 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, we are members of The Sustainable Restaurant Association. In 2019 we obtained a 2-Star rating for our Concessions and Leisure businesses with our Pubs division achieving the highest 3-Star accolade.

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. The nutritional balance of menus is incorporated into the design process and we have successfully increased the number of lower calorie, salt and sugar options available year on year.

Our brand standards are being developed to ensure all additives used are in line with industry best practice.

## 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 Wagamama business offers a non-gluten menu.

Our allergen information is available in store and online on our brand websites, allowing guests to view dishes suitable for them based on their particular allergies and intolerances. We only categorise the 14 allergens as detailed in legislation.

Initiatives to reduce the allergen risk profile in our food dishes have started in 2019, and changes such as amending the formulation of vegetable stock used in our sauces have meant a number of our sauces are now allergen free.

In Wagamama, nuts have been fully removed from all ingredients and work is underway to mirror this exercise in our other brands.

## Serving alcohol responsibly

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

We continue to support *Drinkaware* whose campaign promotes responsible drinking. We offer a wide range of alcohol-free beers, low alcohol wine, mocktails, soft drinks, juices and milkshakes.

## 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 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 29 December 2019, over 99% of our restaurants scored 4 stars or above (including pass ratings in Scotland) under the Food Hygiene Rating Scheme, a sign of excellence in both food safety and hygiene, with 89% at 5 stars (or a pass rating in Scotland). We continue to invest 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

Our teams have a passion for food and delivering a great customer experience across all of our brands. We believe in teamwork and working hard for our guests and each other. We truly embrace diversity and employ colleagues from more than 100 nationalities. At the end of December 2019, we employed more than 21,500 people.

During 2019, we converted 8 of our Leisure restaurants to Wagamama and retained 100% of our colleagues by giving them the choice to retrain and work for Wagamama or transfer to an alternative TRG restaurant close by. In addition, we have worked hard to improve our colleague turnover for both front of house and back of house roles. Wagamama has achieved an industry leading annual turnover percentage of 57%. We have more work to do in our other TRG brands and our focus has been to concentrate on the first 90 days of employment to ensure we attract the right talent and effectively onboard and induct them into TRG.

## 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 24.

We are committed to paying our employees fairly and equitably for the role that they are doing. In 2019, we carried out our very first Equal Pay Audit. The audit shows that we have a high level of consistency in pay with men and women being paid fairly and equitably when performing the same role. Our audit also showed that men tend to dominate the higher paid roles and this is what drives our Gender Pay Gap.

We are proud that our Chairman, Debbie Hewitt joined the Advisory Board of Women in Hospitality, Travel and Leisure 2020 (WiH2020) in 2019. WiH2020 is devoted to increasing women's and ethnic minorities' representation and diversity as a whole in leadership positions across Hospitality, Travel and Leisure (HTL). WiH2020 believe that through collaboration we can amplify the impact of individual diversity initiatives and together we can have a stronger voice for the good of the HTL industry. We have also signed up to The Diversity in HTL Charter committing to WiH2020's 10-point action plan to promote diversity and inclusion within our organisation and within the HTL sector.

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 in order to ensure a safe and respectful working environment.

# Corporate social responsibility continued

Regarding anti-corruption and bribery, it is our policy to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships. All employees must declare all hospitality or gifts given or received over a certain minimum value, and all expenses claims relating to hospitality, gifts, or payments to third parties must be submitted in accordance with our expenses policy and the reason for expenditure recorded. 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 2019.

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

### Our year

We changed the way we measure employee engagement this year. We believe there is a strong correlation between Customer Net Promotor Score and Employee Net Promoter Score. As a result our new employee engagement tool enabled us to focus our efforts on the areas which have the biggest impact on engagement and in turn our guest experience. The survey was conducted in June 2019 and sent to more than 18,000 colleagues with 67% responding. The most positive responses were regarding the teams in which we work and the support provided by managers.

Employee engagement is not just about surveys. We are passionate about our teams coming together for cook offs, menu launches, huddles, town halls and team briefings all of which keep the teams connected and drives a focus on our food and guest experience.

In 2019 we continued to focus on providing communications that were accessible, relevant and interesting to all of our employee population. In late 2018, we introduced a new communications and engagement tool called Yapster, which is a social media style application which our teams can download to their phones and other devices. A significant proportion of our employees do not speak English as their first language so the platform has a translation function to help all employees engage with the business. As well as receiving regular business updates, teams can chat in their restaurants or regional groups, and collaborate directly with everyone in the organisation, including our central support team. In 2020 we are integrating Yapster into a new Employee Self Service App which will allow our employees to easily view and manage their employment information, such as payslips and holiday bookings.

We launched another Save As You Earn share option scheme in 2019, which all employees with more than one month's employment were invited to join. They can purchase TRG shares at a discounted price after saving each month for three years.

### Our talent search

The external recruitment market continues to be highly competitive within the hospitality sector, so we have continued to raise our employer brand across TRG by utilising platforms like LinkedIn and other recruitment sites more effectively. Our LinkedIn following has grown to 21,000 compared to 13,000 followers in 2018. We have also worked hard to launch our new Careers Site and Instagram pages which continue to help us attract the best talent.

Candidate experience has been a key focus for the Talent Acquisition team. We have implemented new recruitment tools and training to support our hiring manager's capability across our brands.

### Our nurturing and encouragement

On-the-job learning continues to be an essential part of developing our people. This is complemented by eLearning, face-to-face delivery and other tools developed that is delivered by our dedicated brand and Group learning and development teams.

We continue to improve and invest in our induction process and ensure that either new managers joining the Group or recently promoted managers undergo a comprehensive and structured training programme in our dedicated 'centres of excellence'. Development of our internal talent continues to be high on our agenda through multiple development programmes, development away days, apprenticeships and professional coaching. Everyone across the Group completes role specific eLearning modules and face-to-face courses to meet with legislative requirements. This includes hands on fire training, first aid, food safety, health & safety, GDPR and licensing training. We also continue to work with suppliers to help deliver product knowledge and menu training through tasting events, supplier visits and competitions.

*Talent Development*

We have extended our Career Pathways by launching our internal 'Home Grown' brand; aligning apprenticeship programmes with our own internal programmes to provide a more flexible and individual approach to career progression. We currently offer multiple levels of apprenticeship programmes across the Group to support progression from team member through to Area Manager.

Our 18-month 'Raising the Bar' programme launched in September this year to assist in developing the leadership skills for our high potential General Managers and Area Managers.

*Digital learning*

We continue to broaden our digital learning offer with the addition of an extra 65 eLearning modules that are brand specific. In total, 120,000 eLearning modules have been completed supporting our employees' development in improving their menu knowledge, customer service, legislative requirements and developing management skills.

With various learning management systems across our brands, we have begun work on developing a single, combined solution across the group, which will provide an enhanced learning experience. In addition, Wagamama are also piloting a digital toolkit with over 2,000 learning resources to support leadership development, which we plan to introduce across the group during 2020.

*Apprenticeships*

We currently partner with 9 apprenticeship providers across the Group to offer a range of entry level and professional apprenticeship qualifications. Programme subjects include hospitality, professional cookery, supervisory and management, leadership, business administration and human resources. This year 206 employees have signed up to programmes across our restaurants and head office.

*Food allergies and intolerances*

In October 2019, we launched our Just Ask campaign across the Group, which educated and informed our teams about the devastating effects of miss-serving meals to our guests who suffer from allergies. We partnered with a creative agency to produce a range of films to support the campaign and our L&D team delivered a dedicated training session to refresh allergen processes to over 20,000 employees in 6 weeks. 84% of our teams agreed that their confidence in dealing with allergen orders had increased because of the campaign.

## Reporting of Injuries at work

In 2019, the Group reported 141 accidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013, with no deaths or dangerous occurrences. This compares to 167 incidents for the Group in 2018.

## Our communities

It is incredibly important to us to engage with our local communities 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 2019 we formed a new charity partnership with **Magic Breakfast**. We are incredibly proud to support their campaign to end hunger as a barrier to education in UK schools through the provision of healthy breakfasts to vulnerable children. They work with 480 Primary, Secondary and ASL/Special Educational Needs schools, plus Pupil Referral Units, to make sure that more than 48,000 children start their school day in the best possible way. This partnership links our Leisure brands and the team in our central support office together to raise money for a really wonderful charity. Our teams are raising money through events such as bake-offs, raffles, mountain climbing and we look forward to supporting Magic Breakfast during 2020.

Our Concessions Division works extremely hard for a range of charities, including **Manchester Enterprise Academy** and **The Prince's Trust**.

Since 2009, the Concessions team have also fundraised for **The Guide Dogs for the Blind Association** and sponsored 17 Guide Dogs through various fundraising activities and sponsored events. In 2016, they raised £5,000 for the Name a Puppy scheme, naming their first puppy 'Simba'. During 2017 they raised enough to name another puppy, Carter and in 2019 have raised over £12,000 to name their 3rd puppy – name to follow!

# **Corporate social responsibility** continued

Our Pubs Division is situated in locations that are in the very heart of their local communities. Rather than support a centrally selected charity, each pub within Brunning & Price selects its own charity or local cause to work with, alongside the community that they are at the heart of.

For example, The Red Fox on the Wirral has a long standing relationship with **Claire House Children's Hospice** and the Physician in Harbourne with **Birmingham Children's Hospital**, just up the road.

Wagamama have been proud partners of the mental health charity, **Mind** for the past two years raising over £60k for their info-line service, helping more people get access to the support they need. Moving into 2020 Wagamama have begun a new partnership with **Mental Health Mates**, specifically funding their peer support walk network. This new collaborative partnership has a joint ambition to get more people walking and talking, helping to improve physical and mental wellbeing of both Wagamama team and guests.

In addition to this Wagamama proudly champions diversity and inclusivity supporting a number of local LGBTQ+ charities. Each year Wagamama donates £15k to various charities across major cities including **Gendered Intelligence**, **Sifa Fireside**, **George House Trust**, **LGBT Scotland**, **London Friend** and **Rainbow Fund**. This year Wagamama also launched the 'all in' initiative, committing to introducing gender-neutral bathrooms in at least 40% of restaurants.

### 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, 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 2019 the Group has continued to invest in energy-saving technologies by installing further controls for extraction, cooling and refrigeration. Brunning & Price have invested further in LED concentrating on the Back of House areas and Wagamama have also completed their 2nd phase of LED lighting installs.

The Group still maintains its Carbon Saver Gold Standard accreditation, an independent assessment of our commitment to reducing carbon emissions. The Group also continued to be accredited by the Sustainable Restaurant Association (SRA), scoring highly in the Environment section. In 2019 we also won the SRA's 'Food Made Good Award' for valuing natural resources which recognises our control of kWh usage. Furthermore, we were shortlisted for 3 other Energy Awards which recognises our work in data analysis, behavioural change and partnership with suppliers.

In 2019, across our Concessions, Pubs and Leisure businesses we showed a 10th consecutive year of LFL electricity consumption reduction equivalent to over 1,100 tonnes of carbon or a saving of 3.87% on LFL sites. In addition, we continued to reduce our gas volumes by over 500 further tonnes of carbon, equating to a saving of 3.94% on LFL sites.

In addition, Wagamama also embarked on a behavioural change programme to make use of best practice from across the Group. The 'Midori' Energy Programme involves engagement with operational teams to minimise energy waste in restaurants including when to turn equipment on, how to control heating and best practice maintenance procedures. Restaurants receive ongoing reports to track progress and provide targets. In 2019 this has delivered savings of over 1m kWh in electricity and over 2m kWh in gas, equivalent to 673 tonnes of carbon.

## 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 2019 reporting period was as follows:

| | $CO_2e$ tonnes (location-based method) | |
|---|---|---|
| Emission Type | **2019** | 2018 |
| Scope 1: | | |
| Operation of Facilities | **784** | 568 |
| Combustion | **23,990** | 18,180 |
| Total Scope 1 Emissions | **24,774** | 18,748 |
| Scope 2: | | |
| Purchased Energy (UK) | **35,412** | 34,127 |
| Total Scope 2 Emissions | **35,412** | 34,127 |
| Total Emissions | **60,186** | 52,875 |

## Greenhouse gas emissions intensity ratio

| | **2019** | 2018 | Year-on-Year Variance |
|---|---|---|---|
| **Total Footprint (Scope 1 and Scope 2) – $CO_2e$** | **60,185** | 52,875 | 7.310 |
| Turnover (£) | **1,073.1m** | 686.0m | n/a |
| Intensity Ratio – Scope 2 location based method ($tCO_2e$/£100,000) | **0.056** | 0.077 | –27.3% |

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 2019.
- 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 on LFL legacy estate.
  - inclusion of Wagamama footprint
  - further higher use of Propane in pub sites in line with higher sales and larger estate.
  - carbon factors (as referenced above) have once again decreased significantly year on year for electricity as efficiencies are made and more renewable fuels are used in the generation mix. However, the carbon factor for natural gas has increased marginally.

## 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.

The Group continues to take advantage of the de-regulation of the water market and is planning a 2020 tender to take advantage of larger volumes with the introduction of Wagamama usage.

## Waste

In 2019 the Group diverted 99.6% of the legacy estate waste from landfill and recycled over 7,000 tonnes of waste or 47.4%. The Group acknowledges a requirement to fulfil the Government Resource & Waste Strategy and is building a plan to comply with these requirements. At the start of 2020 we will be trialling a solution to further reduce food waste.

Pages 4 to 19 form the Strategic report.

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

**Kirk Davis**
**Chief Financial Officer**

25 February 2020

# Corporate Governance report

## Chairman's introduction

The purpose of this report is to explain how the Board directs the Company, in particular, how the Directors set the strategy, identify and mitigate the risks and how we monitor performance. This report also summarises how specific 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 2016 and the UK Financial Conduct Authority (FCA) Listing Rules. The 2018 UK Corporate Governance Code will apply to the Company from the 2020 financial year.

The Board is responsible for setting our strategy, providing independent oversight of the Company's performance and approving the funding and major capital allocations of the Group, to achieve the growth of shareholder value, taking account of the interests of all stakeholders.

The non-executive Directors discuss, shape and agree the strategy and the relevant priorities with the executive Directors and then hold the Executives accountable for its execution. The Board delegates day-to-day responsibility for running the Group to the Chief Executive Officer and passes specific responsibilities of oversight to various Board committees. The overall aim is for the Board to provide constructive challenge and support to the executive Directors, ensuring that it does so by promoting high standards of corporate governance.

As Chairman, my role is to promote a culture of openness and accountability, ensuring the Board receives accurate, timely and clear information, that it is consulted with on all relevant matters, and that we promote 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 and effective interactions to carry out its role effectively. 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, clearly communicating acceptable behaviours from ourselves, our people, our suppliers and our partners. We regularly review our performance against best practice Corporate Governance standards.

**Debbie Hewitt MBE**
**Chairman**

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## The Board

Details of the Chairman, Senior Independent 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 the Directors. There have been a number of Board changes throughout the year, which are detailed below.

Andy McCue, the Company's previous Chief Executive Officer, resigned in February 2019 and stepped down from the Board on 30 June 2019. Following an extensive search, the Company appointed Andy Hornby as the new Chief Executive Officer with effect from 1 August 2019. In the intervening period from the end of June to the beginning of August 2019, the business was led by Debbie Hewitt, Chairman, supported by Kirk Davis, Chief Financial Officer, and the wider executive team.

Recently, the Board has been further strengthened by the appointment of two new non-executive Directors – Alison Digges and Zoe Morgan – from 1 January 2020. Alison also became a member of the Audit and Nomination Committees and Zoe became a member of the Remuneration and Nomination Committees.

As previously notified, after nine years as a non-executive Director of the Company, Simon Cloke retired as the Senior Independent Director at the 2019 AGM and was succeeded by Allan Leighton. The Board concluded that in all respects other than tenure, Simon remained independent in his approach and contribution to the Board. Having agreed to remain on the Board as a non-executive Director following the 2019 AGM to ensure continuity during the transition to the new Chief Executive Officer and the subsequent appointment of additional non-executive Directors, Simon retired from the Board on 26 February 2020.

### 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 2019, 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 the three required by the Code. Zoe Morgan was appointed as a member of the Committee with effect from 1 January 2020 thus ensuring full compliance with the Code requirement.

Further explanations of how the main principles of the Code have been applied are set out below and also in the Audit Committee report and Directors' remuneration report.

## Leadership

### Role of the Board

The Board's role is to review, challenge and approve the strategic direction of the Group as well as the business operating model that delivers on the strategic priorities. It looks to ensure that the necessary financial and human resources are in place to achieve these priorities, to sustain them over the long-term and to review management performance in their delivery.

Its role is also to provide strong values-based leadership of the Company. The Board sets the tone of the Company's ethical standards and manages the business in a manner to meet its obligations to all stakeholders.

2019 has been a year of significant progress for the business, with the acquisition of Wagamama transforming the shape of the Group. We now have a diversified set of brands and a much greater emphasis on growth, providing firm foundations for future earnings. During the year, the business made good progress on implementing our strategic priorities of delivering the benefits of the Wagamama acquisition, growing our Concessions and Pubs businesses and optimising our Leisure business.

The Directors who held office during 2019 were as follows:

| Director | Role | Details |
|---|---|---|
| Debbie Hewitt | Chairman | Appointed Chairman May 2016, non-executive Director from May 2015. |
| Andy McCue | Chief Executive Officer (to June 2019) | Appointed September 2016. Resigned June 2019. |
| Andy Hornby | Chief Executive Officer (from August 2019) | Appointed August 2019. |
| Kirk Davis | Chief Financial Officer | Appointed February 2018. |
| Graham Clemett | Non-executive Director and Chairman of Audit Committee | Appointed June 2016. |
| Simon Cloke | Non-executive Director and Senior Independent Director (to May 2019) | Appointed March 2010, previously Chairman of Audit Committee. (Retired February 2020.) |
| Allan Leighton | Non-executive Director and Senior Independent Director (from May 2019) | Appointed December 2018. |
| Mike Tye | Non-executive Director and Chairman of Remuneration Committee | Appointed April 2016. |

The Board considers each of the current non-executive Directors to be independent, including the Chairman of the Board on appointment, 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 Hornby, 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.

Debbie Hewitt, Chairman, leads the Board to challenge and support the Executives in shaping, agreeing and executing the strategy.

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 Chairman, Chief Executive Officer and Chief Financial Officer meet regularly with shareholders. The Senior Independent Director is available to liaise with any shareholders who have concerns that they feel have not been addressed through the usual 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 2019 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 | 10/10 | n/a | 7/7 | 9/9 |
| Andy McCue[1] | n/a | 7/7 | n/a | n/a | n/a |
| Andy Hornby[2] | n/a | 3/3 | n/a | n/a | n/a |
| Kirk Davis | n/a | 10/10 | n/a | n/a | n/a |
| Graham Clemett | Audit/Nom/Rem | 10/10 | 3/3 | 7/7 | 9/9 |
| Simon Cloke | Audit/Nom | 9/10 | 2/3 | 6/7 | n/a |
| Allan Leighton | Audit/Nom | 9/10 | 3/3 | 7/7 | n/a |
| Mike Tye | Audit/Nom/Rem | 9/10 | 3/3 | 6/7 | 9/9 |

1 Andy McCue resigned as CEO on 30 June 2019. He attended all Board Meetings held prior to that date.
2 Andy Hornby was appointed as CEO on 1 August 2019. He attended all Board meetings held after that date.

Comprehensive electronic 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, the targets set and the 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. The following potential conflicts were highlighted during the year:

Debbie Hewitt is also Independent non-executive Chairman of BGL (Holdings) Limited, the owner of Compare the Market Limited, which promotes Meerkat Meals, a campaign that the Group's Leisure brands participate in. She took no part in any Board discussions concerning Meerkat Meals throughout the year.

### 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 individuals acting in their capacity as a Director or Officer of the Company (including those who served as Directors or Officers during 2019).

## Effectiveness
### Board composition and diversity
As required by the Code, at least 50% of the Board, excluding the Chairman, are independent non-executive Directors. Following the appointment of Alison Digges and Zoe Morgan as non-executive Directors from 1 January 2020, and the retirement of Simon Cloke, who stepped down from the Board on 26 February 2020, the Board comprises the non-executive Chairman, two executive Directors and five independent non-executive Directors. The Board considers that all of the non-executive Directors, including the Chairman on appointment, are independent.

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. Notwithstanding this policy, the Board is mindful of the aims of the Hampton-Alexander Review, an independent review body which aims to improve women's representation at board level and in leadership roles. This principle of Board diversity is strongly supported by the Board, recognising that diversity of thought, approach and experience is an important consideration as part of the selection criteria used to assess candidates to achieve a balanced Board.

The Company is a member of the Women in Hospitality, Travel and Leisure 2020 initiative and our Chairman, Debbie Hewitt is a member of its advisory Board. Over 50 of the largest employers in the sector have come together to share best practices, learn from each other and join resources to work on tangible actions aimed at making long-lasting impact in terms of diversity and inclusion.

Further details on the Board's and the Group's policy on diversity are contained in the Nomination Committee report on pages 37 to 40 and the Corporate social responsibility report on page 14.

The table below sets out the position of the Group on a gender basis as at 29 December 2019:

| | Male | Female |
|---|---|---|
| Main Board | 6 (86%) | 1 (14%) |
| Executive Committee[1] | 5 (56%) | 4 (44%) |
| Direct Reports to Executive Committee | 29 (58%) | 21 (42%) |
| TRG Employees at December 2019 | 11,215 (51%) | 10,744 (49%) |

1 Excluding the executive Directors.

Following the appointment of Alison Digges and Zoe Morgan as non-executive Directors with effect from 1 January 2020, and the retirement of Simon Cloke from the Board on 26 February 2020, the Board comprises 5 males (62.5%) and 3 females (37.5%).

The Board is also mindful of the aims of the Parker Review, an independent review body dedicated to improving the ethnic and cultural diversity of UK boards to better reflect their employee base and the communities they serve. The business currently has no director from an ethnic minority background either on the Board or the Executive Committee. The Board will develop a pipeline of candidates and mentoring schemes, working towards the goal of making an appointment by 2024.

The Board considers that each Director is able to allocate sufficient time to the Company to discharge their responsibilities effectively.

## Employee engagement

Our aim is to create great places to work that attract and retain the best industry talent and we believe that wider employee engagement is an essential part of this. The Board has proactively discussed and agreed its approach to wider employee engagement. It proactively considered:

- whether to approach employee engagement as a Group activity or by individual brands and Head Office as separate exercises;
- how individual brands share best practice; and
- how the Board best engages, for example, through a specific non-executive Director or a particular Committee or through the Board as a whole.

Our decision was to create a formal Workforce Advisory Panel across all brands and Head Office, and to work with a designated non-executive Director – Allan Leighton, the Senior Independent Director – providing colleagues across all brands the opportunity to engage directly with a representative from the Board on all matters relating to employee engagement. We believe this approach allows that all of the matters discussed are actionable and progress can be both monitored and measured to ensure improvement.

Allan Leighton is Chair of the Workforce Advisory Panel and other members include the Chief Executive Officer, Company Secretary and other senior managers representing all of our brands and Head Office.

The Advisory Panel will meet twice a year and follow the engagement survey cycle, so the results and action plans can be discussed during the meetings and ensure that any support required from the Board can be requested and discussed at this time, and subsequently mobilised.

We have identified three key focus areas:

- define and execute a compelling employee value proposition that promotes us as an employer of choice;
- effectively collect, measure and act on employee feedback; and
- deliver a communications strategy that informs, inspires and interacts with our diverse and nationally dispersed workforce.

We have made good progress in evolving our employee value proposition. Values and behaviours have been developed for each of our brands, aligning our teams to focus on delivering high quality food and great service to our guests, underpinned by strong teamwork. Wagamama redefined their values and launched their new approach during their “Proud to be Different” conference in April 2019, with significant focus and emphasis on mental health and wellbeing. Brunning & Price continues to have a strong employee proposition and have made progress integrating and aligning the Food & Fuel teams and culture. The Leisure brands have similarly developed brand-specific values.

We believe that there is a strong correlation between Customer Net Promotor Score and Employee Net Promoter Score. As a result our new employee engagement tool enabled us to focus our efforts on the areas which have the biggest impact on engagement and, in turn, our guest experience. The survey was conducted in June 2019 and sent to more than 18,000 colleagues with 67% responding.

We have developed individual brand action plans that are tracked to enable the relevant management to understand where progress is being made and sustained and where further action is required.

Communication was an area of perceived weakness and we have taken action to improve our communication strategy throughout 2019. We have invested in progressive ways to engage with our teams through internal social media platforms, developing tools such as “Woks App” and “The Sauce” specifically aimed at driving more effective and efficient employee self-service communications tools, which ensure our teams are informed of relevant news for their brand and across the Group.

We continue to hold cook offs, town halls, huddles, conferences and quiz nights to ensure our teams have opportunities to input to the priorities of the business. We have also recently redeveloped our Head Office to create open-plan collaboration spaces, communal break-out areas and a specific area for ‘town hall’ meetings. We have also invested in a ‘test’ kitchen for cook offs, to ensure our Head Office team continues to be focused and aligned to our passion for quality food and a great guest experience.

Thinking ahead to 2020, the organisation will be restructured to focus in a more explicit way around individual brands, with Group activities being devolved as much as possible to those closest to the customer. As such, there will be a much smaller Head Office, focused on a few Group activities, such as purchasing and IT. The key areas of focus for employee engagement in 2020 will be to:

1. implement the actions identified to improve the Employee Net Promoter score;
2. reduce the first 90 days employee turnover and absence rates across all brands and
3. deliver a communications strategy that informs, inspires and interacts with our diverse and multi-site teams.

We will support these objectives with the establishment of cross-company focus groups, with representatives from all of our brands from both front- and back-of-house teams, who will share their own experiences regarding their working life at TRG. These focus groups will be facilitated by Allan Leighton, Senior Independent Director and the outputs will be fed into the Advisory Panel. We believe that engaging directly with our teams will enable us to focus on the real issues and drive sustainable improvement.

### Environment and Sustainability

The Board acknowledges its responsibility to minimise the Company's impact on the environment and supports and promotes efforts to reduce the Company's energy consumption and carbon emissions, water usage and waste. Details of our environmental policies and practices, and our commitment to sustainable and ethical sourcing are contained in the Corporate social responsibility report on page 14.

We recognise that we are on a journey to understanding and managing the full impact of climate change on our business model and strategy. Our Chairman and other non-executive Directors are members of Chapter Zero, a forum which helps non-executive Directors to enhance their knowledge, understanding and experience of climate change. We will start an assessment to comprehend and manage the impact and plan to work towards full disclosure in line with the globally recognised reporting framework of the Taskforce for Climate-related Financial Disclosures (TCFD) by 2022. This framework provides guidance for disclosures on four key components of governance, strategy, risk management and metrics and targets.

We plan to identify:

- the potential and actual impacts of climate related risks;
- how we will assess and manage them;
- the governance in place to provide oversight and
- the change related metrics and targets.

### Annual re-election

In accordance with the Code, Andy Hornby, Alison Digges and Zoe Morgan are subject to election by shareholders at the Annual General Meeting (AGM) in May 2020. All other Directors are subject to re-election annually. As such, no non-executive Directors seeking re-election have an unexpired term in their letter of appointment. 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 55.

### Director induction

Andy Hornby, who joined the Board in August 2019, and Alison Digges and Zoe Morgan, who joined the Board in January 2020, were all provided with an induction on appointment, including 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. In 2019, presentations were given on Brexit planning, Directors' Duties and allergens regulation and practice.

## Board effectiveness review
A Board and Committee evaluation was conducted in December 2019. All executive Directors, non-executive Directors and the Company Secretary participated. Input was provided through a questionnaire consisting of 35 questions, covering the areas of Board Process, Business Strategy Skills and Influence and Governance and Stakeholder Management. There were also questions on the effectiveness of each Board Committee. There was a range of agree, disagree and strongly disagree responses to a series of statements, with space to add qualitative comments and examples. There was 100% completion and submission rate. The review was performed internally by the Chief People Officer who analysed the data, produced the summary and attended the Board in January 2020 to facilitate a discussion on the findings. The report highlighted:

- generally a positive evaluation of the Board with significant alignment across the Board on the key strengths and areas to watch;
- all responses indicated there had been improvement across all areas surveyed, including the quality of discussion of the Committees;
- the new Chief Executive Officer has been positively received and is considered inclusive and broad in his thinking and approach;
- the new non-executive Directors are a welcome addition to the Board and should provide broader input;
- Directors felt it was timely to review performance of external advisers;
- suggestions were made to improve Board processes;
- suggestions were made to ensure management information drives greater clarity and supports the Board in focusing on the key issues; and
- there is appetite to do more scenario planning on strategic issues.

It was also agreed that there should be an increased focus on people, culture, talent and colleague engagement.

After a full debate, the Board agreed the following actions:

### Board Process
A change in format and improved timeliness for board papers, and the addition of resource to the Company Secretary team to ensure a proactive approach to the key areas of governance.

### Board Content
A shift in approach to strategy, with more strategic scenario planning, the appropriate management information to support this and a more comprehensive focus on talent and succession planning.

### Committees
Of specific note were

| | |
|---|---|
| Audit: | a more granular approach to risk management and upskilling of the finance business partner roles within the brands. |
| Remuneration: | the intention to undertake a thorough review of management and all staff incentives. |
| Nomination: | focus on Board and Committee succession planning. |

The Nomination Committee also held a full debate on the succession options and timings for both executive and non-executive roles, agreeing some key assumptions, including the number of Directors and current composition of the Board, and the skill sets of any future non-executive Directors and succession options for the Executives. An action plan was subsequently approved.

### 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 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 that business risks are effectively identified, mitigated and 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, which includes the principal risks and mitigation plans as set out on page 59. The day-to-day management of business risks are the responsibility of the senior management team together with the Senior Management Risk Committee. For the report of the Risk Committee see pages 58 to 59.

### 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 2019.

## Remuneration

For information on remuneration see the Directors' remuneration report on pages 41 to 55.

## Board decision-making

The Board is required to act in the way it considers would be most likely to promote the success of the Company for the benefit of its members as a whole, and in so doing, have regard to the interests of certain stakeholders and the other matters set out in section 172 of the Companies Act 2006.

## Relations with shareholders

### Share capital structure

The Company's issued share capital at 29 December 2019 consisted of 491,496,230 ordinary shares of 28⅛ 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 no new shares were issued.

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

As granted at the 2019 AGM, the Directors currently have authority to allot shares in the Company up to an aggregate nominal amount of £46,077,772. This authority will lapse at the 2020 AGM, where it is intended that a resolution granting a similar authority will be put to shareholders.

As granted at the 2019 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 49,149,623 (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 28⅛p (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 on which the shares are contracted to be purchased, 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 2020 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 Directors attending, with a follow-up meeting offered by the Chairman. 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 2019, the Chairman also met with key investors to discuss the resignation of the previous Chief Executive Officer, the recruitment process, the specification of the incoming Chief Executive Officer and potential candidates.

### 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.

## Electronic shareholder communications

As part of the Company's commitment to reducing its energy consumption, carbon emissions and waste, we wrote to all shareholders in 2019 asking them to view our annual reports, notices of meetings and other shareholder documents online in the future, rather than in paper form. This will help decrease the amount of paper the Company uses, which will reduce the Company's impact on the environment, as well as its costs. Shareholders retain the right to ask to receive hard copy shareholder communications by post, if they so wish.

## Brexit planning

The impact of Brexit on our UK business was an important consideration for the Board throughout 2019: and the Board was particularly aware of the potential impact on our business, our customers, employees and our suppliers. We also provided information and support for our non-UK employees and put in place, and continue to review, product supply contingency plans as discussed in the Senior Management Risk Committee report on pages 58 to 59.

## Substantial shareholdings

As at 29 December 2019, 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 issued share capital |
|---|---|---|
| Columbia Threadneedle Investments | 86,650,021 | 17.63 |
| FMR LLC | 47,567,858 | 9.68 |
| J O Hambro Capital Management | 40,488,681 | 8.24 |
| Schroders Plc | 27,260,046 | 5.55 |
| Aberforth Partners LLP | 24,172,850 | 4.92 |
| The Vanguard Group Inc | 19,906,185 | 4.05 |
| Norges Bank Investment Management | 19,562,868 | 3.98 |
| BlackRock Inc | 19,505,785 | 3.96 |
| Rathbones | 18,107,231 | 3.68 |
| Sanford DeLand Asset Management Limited | 18,100,000 | 3.68 |
| Royal London Asset Management Ltd | 16,965,394 | 3.45 |

Since 29 December 2019 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 | 47,448,083 | 9.65 |
| Norges Bank Investment Management | 19,816,720 | 4.03 |

## Directors' shareholdings

For details of Directors' shareholdings, remuneration and interests in the Company's shares and options, together with information on Directors' service contracts, see pages 41 to 55 of the Directors' remuneration report.

## Annual General Meeting

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

The 2020 AGM will be held at 10:00 am on Tuesday 19 May 2020 at the offices of MHP Communications at 6 Agar Street, London WC2N 4HN. The notice convening this meeting will be 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**

25 February 2020

# **Board of Directors** as at 26 February 2020

N R

**Debbie Hewitt MBE**
**Non-executive Chairman**

Debbie was appointed as a non-executive Director on 1 May 2015 and Chairman on 12 May 2016. She is currently non-executive Chairman of White Stuff Ltd., Visa Europe Ltd. and BGL (Holdings) Ltd.

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 and Spencer. She is a Fellow of the Chartered Institute of Personnel Development and was awarded the MBE for services to Business and the Public Sector in 2011.

Debbie chairs the Nomination Committee.

**Andy Hornby**
**Chief Executive Officer**

Andy joined the Company as Chief Executive Officer on 1 August 2019. Andy is an experienced company Chief Executive, with strong consumer and digital credentials. He was previously Co-Chief Operating Officer of GVC Holdings PLC ("GVC"). After joining Gala Coral in 2011, he was successively Chief Executive of Coral, Chief Operating Officer of Gala Coral, Chief Operating Officer of Ladbrokes Coral (following the merger with Ladbrokes in 2016) and Co-Chief Operating Officer of GVC (following the purchase by GVC in 2018).

Prior to joining Gala Coral, Andy was Group Chief Executive of Alliance Boots from 2009 to 2011, having previously held positions as Chief Executive of Halifax Retail, CEO of the Retail Division of HBOS plc, Chief Operating Officer of HBOS plc and then Chief Executive of HBOS plc from 2006 to the end of 2008. Earlier in his career Andy held a range of roles at Asda, the supermarket retailer, including Retail Managing Director and Managing Director of 'George' clothing.

**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 N R

**Graham Clemett**
**Independent Non-Executive Director**

Graham was appointed as a non-executive Director on 1 June 2016. Graham is currently Chief Executive Officer and 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.

Graham is Chairman of the Audit Committee.

Ⓐ Member of the Audit Committee

Ⓝ Member of the Nomination Committee

Ⓡ Member of the Remuneration Committee

● Committee Chairman

A N

**Alison Digges**
**Independent Non-Executive Director**

Alison was appointed as a non-executive Director on 1 January 2020. Alison has extensive experience of running consumer businesses in the media and gaming sectors, leading programmes of digital transformation. She is currently the UK Managing Director of Digital for GVC PLC, one of the world's largest sports betting and gaming groups, with full P&L accountability for their gaming brands. She sits on their UK Digital Board. She previously held digital and marketing roles for Gala Coral, Datamonitor and Granada TV, and brings a wealth of commercial, operations and digital experience from multi-site consumer businesses.

A N

**Allan Leighton**
**Senior Independent 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, President & CEO of Wal-Mart Europe and Chairman of Pandora A/S, 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.

N R

**Zoe Morgan**
**Independent Non-Executive Director**

Zoe was appointed as a non-executive Director on 1 January 2020. Zoe is an experienced marketeer and non-executive Director. She has been Marketing Director of a number of retail, consumer and food businesses including Boots and the Co-operative Group. She has also been co-founder of a number of start-up businesses. She has a strong marketing background in multi-site, retail businesses, with a broad skill set in strategy, brand management and CRM. She has previously held a number of NED roles, including at Finsbury plc, a leading speciality bakery manufacturer, and Moss Bros Group plc, and chaired the Remuneration Committees of both organisations.

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 Group Limited (the motorway services operator), Chairman of the Haulfryn Group Limited and Vice-Chairman of Prostate Cancer UK.

Mike is Chairman of the Remuneration Committee.

# Audit Committee report

**Graham Clemett**
**Chairman of the Audit Committee**

The Audit Committee is appointed by the Board and comprised four independent non-executive Directors during 2019. It is chaired by Graham Clemett and met three times during the year. Membership and attendance are set out below:

### Membership

- Graham Clemett (Chairman)
- Simon Cloke
- Allan Leighton
- Mike Tye

| Director | Attendance |
| --- | --- |
| Graham Clemett | 3/3 |
| Simon Cloke | 2/3 |
| Allan Leighton | 3/3 |
| Mike Tye | 3/3 |

On 1 January 2020, Alison Digges was appointed as a member of the Audit Committee. As previously notified, Simon Cloke retired from the Board and the Audit Committee on 26 February 2020.

In accordance with the UK Corporate Governance Code (Code) the Board considers that Graham Clemett has significant, recent and relevant financial experience, through his role as CEO and CFO of Workspace Group plc. 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 its role and responsibilities and provides sufficient scrutiny of risk management and internal controls and external audit.

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. The Committee will also commission reports and presentations from external advisers and 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 externally published financial statements;
- 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.

## 2019 Committee activities

The Committee is required by its terms of reference to meet at least three times a year. During 2019, the Committee held three meetings and in discharging its responsibilities:

*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:*

- received the external auditor's review report on the Annual Report and Accounts and Interim Report process and discussed the 2019 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 59);
- reviewed the Company's internal controls and risk management systems;
- received updates on the internal review of the IT function, and cyber security; 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 internally facilitated Committee effectiveness review.

## 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 accounting matters:

| 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 sales 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 attention paid to the key assumptions such as the expected time to exit, sublet, projected profits and the discount rate applied. |
| Disclosure around prior period adjustments | During the year, the Group identified matters requiring adjustment within the unconsolidated plc company financial statements. These relate to the accounting for the Wagamama investment, and the revolving credit facility. The Committee considered the adjustments, and discussed them with both Company management, and the external auditor. |
| Segmental disclosure | The Committee reviewed the paper prepared by management on the presentation of the separate operating segments within the Group and management's proposal to report two reportable segments, Growth businesses (Wagamama, Concessions and Pubs) and the Leisure business. The Committee focused on the economic characteristics of the different operating segments, and the criteria set within IFRS8. The Committee approved management's proposal subject to additional disclosure in the Accounting Policies and the Significant Judgements sections of the Annual Report. Management have additionally made voluntary disclosure of operating segment sales and LFL sales growth. |
| IFRS16 | The Committee received several updates on the Company's progress in implementing IFRS16 throughout the year, and received the calculations supporting the transitional disclosure in the 2019 Annual Report and Accounts. The Committee paid particular attention to the completeness of the calculations, and the judgemental decisions such as the calculation methodology applied. This was discussed with management, and the external auditor. |

Other areas considered included:

- the Financial Reporting Council's (FRC's) review of the 2018 financial statements as a result of its thematic review of IAS 36 disclosures and the agreed recommendations for disclosure improvements;
- the external auditor's improvements in its audit procedures to further improve audit quality;
- management's approach to the review of distributable reserves; and
- management override of controls and consideration of bias underlying key estimates or judgements.

No unresolved issues remain from the Committee's consideration of these matters.

*Fair, balanced and understandable*

The Committee carried out an assessment of whether the Annual Report and Accounts, taken as a whole, are fair, balanced, 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 13 and the Group's going concern statement on page 57.

## 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 FRC's Audit Quality Review team's public reports on audit firms;
- any specific observations on the audit of the company arising from the FRC;
- 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 2019 year-end and, a formal assessment will be conducted prior to the Annual General Meeting. The evaluation to date focused on: robustness of the audit process, quality of delivery, timeliness of addressing key matters, reporting and people. Subject to this review, it is the Committee's intention to recommend the re-appointment of Ernst & Young LLP (EY) to shareholders at the Annual General Meeting in May 2020. If appointed, EY will hold office until the conclusion of the next Annual General Meeting at which accounts are laid.

*Auditor independence*
EY were appointed in November 2018, following a tender process as outlined in the 2018 Annual Report. They have performed two years as auditors of the Group. Over those two years, the audit has been led by Bob Forsyth, Audit Partner.

To ensure the external auditor remains independent the Committee considers 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 independence matters or 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. The following services are permitted within the policy:

- 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 reporting accountant's work in relation to transactions of the Group.

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.

EY have continued in their role as auditors for 2019, following their appointment in 2018. The audit fees to non-audit fee ratio has declined to 1:0.2 (2018:1:3.7). The prior year was particularly high due to EY's work as Reporting Accountant on the acquisition of Wagamama. The Committee receives updates on the level of fees from the auditors twice per year and has an approval policy which requires that any significant non-audit fees receive approval from the Audit Committee Chair prior to any work commencing.

## 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 acquisition of Wagamama during 2018, the need for an expanded internal audit function was considered during 2019. It was not considered appropriate to expand the role of internal audit during the year whilst substantial integration activities were underway. However, a proposal to use an external firm to provide a broader focus to the internal audit function in 2020 has been approved.

### *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 2019. For further details on the membership, roles and responsibilities and Risk Committee activities during 2019, see page 58.

The Group's principal risk factors are set out on page 59.

## Internal control

The Committee reviewed the effectiveness of the internal control system, having assessed the adequacy of the management reviewed processes, approval and authority approval ladders, retail audit outcomes and the external auditor's management letter points.

## Committee Governance

### *Terms of reference*

In October 2019, the Committee reviewed its terms of reference and concluded that no changes were necessary to the version adopted in November 2016. The full terms of reference are available on the Company's website at http://www.trgplc.com/investors/corporate-governance.

### *Committee effectiveness review*

A Board and Committee evaluation was conducted in December 2019. All executive Directors, non-executive Directors and the Company Secretary participated. Input was provided through a questionnaire consisting of 35 questions, covering the areas of Board Process, Business Strategy Skills and Influence and Governance and Stakeholder Management. There were also questions on the effectiveness of each Board Committee. The Chief People Officer analysed the data, produced the summary and attended the Board Meeting in January 2020 to facilitate a discussion on the findings.

Of specific note for the Audit Committee was the recommendation for a more granular approach to risk management by the Senior Management Risk Committee and greater financial support to the Executive Teams in our brands.

On behalf of the Audit Committee

**Graham Clemett**
**Chairman of the Audit Committee**

25 February 2020

# Nomination Committee report

**Debbie Hewitt MBE**
**Chairman of the Nomination Committee**

The Nomination Committee is appointed by the Board and comprised five independent non-executive Directors during 2019. It is chaired by Debbie Hewitt, the Chairman of the Board, and met seven times during the year. Membership and attendance is set out below:

## Membership

- Debbie Hewitt (Chairman)
- Graham Clemett
- Simon Cloke
- Allan Leighton
- Mike Tye

| Director | Attendance |
|---|---|
| Debbie Hewitt | 7/7 |
| Graham Clemett | 7/7 |
| Simon Cloke | 6/7 |
| Allan Leighton | 7/7 |
| Mike Tye | 6/7 |

On 1 January 2020, Alison Digges and Zoe Morgan were appointed as a non-executive Directors of the Company and members of the Nomination Committee. Simon Cloke retired from the Board and the Nomination Committee on 26 February 2020.

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 and succession needs, together with Board, Board committee and senior leadership 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) and effectiveness 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 Directors for annual re-election, and explicitly 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

### 2019 Committee activities

The Committee is required by its terms of reference to meet at least twice a year. During 2019, the Committee held seven meetings and considered the following matters:

- the recruitment of a new CEO following the resignation of Andy McCue in February 2019;
- the appointment of Allan Leighton as Senior Independent Director in May 2019, taking over the role from Simon Cloke, who completed nine years as a non-executive Director.
- the decision to request Simon Cloke to remain as a non-executive Director to ensure continuity during the transition to the new Chief Executive Officer and the subsequent appointment of new non-executive Directors;
- the structure and skill set of the Board, including its diversity in composition, skills, thinking and approach and its Committee succession needs;
- the approach to the recruitment of new non-executive Directors, including the appointment of a headhunter and the process to be adopted;
- the appointment and induction of Alison Digges and Zoe Morgan, as non-executive Directors, who commenced on 1 January 2020;
- Gender Pay gap;
- senior management effectiveness and executive succession planning; and
- the process for a Board effectiveness review.

The Committee conducted a comprehensive board effectiveness review at the end of 2019, facilitated by the Chief People Officer.

### Effectiveness of the Committee

The Board effectiveness review concluded that the Committee was, on the whole, working effectively, with an inclusive and forward-thinking approach. Progress included:

- the recruitment and induction of Andy Hornby as Group CEO;
- succession achieved for the Senior Independent Director role;
- improved diversity in the Board composition;
- the identified skill gap of digital within the non-executive Director structure fulfilled;
- succession identified going forward for the Remuneration Committee; and
- the decision to implement a more simplified group executive structure, focused around individual brands.

The areas for improvement and focus going forward:

- the induction and integration of new non-executive Directors;
- succession for Audit Committee Chairman (over the next 36/48 months);
- succession for Board Chairman (over the next 36/48 months);
- further enhancing the diversity of the Board;
- talent management across the business;
- executive succession planning; and
- the implementation of a more simplified executive structure, focused around individual brands, including the recruitment of a new Group Managing Director role for the Leisure brands.

### Board changes during the year

Andy McCue, the Company's previous Chief Executive Officer, resigned in February 2019 and stepped down from the Board on 30 June 2019. Andy Hornby joined the business as Chief Executive Officer and was appointed to the Board with effect from 1 August 2019. In the intervening period from the end of June to the beginning of August 2019, the business was led by Debbie Hewitt, Chairman, supported by Kirk Davis, Chief Financial Officer and the wider executive team.

After nine years as a non-executive Director of the Company, Simon Cloke retired as the Senior Independent Director at the 2019 AGM and was succeeded by Allan Leighton.

### Chief Executive Officer recruitment

Following the resignation of Andy McCue in February 2019, the Company undertook an extensive search, using an external search consultant, Sam Allen Associates. Sam Allen Associates have no other connection with the Company. The Chairman met with key investors to discuss the resignation, the recruitment process, the specification of the incoming CEO and to discuss potential candidates. On 2 May 2019, the Company announced the appointment of Andy Hornby as the new Chief Executive Officer with effect from 1 August 2019.

Andy's biography can be found on page 30.

### Non-Executive Director recruitment

Following an extensive search, the Company announced the appointment of Alison Digges and Zoe Morgan as non-executive Directors with effect from 1 January 2020. Alison also became a member of the Audit and Nomination Committees and Zoe became a member of the Remuneration and Nomination Committees.

Biographies for Alison and Zoe can be found on page 31.

After over nine years with the Company, Simon Cloke retired from the Board on 26 February 2020.

### 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 aim of the Board's approach to diversity is to ensure that the Group has in place the most effective Board, management and colleagues to represent and operate the business effectively for the benefit of all its stakeholders.

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. The Board is aligned on these ambitions. As at the date of this report, the Board comprises 37.5% female representation and the executive committee (excluding the executive Directors but including the new CEO of our Leisure Brands) reflects 40% 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.

Further details on the Group's policy on diversity are included in the Corporate Governance report on pages 20 to 29 and the Corporate social responsibility report on page 15.

### 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, Board colleagues and operational management and they 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.

### Succession planning
The Nomination Committee keeps under review the skill set and tenure of non-executive Directors to ensure the appropriate mix of skill and independence is maintained for the Board and its Committees. No current Directors have Board tenure exceeding five years.

The Committee also monitors executive succession planning to ensure the Company has a strong leadership pipeline.

### 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**

25 February 2020

# Directors' remuneration report

**Mike Tye**
**Chairman of the Remuneration Committee**

**Dear Shareholder,**
At last year's AGM, shareholders approved the annual vote on the Directors' remuneration report with 98.9% 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 29 December 2019. 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 Directors' Remuneration Policy will be implemented for the 2020 financial year, will be subject to an advisory shareholder vote at this year's AGM, on 19 May 2020.

## Board changes
As announced in last year's report, Andy McCue, our previous Chief Executive Officer left the Group on 30 June 2019. He was not eligible for a bonus for 2019 and forfeited his LTIP awards on resigning. All payments were in accordance with his contractual entitlements and no positive discretion was exercised.

His successor, Andy Hornby, joined the Group on 1 August 2019. His package comprises a salary of £630,000 and standard benefits and participation in our annual bonus and LTIP arrangements but, reflecting current shareholder sentiment, no pension allowance. He also received an additional one-off LTIP award on joining the Group as compensation for the loss of equivalent awards at his previous employer. This one-off buy-out award was below the expected value of the awards forfeited on leaving his previous employer and is subject to the same performance conditions as the normal 2019 LTIP and, therefore, will only deliver value if suitably stretching performance targets are met. Any vested shares from this award will also be subject to the normal two year holding period.

## Remuneration in 2019
The 2017 LTIP awards did not meet their performance conditions and therefore have lapsed.

As announced in last year's report, awards over shares worth 200% of salary were granted under the LTIP in 2019 to the Chief Financial Officer, subject to EPS and TSR targets and an equivalent award was granted to the Chief Executive Officer on his joining.

In relation to the 2019 annual bonus, the Remuneration Committee set challenging Adjusted PBT targets, like-for-like (LFL) sales targets and stretching synergy targets relating to the integration of Wagamama. Although the overall financial targets were not met, the synergy targets were fully met. This led to the Chief Executive Officer and Chief Financial Officer achieving bonuses of 25% of the maximum potential (which was time pro-rated in the case of the Chief Executive Officer to reflect his period of employment).

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 2020

A 2% salary increase was awarded to the Chief Financial Officer for 2020 (effective 1 January 2020), which is in line with the rest of the head office team. Due to his recent recruitment the Chief Executive Officer will next be considered for a salary increase as part of the 2021 pay review. Salary increases for non-managerial staff in restaurants and pubs are determined in line with changes to the National Minimum and National Living Wage, which was greater than 2%. While higher salary increases for Executives 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.

The Chief Executive Officer and Chief Financial Officer will be eligible for a maximum annual bonus for 2020 of 150% and 120% of salary respectively.

The Committee intends to grant LTIP awards of 200% of salary for each of the executive Directors during 2020. The weightings of the metrics for the 2020 awards will be one-third relative TSR (reduced from 50%), one-third growth in EPS (reduced from 50%), and one-third reduction in net debt. The principal rationale for introducing a third measure is to better align with the Company's medium-term strategy of both delivering sustainable like-for-like growth for shareholders and to recognise the importance of net debt reduction and de-leveraging to the Company. The target ranges for our EPS and net debt measures have been set at levels considered to be appropriately challenging and reflect the broader business outlook for the sector.

All non-executive Director fees were benchmarked during the year. A 2.1% (£4,700) increase was awarded to the Chairman. The additional fees paid to Committee chairs and the Senior Independent Director were increased from £5,000 to £10,000. No increase was made to the base fees of the non-executive Directors.

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 resolutions 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 2020 financial year

Executive Directors' salaries for the 2019 financial year and applying with effect from 1 January 2020 are:

| Basic salary | 2019 | 2020 (from 1 January) | Increase |
|---|---|---|---|
| Andy Hornby[1] | **£630,000** | £630,000 | – |
| Kirk Davis | **£362,100** | £369,342 | 2.0% |

1 Salary effective from date of appointment (1 August 2019). Due to his recent recruitment, the Chief Executive Officer will next be considered for a salary increase as part of the 2021 pay review.

The Committee considered that the increase for the Chief Financial Officer was in line with the rest of the head office team. The average increase for managerial employees across the Group was 2.0% for the 2020 pay review. The average increase made to the wider workforce last year was slightly higher at 2.7%. Restaurant management and general restaurant employees receive their pay award in April 2020, 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 treatment of 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. Kirk Davis receives a salary supplement of 20% of base salary in lieu of pension contributions. Andy Hornby does not receive any pension allowance. We note that some institutional investors favour alignment for incumbent Executive Directors. At the Company, the Chief Executive Officer receives no pension contribution and the Chief Financial Officer's contribution rate is set at 20%, so below the 25% flagged as a concern in some guidelines.

### Performance targets for the annual bonus in 2020

For 2020, the annual bonus will again be based on a Group financial measure (70%) and a strategic KPI (30%) and capped at 150% and 120% of salary for the Chief Executive Officer and Chief Financial Officer respectively. The financial measure will be Adjusted profit before tax (PBT). The strategic KPI will be set by reference to reduction in net debt. 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 2020 targets will be provided in next year's report. Executive Directors are required to defer 50% of any bonus earned into share awards with a three year vesting period under the Deferred Bonus Plan.

We have disclosed the 2019 targets against which performance was assessed on page 46 of this report.

### Performance targets for LTIP awards to be granted in 2020

The LTIP awards intended to be granted to each of the Executive Directors in 2020 will be over shares equal to 200% of salary. Reflecting the Board's strategic priorities, the Committee has introduced a third measure for LTIP awards, by reference to reduction in net debt. The performance targets for the 2020 LTIP awards will therefore be based on:

1. TSR element (⅓rd) – 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.
2. Adjusted EPS element (⅓rd) – the Company delivers Adjusted EPS growth. Nothing vests for growth below 2.5% pa. Threshold (25%) vesting for growth of 2.5% pa; 100% vests if growth of 6.5% pa is achieved, with a straight-line scale between these two points.

   The amended range reflects external factors such as wider economic pressures and the recent Government decision to increase the National Living Wage (and related rates) at a greater level than previously announced, which have been recognised as a major additional cost by others in this sector. These impacts can only partially be mitigated in the delivery of EPS growth. In that context, the growth rates required for the 2020 grants (2.5 to 6.5%) are no less challenging than the rates applying to previous grants (4.0 to 10.0%) and will require the delivery of material mitigation activities. Full vesting will only occur when stretching targets are achieved.
3. Reduction in net debt (⅓rd) – the Company achieves a target net debt, measured to the end of the 2022 financial year. Threshold (25%) vesting for a reduction of net debt to £260m; 100% vests for a reduction in net debt to £240m. These targets have been set relative to plans and may need to be adjusted for unbudgeted acquisitions and disposals to ensure that it operates as intended and drives the intended behaviours.

We have disclosed the 2019 LTIP targets relating to the award made to the Chief Executive and Chief Financial Officer on page 48 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:

| | 2019[1] | 2020 (from 1 January) | Increase |
|---|---|---|---|
| Chairman | **£219,300** | £224,000 | 2.1% |
| Non-executive Directors' base fee | **£56,200** | £56,200 | 0% |
| Committee Chair/ Senior Independent Director fee | **£5,000** | £10,000 | See below |

1 From 1 January 2019 or date of appointment.

Non-executive Director fees were benchmarked and reviewed by the Board in December 2019 (subject to no Director taking part in any discussion about his or her own remuneration). A decision was taken to increase the Committee chair and Senior Independent Director fees to £10,000, but not to award any 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 2.1% 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 financial years ended 29 December 2019 and 30 December 2018.

| £'000 | Fixed pay | | | | Performance-related pay | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Salary and fees | Taxable benefits[1] | Pensions[2] | **Sub-total** | Annual bonus[3] | SAYE Scheme[4] | LTIP[5] | **Sub-total** | **Total[11]** |
| Debbie Hewitt | | | | | | | | | |
| 2019 | 219 | – | – | **219** | – | – | – | **–** | **219** |
| 2018 | 215 | – | – | **215** | – | – | – | **–** | **215** |
| Andy Hornby[6] | | | | | | | | | |
| 2019 | 263 | 5 | – | **268** | 98 | 5 | – | **103** | **371** |
| 2018 | n/a | n/a | n/a | **n/a** | n/a | n/a | n/a | **n/a** | **n/a** |
| Kirk Davis | | | | | | | | | |
| 2019 | 362 | 11 | 73 | **446** | 109 | 5 | – | **114** | **560** |
| 2018[7] | 320 | 10 | 64 | **394** | – | – | – | **–** | **394** |
| Simon Cloke | | | | | | | | | |
| 2019 | 58 | – | – | **58** | – | – | – | **–** | **58** |
| 2018 | 60 | – | – | **60** | – | – | – | **–** | **60** |
| Mike Tye | | | | | | | | | |
| 2019 | 61 | – | – | **61** | – | – | – | **–** | **61** |
| 2018 | 60 | – | – | **60** | – | – | – | **–** | **60** |
| Graham Clemett | | | | | | | | | |
| 2019 | 61 | – | – | **61** | – | – | – | **–** | **61** |
| 2018 | 60 | – | – | **60** | – | – | – | **–** | **60** |
| Allan Leighton[8] | | | | | | | | | |
| 2019 | 61 | – | – | **61** | – | – | – | **–** | **61** |
| 2018 | – | – | – | **–** | – | – | – | **–** | **–** |
| **Former Directors** | | | | | | | | | |
| Andy McCue[9] | | | | | | | | | |
| 2019 | 525 | 65 | 55 | **645** | – | – | – | **–** | **645** |
| 2018 | 515.5 | 113 | 101 | **729.5** | – | – | – | **–** | **729.5** |
| Paul May[10] | | | | | | | | | |
| 2019 | n/a | n/a | n/a | **n/a** | n/a | n/a | n/a | **n/a** | **n/a** |
| 2018 | 43 | – | – | **43** | – | – | – | **–** | **43** |

1 Taxable benefits comprise car allowance (the car allowance is £12,000 per annum for the Chief Executive Officer and £10,000 per annum for the Chief Financial Officer), health care and housing allowance.
2 The pension payment to the Chief Financial Officer is a salary supplement in lieu of pension contributions. The Chief Executive Officer does not receive a pension allowance.
3 Further details of the bonus outturn for 2019 can be found below on page 46.
4 The value for each Executive Director includes the intrinsic value of the options granted under the SAYE Scheme on 20 October 2019, being the difference between the option price (112.72 pence) and the average market value of the Company's shares over the last quarter of the 2019 financial year (143.57 pence), multiplied by the number of option shares (15,968 shares). Further details of the SAYE Scheme options are disclosed on page 48.
5 Kirk Davis and Andy Hornby joined the Company in 2018 and 2019 respectively and therefore do not hold any LTIP awards that vested in the 2019 financial year. Details of the performance conditions applicable to their outstanding LTIP awards are set out on page 47.
6 Andy Hornby joined the Company on 1 August 2019 and his remuneration is the amount earned from appointment
7 Kirk Davis joined the Company on 5 February 2018 and his remuneration is the amount earned from appointment.
8 Allan Leighton was appointed as a non-executive Director on 24 December 2018. He received no payment in 2018.
9 Andy McCue stepped down from the Board on 30 June 2019. Details of his termination arrangement are disclosed on page 48.
10 Paul May resigned on 15 October 2018 and his remuneration is the amount earned up to that date.
11 The aggregate emoluments (being salary/fees, bonus, benefits and cash allowance in lieu of pension) of all Directors for the year ended 29 December 2019 was £2,036,324 (2018: £1,563,000).

### Annual bonus payments for the year ended 29 December 2019 (audited)

The annual bonus for the 2019 financial year for the Chief Executive Officer and Chief Financial Officer was based on Adjusted PBT performance, synergy savings following the Wagamama acquisition and a like-for-like sales improvement target. In accordance with his recruitment terms any annual bonus for the Chief Executive Officer was to be pro-rated for the period since his appointment.

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, with the following targets and outturn:

| | Group Adjusted PBT targets | CEO % of salary | CFO % of salary |
|---|---|---|---|
| < Threshold | < £79.3m | 0% | 0% |
| Threshold[1] | £79.3m | 26.25% | 21% |
| Maximum[1] | > or = £83.3m | 105% | 84% |
| Outcome | £74.5m | 0% | 0% |

1 Pro-rata pay-out between the targets.

A maximum of 25% of the bonus (37.5% of salary and 30% of salary respectively) was payable for synergy savings following the Wagamama acquisition, which were met in full (synergy savings of £8.0m achieved against a target of £7.5m). A maximum of 5% of the bonus (7.5% of salary and 6% of salary respectively) related to achieving like-for-like sales improvement targets across the Group, which were not met (increase in like-for-like sales for 2019 of 2.7% against target of 4.9%).

As a result of the achievement of the synergy savings, the Chief Executive Officer and Chief Financial Officer received bonuses of 25% of the maximum potential (37.5% and 30% of salary respectively, which was time pro-rated in the case of the Chief Executive Officer to reflect his period of employment).

### Vesting of LTIP awards in 2019 financial year (audited)

No LTIP awards vested to Executive Directors in the year. The 2017 scheme has lapsed with no element of vesting.

## 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 29 December 2019[4] | Exercise price | Date from which exercisable[2 3] | Expiry date |
|---|---|---|---|---|---|---|---|---|
| Andy Hornby | 2019 LTIP[1] | 1,467,846 | – | – | 1,467,846 | – | 01.08.2022 | 6 months after vesting |
| | 2019 SAYE | 15,968 | – | – | 15,968 | 112.72 | 01.12.2022 | 6 months after vesting |
| Kirk Davis | 2018 LTIP[1] | 206,203 | | | 282,343 | – | 19.03.2021 | 6 months after vesting |
| | 2019 LTIP[1] | 627,230 | – | – | 627,230 | – | 05.04.2022 | 6 months after vesting |
| | 2019 SAYE | 15,968 | – | – | 15,968 | 112.72 | 01.12.2022 | 6 months after vesting |

1 Details of the performance conditions applicable to the 2019 awards can be found in the next section of this report. The 2018 awards are subject to the same measures and target ranges as the 2019 awards (and details of the performance conditions can also be found on page 45 of last year's 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 Consistent with normal practice, the shares subject to outstanding awards granted before 26 November 2018 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. Where relevant, the base EPS figure for each award has been adjusted on a similar basis.
5 Andy McCue resigned from the Company on 14 February 2019 (leaving date 30 June 2019) and therefore all his outstanding LTIP awards lapsed on his leaving the Company.

## Long-term incentives granted during the year (audited)

During the year, the following LTIP awards were granted to executive Directors:

| Executive | Type of award | Basis of award granted | Average share price at date of grant[1] | 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[2] |
|---|---|---|---|---|---|---|---|---|
| Andy Hornby | Nil-cost Option | 350% of salary of £630,000 | 150.3p | 1,467,846 | £2,197,365 | 25% | 01.08.2019 | 01.08.2022 |
| Kirk Davis | Nil-cost Option | 200% of salary of £362,100 | 114.3p | 627,230 | £705,007 | 25% | 05.04.2019 | 05.04.2022 |

1 Based on an average share price during the five dealing days ending immediately before the date of grant.
2 A two year holding period applies to any shares vesting under LTIP awards.
3 Andy McCue resigned from the Company on 14 February 2019 and he therefore was not granted an LTIP award for the 2019 financial year.

Details of the performance targets for the 2019 LTIP awards are as follows:

| | Weighting (% of total award) | Below threshold (0% vesting) | Threshold (25% vesting)[4] | Maximum (100% vesting)[4] |
|---|---|---|---|---|
| TSR[1] against FTSE 250 (excluding investment trusts) | 50% | Below median | Median | Upper Quartile |
| Adjusted Earnings per share[2,3] (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 30 December 2018 to 2022.
2 Adjusted EPS is calculated as the ordinary trading earnings per share of the Company as disclosed in the Annual Report of the Company and as further adjusted by the Committee at its discretion.
3 Consistent with normal practice, the Committee adjusted the published EPS figure for 2018 in light of the 2018 rights issue and to adjust for a full year's ownership of Wagamama. As a result the base EPS for the purpose of determining performance against the 2019 targets will be 11.53p.
4 Vesting is determined on a straight-line basis between threshold and maximum performance.

## Participation in the SAYE Scheme

The executive Directors participate in the SAYE Scheme on the same terms as all other employees. Details of the executive Directors' participation in the SAYE as follows:

| Executive Director | Total SAYE awards at 31 December 2018 | Awards granted | Exercise price (pence) | Awards vested (number) | Awards exercised (number) | Awards lapsed (number) | Total SAYE awards at 29 December 2019 | Earliest exercise date |
|---|---|---|---|---|---|---|---|---|
| Andy Hornby | – | 15,968 | 112.72 | – | – | – | 15,968 | 1 December 2022 |
| Kirk Davis | – | 15,968 | 112.72 | – | – | – | 15,968 | 1 December 2022 |

## Payments on cessation of office (audited)

Andy McCue stepped down from the Board of Directors on 30 June 2019. In accordance with the terms of his service agreement and the Company's Directors' remuneration policy he received the following payments:

- In accordance with his service agreement Andy McCue was subject to a 12 months' notice period which commenced on 14 February 2019 and his termination date was 30 June 2019. During the worked part of his notice period he continued to receive a base salary of £525,300 per annum, a housing allowance of £8,333 per month, a pension contribution of 20% of base salary, and other contractual benefits including car allowance.
- He was paid his base salary for the remaining unworked notice period from 1 July 2019 to 13 February 2020 (paid in monthly instalments less the usual payroll deductions). All other benefits except base salary ceased in full at his termination date, with the exception that he continued to receive one months' housing allowance to ensure that he was able to give notice on his London accommodation.
- All Deferred Bonus Plan shares which he was awarded in respect of his 2016 and 2017 annual bonus awards (of 5,617 and 44,971 shares, respectively) are eligible for vesting, subject to the rules of the DB plan (i.e. not until the end of the deferral period, and subject dividend accrual payment on any vesting shares). The awards will continue to be subject to the relevant malus and clawback provisions.
- No bonus was earned or payable in respect in the 2018 financial year and Andy McCue was not eligible to participate in the 2019 annual bonus or 2019 LTIP grant. All outstanding LTIP awards lapsed on cessation of his employment.

## Payments to former Directors' (audited)

Other than the payments made to Andy McCue, described above, no payments to former directors were made in respect of the 2019 financial year.

### Andy Hornby recruitment

Andy Hornby's recruitment terms are set out above in the section 'Implementation of the Remuneration Policy for the 2020 financial year'. During 2019 he participated in the annual bonus plan (on a pro-rata basis) and was granted a 2019 LTIP award based on 200% of his salary. He also received an additional one-off LTIP award based on 150% of his salary as compensation for the loss of equivalent awards at his previous employer. This one-off award is subject to the same performance conditions as the 2019 LTIP and, therefore, will only deliver value if suitably stretching performance targets are met. The value of the buy-out was below the expected value of the awards forfeited on leaving his previous employer.

### Statement of Directors' shareholdings and share interests (audited)

| Director | Beneficially owned at 31 December 2018[4] | Beneficially owned at 29 December 2019[4] | Outstanding LTIP awards at 29 December 2019[1] | Maximum shares receivable under SAYE options at 29 December 2019 | Shareholding % of salary at 29 December 2019 | Guideline |
|---|---|---|---|---|---|---|
| Debbie Hewitt | 144,773 | 144,773 | | | | n/a |
| Andy Hornby[2] | – | 232,471 | 1,467,846 | 15,968 | 59% | 200% |
| Kirk Davis | 58,666 | 58,666 | 909,573 | 15,968 | 26% | No |
| Simon Cloke | 17,111 | 17,111 | | | | n/a |
| Graham Clemett | 34,755 | 34,755 | | | | n/a |
| Mike Tye | 17,805 | 17,805 | | | | n/a |
| Allan Leighton | 0 | 0 | | | | n/a |
| **Past Directors** | | | | | | |
| Andy McCue | 329,010 | 329,010[3] | | | | n/a |

1 Further details of outstanding share awards are disclosed on page 47.
2 As at 1 August 2019, his date of appointment.
3 As at 30 June 2019, his termination date.
4 Beneficial interests include shares held by directly or indirectly connected persons.

The Chief Executive Officer and Chief Financial Officer are each required to hold shares in the Company worth 200% of salary. For LTIP awards, Andy Hornby 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. Shortly after his appointment to the Board Andy Hornby bought 232,471 shares. The requirement on Andy McCue to hold shares in the Company ceased upon his leaving the Company on 30 June 2019, whereupon all his outstanding LTIP awards lapsed.

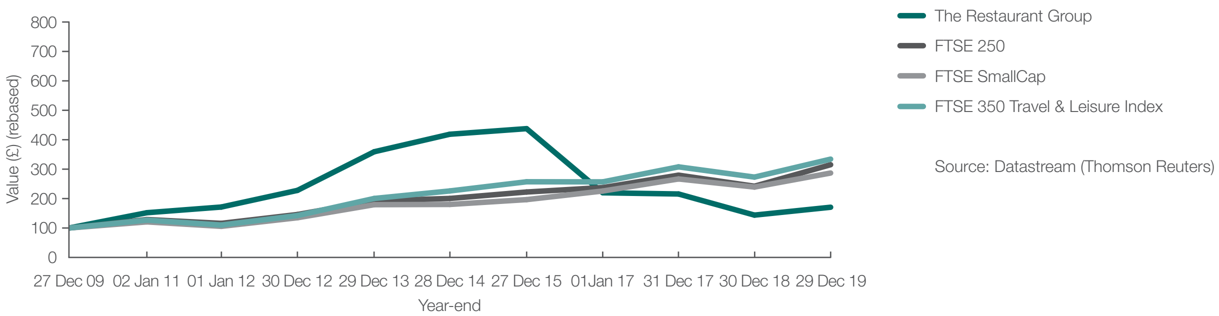
As at the date this report was approved by the Board, there have been no changes in respect of the numbers of shares presented in the table above.

### 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 ten 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 29 December 2019, of £100 invested in The Restaurant Group plc on 27 December 2009 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 29 December 2019, of £100 invested is as follows:

| | |
|---|---|
| The Restaurant Group plc (dividends reinvested) | £171 |
| FTSE 250 Index | £315 |
| FTSE Small Cap Index | £287 |
| FTSE 350 Travel & Leisure | £334 |

#### Total shareholder return




| | Andrew Page | | | | | Danny Breithaupt | | | Andy McCue | | | | Andy Hornby |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| £'000 | 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 | 2019 to 30.06.2019 | 01.08.2019 to 29.12.2019 |
| **Total remuneration** | 3,408 | 4,241 | 3,070 | 3,840 | 4,559 | 913 | 1,429 | 387 | 242 | 1,116 | 730 | 645 | 371 |
| Annual bonus[1] | 100% | 86% | 100% | 100% | 75% | 75% | 69% | 0% | 20% | 52% | 0% | 0% | 25% |
| Annual LTIP vesting[1] | 90% | 100% | 82% | 93% | 100% | 94% | 93% | – | – | n/a | n/a | 0% | 0% |

1 As a percentage of maximum.

### Percentage change in Chief Executive Officer's remuneration

The table below shows the percentage change in the Chief Executive Officer's salary, benefits and annual bonus between the financial year ended 29 December 2019 and 30 December 2018, compared to all employees of the Group.

| | Salary change | Benefits change | Bonus change[2] |
|---|---|---|---|
| Chief Executive Officer[1] | 2.0% | (45.3%) | 100% |
| All employees | 2.7%[3] | 0.0% | (15%)[4] |

1 The figures represent salary, bonus and benefits for Andy McCue to 30 June 2019 and Andy Hornby thereafter.
2 Bonus change is calculated vs the prior year.
3 Salary change is calculated compared to all staff, including restaurant staff.
4 Bonus change is calculated excluding restaurant staff.

## Chief Executive Officer to employee pay ratio

The table below shows how the CEO's single figure remuneration (as taken from the single figure remuneration table on page 45) compares to equivalent single figure remuneration for full-time equivalent UK employees, ranked at the 25th, 50th and 75th percentile.

| Financial year | Method | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|---|---|---|---|---|
| 2019 | Option A | 42 : 1 | 37 : 1 | 31 : 1 |

*Notes to the CEO to employee pay ratio:*

1. The Committee notes the general preference of institutional shareholders for companies to use statutory Method A and prepared the calculations on that basis.
2. Employee pay data is based on full time equivalent pay for UK employees as at 29 December 2019. For each employee, total pay is calculated in line with the single figure methodology.
3. Chief Executive Officer pay is as per the single total figure of remuneration for 2019, as disclosed on page 45.
4. No calculation adjustments or assumptions have been made.
5. The Committee has considered the pay data for the three individuals identified for 2019 and believes that it fairly reflects pay at the relevant quartiles among the UK employee population. Each of the individuals identified was a full-time employee during the year and received remuneration in line with the Group remuneration policy.
6. The Committee believes the median pay ratio for 2019 to be consistent with the pay, reward and progression policies for the UK employees taken as a whole because the majority of our employees are based in our restaurants and pubs and there is a high level of consistency in terms and conditions with structured pay bands.
7. Any employee who worked less than full time hours was factored up using the full time contracted hours for the role to calculate their FTE to allow a like-for-like comparison.
8. As required by the reporting regulations, the figures above reflect the pay and benefits of the two individuals undertaking the CEO role (Andy Hornby and Andy McCue). Accordingly, the CEO data reflects only 11 months of a CEO within role. If the CEO data was annualised, the corresponding ratios would be as follows: 25th percentile pay ratio 44:1, Median 38:1, 75th percentile pay ratio 32:1.

The total pay and benefits and the salary component of total pay and benefits for the employee at each of the 25th percentile, the median and the 75th percentile are shown below:

| | Salary | | | Total pay and benefits | | |
|---|---|---|---|---|---|---|
| Year | 25th percentile | Median | 75th percentile | 25th percentile | Median | 75th percentile |
| 2019 | £23,550 | £27,003 | £31,846 | £23,985 | £27,597 | £32,546 |

## Relative importance of spend on pay

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

| £m | 2018 | **2019** | % change |
|---|---|---|---|
| Staff costs[1] | 242.4 | **392.7** | 62.1% |
| Dividends[2] | 20.9 | **10.3** | (50.7%) |
| Profit for the year[2] | 41.8 | **58.3** | 39.5% |

1 Note 5 in the financial statements. The change reflects the addition of Wagamama to the group and the like-for-like equivalent is (8.3%).
2 Dividends and profit for the financial year are as reported for the trading business and exclude any exceptional items.

### Appointments outside the Group
Executive Directors are entitled to accept appointments outside the Company or Group (subject to Board approval) and there is no requirement for Directors to remit any fees to The Restaurant Group plc.

### Additional information
Andy Hornby has a service contract with an indefinite term which is currently subject to six months' notice by either party (increasing to twelve months' notice by either party from 1 August 2020). Kirk Davis has a service contract with an indefinite term which is subject to six months' notice by either party (as provided for in his original contract this increased to twelve months' notice by either party from 1 August 2019). 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 six months' of base salary only, increasing to twelve months' after a years' service . Under the Chief Financial Officer's contract, the Company shall make a payment in lieu of notice equivalent to twelve 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 comprised two independent non-executive Directors in addition to the Company Chairman, instead of three during the year. As explained in last year's report, a third non-executive Director, Zoe Morgan was appointed from January 2020, subject to the AGM resolutions, and became a member of the Committee thus ensuring full compliance with the Code requirement. 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.

Where relevant, the executive Directors, Company Secretary and Head of Reward and Benefits are invited to attend meetings of the Committee, except when their own remuneration is being directly discussed. The Committee met seven times during the year and all members attended each meeting.

The Committee has formal terms of reference which can be viewed on the Company's website.

FIT Remuneration Consultants (FIT), were appointed by the Committee and have acted as its independent advisers since December 2018. FIT provide services encompassing all elements of the remuneration packages and do not provide any other services to the Group during the year. Total fees paid to FIT in respect of its services in 2019 were £50,816 plus VAT (2018: £3,898).

FIT is a signatory to the Remuneration Consultants' Code of Conduct. The Committee has reviewed the operating processes in place at 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 17 May 2019:

| Directors' remuneration report | | |
|---|---|---|
| Votes cast in favour | 424,569,280 | 98.91% |
| Votes cast against | 4,696,144 | 1.09% |
| Total votes cast | 429,265,424 | |
| Votes withheld | 17,680 | |

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.<br>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.<br>Salaries are paid monthly.<br>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 45 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.<br>50% of any bonus is payable in cash.<br>50% of any bonus is deferred in shares or nil-cost options with awards normally vesting after a three-year period.<br>Not pensionable.<br>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.<br>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.<br>The Committee may vary the metrics and weightings from year to year according to Group strategy. |
| **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.<br>Conditional Awards vest three years after grant subject to performance conditions and continued employment.<br>Two year post-vesting holding period applies to the net of tax shares for awards granted from 2016.<br>Dividend equivalents may be payable.<br>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.<br>Awards are subject to performance conditions which are set prior to the grant of each award.<br>The awards for 2019 are based on TSR versus comparator group and Adjusted EPS.<br>Different measures, targets and/or weightings between measures may be made for future awards.<br>Up to 25% of an award vests at threshold performance increasing to full vesting at maximum performance. |

| | Purpose and link to strategy | Operation | Opportunity | Performance metrics |
|---|---|---|---|---|
| **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.<br><br>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.<br><br>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. |
| **Non-executive Directors' fees** | Attract and retain a high-calibre Chairman and non-executive Directors by offering market-competitive fee levels.<br><br>Reflects fees paid by similarly sized companies.<br><br>Reflects time commitments and responsibilities of each role. | Fees are normally reviewed annually. Fees are paid in cash.<br><br>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.<br><br>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.<br><br>As per executive Directors, there is no prescribed maximum annual increase.<br><br>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**

25 February 2020

# Directors' report

The Directors present their annual report together with the audited financial statements of the Company and the Group for the year ended 29 December 2019 with comparative information for the year ended 30 December 2018.

The Directors' report comprises these pages 56 to 57 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 19).

## Results and dividends

The results for the year are set out in the consolidated income statement on page 71. This shows a Group Adjusted profit after tax of £58.3m (2018: profit of £41.8m). After charging exceptional items, the Group recorded a statutory loss after tax of £40.4m (2018: profit after tax of £6.9m).

The closing mid-market price of the ordinary shares on 27 December 2019 (the last trading day before 29 December 2019) was 160.3p and the range during the financial year was 111.9p to 163.0p.

| Dividend | | Increase/ decrease |
|---|---|---|
| **Interim dividend** | | |
| Paid on 10 October 2019 | 2.10p per share | -69% |
| **Final dividend** | | |
| Nil | – | -100% |
| Total dividend payable in respect of 2019 | 2.10p per share | -75% |

For more information on the Company's dividends, see Note 10 on page 91 and for details on our dividend policy see page 82.

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 of the Company during the year can be found on page 22. Directors' interests in the shares of the Company can be found on page 49.

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

The Company maintains directors' and officers' liability insurance. Details of the D&O insurance maintained by the Company can be found on page 24. Deeds were executed in January 2019 indemnifying each of the Directors of the Company as a supplement to the D&O insurance cover. Similar deeds have been executed for Directors who joined since that date and for Directors of subsidiary companies. The indemnities, which constitute a qualifying third-party indemnity provision as defined by section 234 of the Companies Act 2006, were in force during the 2019 financial year and remain in force for all current and past Directors of the Company from January 2019.

## 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 19.

## Disabled employees

The Company's policy towards disabled employees is included in the Corporate social responsibility report on page 15.

## Employee participation

The action taken during the year in relation to employee participation is included in the Corporate social responsibility report on pages 15 to 17.

## Employee benefit trust (EBT) and share awards

Details of the Company's EBT arrangements can be found on page 99 (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 100 to 103 (note 20).

### Substantial shareholdings
Details of substantial shareholdings can be found on page 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 Group's capital management process.

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. Both are subject to change of control provisions.

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 2019.

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

### Corporate governance
The Company's statement on corporate governance can be found in the Corporate Governance report on pages 20 to 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 himself/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 11. The Group is cash generative at the operating activity level and as a retail business with trading receipts settled by cash or credit or debit cards enjoys a favourable working capital position. As noted above the Group has total debt facilities of £445m and a £10m overdraft facility. At year-end the Group had net debt of £286.6m, with cash headroom of over £160m.

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 59.

Based on the Group's plans for 2020, 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**

25 February 2020

# Senior Management Risk Committee

The Committee held five meetings in 2019.

## Membership

The Committee's membership comprises the Chief Financial Officer and not less than three other members of the senior management team. It currently includes the Company Secretary, the Group Finance Director, the Chief Information Officer, the Group People Director, the Purchasing Director, the Property Director and Head of Technical Safety. In addition, employees from across the business attend Committee meetings by invitation in order to assist the Committee in discharging its duties.

The Risk Committee is chaired by the Chief Financial Officer and is required to meet at least four times a year. A risk report is tabled at the subsequent Audit Committee meeting and the Chief Financial Officer reports to the Audit Committee on the Committee's proceedings.

**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.

## Risk management process

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

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

## Risk appetite

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

## Emerging risk

The Committee also reviews emerging risks, such as the coronavirus outbreak, to ensure that appropriate steps are taken at the right time.

## 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 |
|---|---|
| **Brexit**<br>• Risk of product shortages due to Brexit causing loss of customer offer and revenue.<br>• Risk of increased cost of products due to FX and tariffs.<br>• Failure to attract, retain or develop Chefs, GMs and senior managers in order to deliver the business plan. | • Communication and cooperation with key suppliers regarding Brexit planning.<br>• Stock holding increased on key product lines where practical.<br>• Substitute ingredients identified on key dishes to manage potential short term availability issues.<br>• Senior managers follow expected changes in immigration rules post-Brexit. |
| **Allergens**<br>• Risk of guests suffering from failure to deliver our Allergens policies and procedures, or inaccurate or insufficient information provided to guests concerning allergens. | • Clear Allergen policies and procedures established across all business operations.<br>• Allergen training completed by all restaurant employees across all businesses.<br>• Allergen training embedded through the induction process. |
| **Portfolio management**<br>• Risk of under-performing sites impacting Group performance.<br>• Risk of onerous rent reviews. | • Proactive operational focus on under-performing sites.<br>• Active asset management of the leisure estate with expectation that at least 50% of leases will be exited on break clause on lease expiry.<br>• Challenge on all rent reviews and recourse to arbitration if required. |
| **Leisure business operations**<br>• High labour turnover in Leisure division.<br>• Risk of widespread discounting affecting profitability.<br>• Risk of inconsistent operational execution affecting customer satisfaction. | • Strong business focus on continuous improvement in hospitality and wider guest experience.<br>• New attraction, development and retention plans being formulated across brands.<br>• Regular review of pricing, promotions and discounts to drive profitable customer demand. |
| **Talent attraction & retention**<br>• Failure to attract, retain or develop Chefs, GMs and senior managers in order to deliver the business plan.<br>• Risk of labour cost inflation. | • Implementing new recruitment methods and source of talent to attract a wider audience when hiring chefs.<br>• Implemented a robust onboarding and induction process which focuses on the first 90 days of employment.<br>• Recruitment and induction training included on the Manager in Training programme.<br>• Developing new Back of House career paths to build capability, career opportunities and aid retention. |
| **Supply chain**<br>• Risk of major failure/disaster at key suppliers jeopardising supply and causing loss of revenue or brand damage.<br>• Risk of major health scare (e.g. Foot & Mouth, BSE).<br>• Risk of loss or failure of key contractors/service providers to the restaurants. | • Key supplier business continuity plans established.<br>• Contingency planning established for supply chain and key suppliers. All key products dual-sourced.<br>• Regular monitoring of suppliers and their performance.<br>• 4 years remaining on supply chain agreement with Brakes.<br>• Proactive contractor performance management reviews. |
| **Cybersecurity**<br>• 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.<br>• Security programme established across all IT processes.<br>• Continuing ASV scans and penetration tests and remediation.<br>• 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 Hornby**
**Chief Executive Officer**

25 February 2020

**Kirk Davis**
**Chief Financial Officer**

25 February 2020

# 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 29 December 2019 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 parent 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 5 to the financial statements including a summary of significant accounting policies |
| Consolidated cash flow statement | |
| Related notes 1 to 29 to the financial statements, including a summary of significant accounting policies | |

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

## Basis for opinion

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

### 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 59 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 60 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 75 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 13 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 | • Impairment of property, plant and equipment<br>• Onerous lease provisions<br>• Management override in the recognition of revenue |
| Audit scope | • We performed an audit of the complete financial information of the group's restaurant, concession and pub operations, accounted for across its London and Chester offices. These operations were considered as components for our audit.<br>• Our full scope procedures covered 100% of profit before tax and exceptional items, 100% of revenue and 100% of total assets of the group. |
| Materiality | • Overall group materiality is £3.6m 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 |
|---|---|---|
| **Impairment of property, plant and equipment (2019: £335.7m net book value and £105.8m impairment charge; 2018: £430.6m net book value and £14.0m impairment charge)**<br>*Refer to the Audit Committee Report (page 34); Accounting policies (page 83); and Note 12 of the Consolidated Financial Statements (page 95)*<br>At 29 December 2019 TRG operated 658 sites (2018: 660) which comprise the majority of the Group's property, plant and equipment (PPE) balance. These sites had a PPE book value at 29 December 2019 of £335.7m (2018: £430.6m).<br>Management assessed for impairment indicators across all the group's cash-generating units (CGUs), considering a range of indicators including a CGU's performance against budget and forecast EBITDA.<br>CGUs are considered by management to be individual restaurant or pub sites, or multiple sites that are in close proximity, such as at airports where their trading is highly interdependent.<br>A detailed impairment test was conducted for each CGU identified.<br>Significant management judgement and estimation uncertainty is involved in this area, where the most significant activities are:<br>• Determining if indicators exist;<br>• Identifying which sites represent CGUs;<br>• Generating cash flow forecasts;<br>• Selecting an appropriate discount rate<br>The impairment charge is treated as exceptional in the Income Statement.<br>Given the quantum of the PPE balance and the scale of the 2019 charge, along with the market challenges faced by some of the group's 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 assessing whether these indicators had been appropriately identified.<br>• We verified the arithmetic accuracy of management's impairment model.<br>• 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.<br>• We met with representatives of the group's operational, property and finance functions to understand their impairment approach and challenge the judgements and estimates involved in the forecasting of future cashflows in the context of historic results, as well as wider market trends and expectations. We sought and assessed the impact of contra evidence on management's forecasts.<br>• We assessed the reasonableness of the allocation of central overhead costs to the relevant CGUs by gaining an understanding of the allocation methodology, checking the arithmetic accuracy of management's allocation model, and testing a sample of costs where the allocation was considered to be more judgemental to underlying transaction data.<br>• We worked with our business valuation specialists, assessing the short term and long term growth rate, and discount rate applied in management's impairment model, checking against relevant benchmarks and the impact of sensitising these rates.<br>• We verified that any impairment charges were reflected and appropriately accounted for in the financial statements. We also challenged the basis for the sensitivity disclosures in the context of recent impairment charges, confirming that like for like sales was the key assumption affecting the impairment charge.<br>• We assessed whether the exceptional item treatment of the impairment charge is in accordance with the TRG policy, appropriate guidance and general practice.<br>**Scope of our procedures**<br>We performed full scope audit procedures on the impairment exercise carried out on all of the group's restaurant and pub portfolio. | The impairment charge for the year is reasonably stated as is the net book value of PPE.<br>The impairment disclosures are also appropriate, including a revised basis for sensitivity analysis taking into account recent experience. |

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Onerous lease provisions (2019: £48.9m closing provision and £7.5m net charge; 2018: £57.4m closing provision and £10.0m net charge)**<br>*Refer to the Audit Committee Report (page 34); Accounting policies (page 83); and Note 16 of the Consolidated Financial Statements (page 97)*<br>The group 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.<br>Management recognised onerous lease provisions as a result of performing an exercise to assess the shortfall in rent compared to anticipated income for each leasehold restaurant and pub site across the group.<br>Significant management judgements and estimates are involved in this exercise, with the primary inputs being cash flow forecasts, discount rate, and lease exit dates and arrangements.<br>Given these complexities and the quantum of the onerous lease provision balance, along with the continuing under performance of some of the group's restaurants and pubs, we considered this area to be a significant risk.<br>The net onerous lease charge is treated as exceptional in the Income Statement.<br>The sensitivity of the onerous lease charge and provision to key assumptions is reflected in disclosures to the provisions note. | • We gained an understanding of the process and controls management has in place over the identification of sites with onerous leases, including for completeness and evaluation of loss making sites where no provision is in place.<br>• We verified the key inputs of the calculation such as contractual rent and lease terms to lease agreements.<br>• We challenged management's assumptions and estimates used in the supporting provision calculation by reference to appropriate documentation and third party evidence; and looked for contra evidence. We checked that the assumptions and approach were consistent with those used for impairment purposes.<br>• We assessed the appropriateness of the discount rate applied against relevant market data, with input from our business valuation specialists, as appropriate.<br>• We performed a sensitivity analysis on key inputs to test the impact on the provision; and compared this with the disclosed sensitivities.<br>• 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.<br>• We assessed whether the exceptional item treatment of the net onerous lease charge is in accordance with the TRG policy, appropriate guidance and general practice.<br>**Scope of our procedures**<br>We performed full scope audit procedures on the onerous lease provisions across all of the group's leased restaurant and pub portfolio. | The onerous lease charge for the year and provision at year end is reasonably stated and the related disclosures are appropriate to the uncertainties involved in this estimation process. |

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Management override in the recognition of revenue (2019: £1,073.1m; 2018: £686.0m)**<br>*Refer to the Audit Committee Report (page 34); Accounting policies (page 81); and Note 3 of the Consolidated Financial Statements (page 84)*<br>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.<br>Thus, we consider the risk relating to revenue to be around management override of controls and topside journals to revenue across the restaurant, concession and pub portfolio, resulting in revenue being overstated or sales not recorded. | • We gained an understanding of the process and controls, including IT elements, that management has in place over the recording of revenue, including the recording of top side journal adjustments.<br>• 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.<br>• We identified any topside journals to revenue and obtained corroborative evidence to support them.<br>• 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.<br>Scope of our procedures<br>We performed full scope audit procedures over all of the group's revenue. | We confirmed that revenue correlated to cash collected.<br>We did not identify any instances of management override in relation to revenue. |

## 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 majority of the group's operations are based in the United Kingdom, with a small number of restaurants in the US during the period under audit. There are separate finance functions for each of the group's components.

We performed an audit of the complete financial information of the group's three components: Wagamama; Leisure restaurants and concessions; and pub operations – All accounted for across its London and Chester offices.

Our full scope procedures covered 100% of profit before tax and exceptional items, 100% of revenue and 100% of total assets of the group (2018: same coverage). 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.

# Independent auditor's report continued

## 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 £3.6 million (2018: £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.

| | |
|---|---|
| **Starting basis** | • **Loss before tax – £37.3m (Consolidated income statement)** |
| **Adjustments** | • **Exceptional items before tax – £111.8m (Note 6)** |
| **Materiality** | • **Profit before taxation and exceptional items – £74.5m (materiality basis)**<br>• **Materiality of £3.6m (5% of materiality basis)** |

We determined materiality for the parent company to be £9.5 million (2018: £8.9 million), which is 2% of net assets.

During the course of our audit, we reassessed initial materiality to align with the final reported profit for the period.

## 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 should be £1.8m, being 50% of our planning materiality. We have set performance materiality at this percentage reflecting the incidence of audit differences identified in the previous year.

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 £0.7 million to £1.2 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 £0.2 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 60 and 118 to 121, 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 60** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's 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 75** – 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 60, 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 58 to 59 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, and 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 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.
- 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 that could materially impact the financial statements. 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.

# Independent auditor’s report continued

### 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 1 year and 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
25 February 2020

**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 29 December 2019 Trading business £'000 | Exceptional items (Note 6) £'000 | Total £'000 | 52 Weeks ended 30 December 2018 Trading business £'000 | Exceptional items (Note 6) £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | 3 | **1,073,052** | **–** | **1,073,052** | 686,047 | – | 686,047 |
| Cost of sales | | **(930,566)** | **(117,894)** | **(1,048,460)** | (603,332) | (23,997) | (627,329) |
| **Gross profit/(loss)** | 4 | **142,486** | **(117,894)** | **24,592** | 82,715 | (23,997) | 58,718 |
| Administration costs | | **(51,393)** | **6,068** | **(45,325)** | (27,313) | (14,775) | (42,088) |
| **Operating profit/(loss)** | | **91,093** | **(111,826)** | **(20,733)** | 55,402 | (38,772) | 16,630 |
| Interest payable | 7 | **(16,660)** | **–** | **(16,660)** | (2,233) | (467) | (2,700) |
| Interest receivable | 7 | **98** | **–** | **98** | 1 | – | 1 |
| **Profit/(loss) on ordinary activities before tax** | | **74,531** | **(111,826)** | **(37,295)** | 53,170 | (39,239) | 13,931 |
| Tax on profit/(loss) from ordinary activities | 8 | **(16,260)** | **13,149** | **(3,111)** | (11,361) | 4,312 | (7,049) |
| **Profit/(loss) for the year** | | **58,271** | **(98,677)** | **(40,406)** | 41,809 | (34,927) | 6,882 |
| **Other comprehensive income:** | | | | | | | |
| Foreign exchange differences arising on consolidation | | **578** | **–** | **578** | – | – | – |
| **Total comprehensive income for the year** | | **58,849** | **(98,677)** | **(39,828)** | 41,809 | (34,927) | 6,882 |
| **Earnings per share (pence)** | | | | | | | |
| Rights adjusted basic | 9 | **11.87** | **–** | **(8.23)** | 14.67 | – | 2.42 |
| Rights adjusted diluted | 9 | **11.87** | **–** | **(8.23)** | 14.63 | – | 2.41 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **EBITDA** | **136,743** | **(6,038)** | **130,705** | 87,855 | (24,802) | 63,053 |
| Depreciation, amortisation and impairment | **(45,650)** | **(105,788)** | **(151,438)** | (32,453) | (13,970) | (46,423) |
| **Operating profit/(loss)** | **91,093** | **(111,826)** | **(20,733)** | 55,402 | (38,772) | 16,630 |

# Consolidated balance sheet

| | Note | At 29 December 2019 £'000 | At 30 December 2018 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 11 | **616,787** | 619,493 |
| Property, plant and equipment | 12 | **335,710** | 430,631 |
| Fair value lease assets | | **1,211** | 1,361 |
| | | **953,708** | 1,051,485 |
| **Current assets** | | | |
| Inventory | | **9,274** | 8,678 |
| Other receivables | 14 | **21,924** | 22,912 |
| Prepayments | | **26,088** | 31,096 |
| Cash and cash equivalents | 22 | **49,756** | 65,903 |
| Assets of disposal group held for sale | 13 | **4,081** | – |
| | | **111,123** | 128,589 |
| **Total assets** | | **1,064,831** | 1,180,074 |
| **Current liabilities** | | | |
| Overdraft | 22 | **(9,950)** | – |
| Trade and other payables | 15 | **(188,287)** | (212,477) |
| Corporation tax liabilities | | **(6,210)** | (2,702) |
| Provisions | 16 | **(14,549)** | (11,018) |
| Liabilities of disposal group help for sale | 13 | **(4,081)** | – |
| | | **(223,077)** | (226,197) |
| **Net current liabilities** | | **(111,954)** | (97,608) |
| Long-term borrowings | 22 | **(323,822)** | (354,420) |
| Other payables | 23 | **(26,077)** | (27,521) |
| Fair value lease liabilities | | **(9,605)** | (10,426) |
| Deferred tax liabilities | 17 | **(42,007)** | (52,674) |
| Provisions | 16 | **(38,344)** | (50,244) |
| | | **(439,855)** | (495,285) |
| **Total liabilities** | | **(662,932)** | (721,482) |
| **Net assets** | | **401,899** | 458,592 |
| **Equity** | | | |
| Share capital | 18 | **138,234** | 138,234 |
| Share premium | | **249,686** | 249,686 |
| Other reserves | 19,20 | **(5,921)** | (7,158) |
| Retained earnings | | **19,900** | 77,830 |
| **Total equity** | | **401,899** | 458,592 |

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 71 to 111 were approved by the Board of Directors and authorised for issue on 25 February 2020 and were signed on its behalf by:

**Andrew Hornby (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 1 January 2018 | | 56,551 | 25,554 | (7,753) | 105,814 | 180,166 |
| Profit for the year | | – | – | – | 6,882 | 6,882 |
| Issue of new shares | | 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 |
| **Balance at 31 December 2018** | | **138,234** | **249,686** | **(7,158)** | **77,830** | **458,592** |
| Profit for the year | | **–** | **–** | **–** | **(40,406)** | **(40,406)** |
| Other comprehensive income | 19 | **–** | **–** | **578** | **–** | **578** |
| **Total comprehensive income** | | **–** | **–** | **578** | **(40,406)** | **(39,828)** |
| Dividends | 10 | **–** | **–** | **–** | **(17,524)** | **(17,524)** |
| Share-based payments – credit to equity | | **–** | **–** | **576** | **–** | **576** |
| Deferred tax on share-based payments taken directly to other reserves | 17 | **–** | **–** | **83** | **–** | **83** |
| **Balance at 29 December 2019** | | **138,234** | **249,686** | **(5,921)** | **19,900** | **401,899** |

During the year, the Group made a £578,092 (2018: £Nil) foreign currency gain on translation of foreign subsidiaries. There is no further other comprehensive income other than the profit for the year ended 29 December 2019 and the year ended 30 December 2018.

Other reserves represents the Group's share-based payment transactions, foreign currency translation reserve, shares held by the employee benefit trust and treasury shares held by the Group Note 19.

# Consolidated cash flow statement

| | Note | 52 Weeks ended 29 December 2019 £'000 | 52 Weeks ended 30 December 2018 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 21 | **140,501** | 88,307 |
| Interest received | | **98** | 10 |
| Interest paid | | **(14,638)** | (1,013) |
| Tax paid | | **(10,252)** | (7,364) |
| Cash outflow from onerous lease provisions | 6 | **(12,642)** | (11,183) |
| Cash outflow from acquisition and refinancing costs | 6 | **(28,464)** | (10,103) |
| **Net cash flows from operating activities** | | **74,603** | 58,654 |
| | | | |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | **(75,972)** | (47,514) |
| Purchase of intangible assets | | **(2,334)** | (1,532) |
| Proceeds from disposal of property, plant and equipment | | **27,325** | 370 |
| Purchase of subsidiaries | | **–** | (364,197) |
| Cash acquired on acquisition of subsidiaries | | **–** | 39,270 |
| **Net cash flows from investing activities** | | **(50,981)** | (373,603) |
| | | | |
| **Financing activities** | | | |
| Net proceeds from issue of ordinary share capital | | **–** | 305,815 |
| Repayments of borrowings | 22 | **(32,000)** | (170,000) |
| Drawdown of borrowings | 22 | **–** | 272,000 |
| Drawdown of overdraft | 22 | **9,950** | – |
| Upfront loan facility fee paid | 22 | **–** | (1,500) |
| Dividends paid to shareholders | 10 | **(17,524)** | (34,866) |
| Finance lease principal payments | 22 | **(170)** | (208) |
| **Net cash flows used in financing activities** | | **(39,744)** | 371,241 |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | **(16,122)** | 56,292 |
| | | | |
| **Cash and cash equivalents at the beginning of the year** | 22 | **65,903** | 9,611 |
| Foreign exchange movement in cash | | **(25)** | – |
| | | | |
| **Cash and cash equivalents at the end of the year** | 22 | **49,756** | 65,903 |

# Notes to the consolidated accounts
for the year ended 29 December 2019



## 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 29 December 2019 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.

(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 Directors' Report.

(c) Basis of preparation
The financial 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 29 December 2019 was a 52 week period, with the comparative year to 30 December 2018 also being a 52 week period.

The financial statements are presented in pound 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.

## 1 Accounting policies for the consolidated accounts continued

*Future accounting policies*
At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS that has been issued but is not yet effective:

*IFRS 16 – Leases*
IFRS 16 'Leases' was issued in January 2016 and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees and will supersede the current lease guidance including IAS 17 'Leases' and the related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and will be adopted by the Group for the financial year commencing 30 December 2019.

The standard represents a significant change in the accounting and reporting of leases, impacting the income statement and balance sheet as well as statutory and alternative performance measures used by the Group.

As a result, the profile of costs recognised in the consolidated income statement will change materially in comparison to IAS 17 as follows:

- Depreciation will increase due to the recognition of right-of-use assets.
- Existing rental costs will reduce – the only rental costs that remain will relate to low value assets, turnover based leases, or short-term leases.
- Finance costs will increase due to the unwinding of the discounted lease liability.

There is no net cash flow impact on application of IFRS 16, although the classification of cash flows will be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as operating and financing cash flows respectively.

The Group is in the process of conducting an extensive review of all the Group's leasing arrangements in light of the new accounting standard. The Group has elected to use the Modified Retrospective approach to calculate the impact of IFRS 16. This will mean that the results for the year ended 27 December 2020 will be presented under IFRS 16 but the year ended 29 December 2019 will not be restated. The opening balance sheet as at 30 December 2019 will be restated to recognise the right of use asset and lease liability.

The transition work stream is nearing completion and the Group estimates that, had IFRS 16 been applied in the 52 weeks ended 29 December 2019, the impact on the consolidated balance sheet would have been:

- Recognition of a right-of-use asset in the range of £850m – £890m disclosed within non-current assets.
- Recognition of a corresponding lease liability in the range of £920m – £960m.
- Derecognition of other balance sheet items, including onerous lease provisions, rent free accruals and fair value adjustments relating to acquired leases of around £70m.
- The above results in a reduction in opening retained earnings in the range of £5m – £20m (before adjusting for associated tax impacts).

Key judgements have been addressed, including the assessment of how reasonably certain it is considered to be that a lease option (extension, expiry or break) will be exercised, and the determination of an appropriate discount rate used to calculate the present value the lease liability and to initially measure the right-of-use asset. With regards to these, the Group has determined that the lease term will correspond to the duration of the contracts except in cases where the Group is reasonably certain that it will exercise contractual extension, break options, or management expect to be able to exit the lease in another manner. The incremental borrowing rate on transition has been based on the implicit rate within the lease agreement, where the implicit rate in the lease is not readily determinable this has been estimated.

## 1 Accounting policies for the consolidated accounts continued

*Changes to accounting policies*
There have been no 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).

*Pre-opening costs*
Pre-opening costs are deferred until the site opens. On opening of the site, an analysis is performed on all costs held on the balance sheet for the site and split into capital and non-capital expenditure. All non-capital expenditure is recognised in the income statement from the date of opening. Capital expenditure is held in property, plant and equipment and depreciated over the useful life.

## 1 Accounting policies for the consolidated accounts continued

*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 groups of cash generating units (CGUs) defined by the original acquisition group. 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. Licenses are stated at fair value less any accumulated impairment losses. Trademarks are stated at cost less any accumulated impairment losses. Trademarks are allocated to groups of CGUs defined by the original acquisition group. Trademarks are assessed to have an indefinite useful life and therefore 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).

*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 three to five years.

## 1 Accounting policies for the consolidated accounts continued

*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.

## 1 Accounting policies for the consolidated accounts continued

### (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 Group formally determines whether the carrying amount of property, plant and equipment are impaired by considering indicators of impairment annually. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. This requires the Group to determine the lowest level of assets which generate largely independent cash flows and to determine their recoverable amount, based on estimating the value-in-use or the fair value less cost of disposal of these assets or CGUs; and compare these to their carrying value. Impairment losses for property, plant and equipment are recognised in the income statement.

Impairment losses recognised in prior periods for property, plant and equipment shall be reversed where there is an indication that the impairment no longer exists. Where an impairment reversal is recognised, the carrying amount of the asset will be increased to its recoverable amount with the increase being recognised in the income statement. This increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

For goodwill and assets that have an indefinite useful life, the recoverable amount is estimated annually. 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.

### (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 leases 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.

## 1 Accounting policies for the consolidated accounts continued

### (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 invoiced sales from restaurants, pubs and concession sites, including food and beverages and both dine-in and delivery sales (excluding value added tax and voluntary gratuities left by customers for the benefit of employees), and is recognised at the point of completion of a transaction with a customer. Commission payable on delivery is recognised in cost of sales.

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 licensing fees are recognised in cost of sales as the goods are sold.

Where the Group acts as a franchisor in a trading relationship, franchise fees comprise ongoing 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. Upfront 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.

## 1 Accounting policies for the consolidated accounts continued

### (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.

*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.

### (v) Assets Held for Sale

The Group classifies its non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Classification as held for sale is only met when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

## 1 Accounting policies for the consolidated accounts continued

**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 and 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 the Group's pre tax weighted average cost of capital.

(b) Impairment of non-current assets
The carrying amounts of the Group's assets are reviewed annually to determine whether there is any indication of impairment. (See accounting policy K).

CGUs 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.

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 29 December 2019 for all CGUs was based on the Group's weighted average cost of capital of 8.9% (year ended 30 December 2018: 9.2%). 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.

For the purposes of goodwill impairment, the CGU is the acquisition group of assets that led to the goodwill being created. This is the lowest level that the goodwill can be allocated without arbitrary allocation.

The Group makes judgements in relation to impairment decisions based on the value-in-use estimates or fair market value of each CGU.

(c) Indefinite useful life of trademarks
When trademarks are acquired, the Company is required to assess the useful economic life of that trademark. The Company has assessed that the Wagamama trademark of £236m (2018: £236m) has an indefinite useful life, and therefore is not amortising this asset.

This assessment is based on the life of the trademark to date which is in excess of twenty years, a consistently high brand sentiment, and continuing strong sales growth which demonstrates that the value is not declining. This will continue to be reassessed annually to ensure that this judgement is still valid.

## 1 Accounting policies for the consolidated accounts continued

(d) Segmental Analysis
Management has determined the operating segments based on the information provided to the Chief Operating Decision Maker. Management has taken the view users of its financial statements will better understand the nature and financial effects of the business activities in which it engages and the economic environments in which it operates, through the new structure.

Management had identified a number of operating segments, and assessed these against the aggregation criteria on IFRS8, concluding that there are two reportable operating segments. In determining the application of the aggregation criteria management reviewed the long-term margins, profitability, sales trajectory, business model, products sold, types of customer, distribution channels and regulatory environment. The two reportable segments have been defined as the Growth businesses which contain our Wagamama, Concessions, and Pubs businesses. The remainder of the Group has been classified as Leisure businesses, which have similar operating models to the rest of our business, but different economic characteristics in terms of sales and profit trajectory.

## 2 Segmental analysis

**Operating Segments**
IFRS 8 Operating Segments requires operating segments to be based on the Group's internal reporting to its Chief Operating Decision Maker (CODM). The CODM is regarded as the combined Executive team of the Chief Executive Officer, and the Chief Financial Officer. The Group trades in two reportable segments, defined as the 'Growth Business' and the 'Leisure Business'. These have been defined based on the Leisure Business having different economic characteristics from the Growth businesses. The different brands within each reporting segment all meet the aggregation criteria set out in Paragraph 12 of IFRS 8.

| | Growth Business | | Leisure Business | | Group | |
|---|---|---|---|---|---|---|
| | **2019 £'000** | 2018 £'000 | **2019 £'000** | 2018 £'000 | **2019 £'000** | 2018 £'000 |
| Sales | **689,846** | 279,720 | **383,206** | 406,327 | **1,073,052** | 686,047 |
| Outlet EBITDA | **142,908** | 56,456 | **45,085** | 58,712 | **187,993** | 115,168 |
| Central allocations | | | | | **(51,250)** | (27,313) |
| **Group trading EBITDA** | | | | | **136,743** | 87,855 |
| | | | | | | |
| Exceptional items before tax | | | | | **(111,826)** | (38,772) |
| Depreciation and amortisation | | | | | **(45,650)** | (32,453) |
| Net finance charges | | | | | **(16,562)** | (2,699) |
| Tax effect of exceptional Items | | | | | **(3,111)** | (7,049) |
| **Net profit/(loss)** | | | | | **(40,406)** | 6,882 |

**Geographical Segments**
The Group trades primarily within the United Kingdom. The Group operates restaurants in the United States and generates revenue from franchise royalties primarily in Europe and the Middle East. The segmentation between geographical location does not meet the quantitative thresholds and so has not been disclosed.

## 3 Revenue

Revenue has been generated from the operation of restaurants, with approximately 98% of revenue generated within the United Kingdom. The remainder is attributable to restaurants within the United States and from franchise royalties primarily in Europe and the Middle East.

# 4 Profit for the year

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Profit for the year has been arrived at after charging/(crediting): | | |
| Amortisation (Note 11) | **2,589** | 342 |
| Depreciation (Note 12) | **43,061** | 32,111 |
| Impairment of property, plant and equipment and software (Note 6) | **105,788** | 13,970 |
| Purchases of food, beverages and consumables | **218,630** | 149,586 |
| Staff costs (Note 5) | **392,690** | 242,375 |
| | | |
| Minimum lease payments | **110,118** | 78,182 |
| Contingent rents | **15,617** | 12,515 |
| Total operating lease rentals of land and buildings | **125,735** | 90,697 |
| Rental income | **(2,766)** | (2,300) |
| **Net rental costs** | **122,969** | 88,397 |

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Current auditor's remuneration:** | | |
| Fees payable to the Company's auditor for the audit of the Group's and Subsidiary annual accounts | **319** | 338 |
| Fees payable to the Company's auditor for the audit of the Subsidiaries' annual accounts | **100** | 15 |
| **Total audit fees** | **419** | 353 |
| | | |
| Audit-related assurance services | **40** | 20 |
| Other assurance services | **25** | 10 |
| **Total trading non-audit fees** | **65** | 30 |
| | | |
| **Exceptional non-audit fees** | | |
| Historical financial information assurance | **–** | 855 |
| Synergy assurance | **–** | 250 |
| Profit forecast assurance | **–** | 160 |
| | **–** | 1,265 |
| | | |
| **Total current auditor's remuneration** | **484** | 1,648 |
| | | |
| **Previous auditor's remuneration:** | | |
| Audit-related assurance services | **–** | 21 |
| Other assurance services | **–** | 45 |
| **Total previous auditor's remuneration** | **–** | 66 |
| | | |
| **Total auditor's remuneration** | **484** | 1,714 |

Audit fees included in the above total relating to the Company are borne by a subsidiary undertaking. All of the auditor's remuneration in 2019 and 2018 was expensed as administration costs.

## 5 Staff costs

| | 2019 | 2018 |
|---|---|---|
| **a) Average staff numbers during the year (including Directors)** | | |
| Restaurant staff | 20,819 | 15,375 |
| Administration staff | 475 | 321 |
| | 21,294 | 15,696 |

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **b) Staff costs (including Directors) comprise:** | | |
| Wages and salaries | 358,959 | 224,486 |
| Social security costs | 27,285 | 14,723 |
| Share-based payments | 576 | 761 |
| Pension costs and salary supplements | 5,870 | 2,405 |
| | 392,690 | 242,375 |

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **c) Directors' remuneration** | | |
| Emoluments | 1,909 | 1,398 |
| Salary supplements | 127 | 165 |
| | 2,036 | 1,563 |
| (Credit)/charge in respect of share-based payments | (204) | (85) |
| | 1,832 | 1,478 |

Further details of the Directors' emoluments and the executive pension schemes are given in the Directors' remuneration report on pages 41 to 55.

## 6 Exceptional items

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Included within cost of sales: | | |
| – Impairment of property, plant, equipment and software | 105,788 | 13,970 |
| – Onerous lease provisions in respect of closed and other sites | 7,455 | 10,027 |
| – Write off of closed site property, plant and equipment | 2,632 | – |
| – Loss on assets held for sale | 2,019 | – |
| | 117,894 | 23,997 |
| Included within administration costs: | | |
| – Acquisition and integration costs | 11,180 | 14,775 |
| – Profit from sale of property, plant and equipment | (17,248) | – |
| | (6,068) | 14,775 |
| Included within interest payable: | | |
| – Refinancing costs | – | 467 |
| Exceptional items before tax | 111,826 | 39,239 |
| Tax effect of exceptional Items | (13,149) | (4,312) |
| | (13,149) | (4,312) |
| **Net exceptional items for the year** | 98,677 | 34,927 |

An exceptional pre-tax charge of £111.8m has been recorded in the year (2018: £39.2m), which includes the following:

- A net impairment charge of £105.8m (2018: £14.0m) has been incurred against property, plant and equipment and software assets. Of the £105.8m charge, £103.1m related to restaurants trading within our Leisure operating segment which has a recoverable amount of £115.4m based on its value in use. £2.7m of the impairment charge relates to four Wagamama restaurants predominantly in the US. The impairment charge comprised of two main elements:

  (i) In the Leisure operating segment we have recognised an impairment charge across sites that were identified as structurally unattractive; and

  (ii)In addition, given the well documented over capacity and continued like-for-like sales decline in the casual dining market, and ongoing cost headwinds, a more cautious medium term outlook has been taken when assessing the Leisure operating segment for impairment.

- Onerous lease provisions resulted in a charge of £7.5m in the year (2018: £10.0m). This comprises:
  - A £1.0m credit in respect of unutilised provisions following the successful exit of 8 sites ahead of expectations;
  - A further charge totalling £8.5m was provided for in the year. This comprised a charge of £7.9m in respect of newly identified onerous leases and a charge of £0.6m in respect of sites previously provided for.

- An impairment of assets held for sale for £2.0m (2018: £nil) was incurred relating to Wagamama US sites which were under strategic review.

- During the year the Group sold and leased back the head office building, for a gain of £17.2m. This was made up of the cost of the building of £6.2m, fixtures and fittings disposed of £3.3m, offset by the £26.7m, net of selling fees, received in the year for the sale of the head office building.

- An exceptional charge of £11.2m (2018: £14.8m) has been recorded in the year in relation to the integration of Wagamama.

## 6 Exceptional items continued

- A write off of £2.6m was made to the carrying value of the property, plant and equipment for Leisure sites which are converting to Wagamama in line with the Leisure estate rationalisation plan.

The tax credit relating to these exceptional charges was £13.1m (2018: £4.3m).

Cash expenditure associated with the above exceptional charges was £13.8m in the year (2018: £21.3m) relating to the cash cost of the onerous leases of £12.6m (2018: £11.2m), and the cash cost of the acquisitions and refinancing of £28.5m (2018: £10.1m). This was offset by the £27.3m received in the year for the sale of head office and one Leisure freehold site.

## 7 Net finance charges

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Bank interest payable | 14,413 | 1,355 |
| Other interest payable | 20 | – |
| Onerous lease interest | 634 | 375 |
| Amortisation of facility fees | 1,423 | 333 |
| Interest on obligations under finance leases | 170 | 170 |
| **Trading borrowing costs** | 16,660 | 2,233 |
| Exceptional refinancing costs (Note 6) | – | 467 |
| **Total borrowing costs** | 16,660 | 2,700 |
| Other interest receivable | (98) | (1) |
| **Total interest receivable** | (98) | (1) |
| Trading net finance charges | 16,562 | 2,232 |
| **Total net finance charges** | 16,562 | 2,699 |

# 8 Tax

| | Trading 2019 £'000 | Exceptional 2019 £'000 | Total 2019 £'000 | Total 2018 £'000 |
|---|---|---|---|---|
| **a) The tax charge comprises:** | | | | |
| Current tax | | | | |
| UK corporation tax | 15,186 | (1,233) | **13,953** | 7,736 |
| Adjustments in respect of previous years | 305 | (579) | **(274)** | 191 |
| Foreign tax relief | (3) | – | **(3)** | – |
| Foreign tax suffered | 19 | – | **19** | – |
| | 15,507 | (1,812) | **13,695** | 7,927 |
| Deferred tax | | | | |
| Origination and reversal of temporary differences | 2,363 | (429) | **1,934** | 1,832 |
| Adjustments in respect of previous years | (1,337) | – | **(1,337)** | (634) |
| Credit in respect of fixed asset impairment | (273) | (10,908) | **(11,181)** | (2,076) |
| | 753 | (11,337) | **(10,584)** | (878) |
| **Total tax charge for the year** | 16,260 | (13,149) | **3,111** | 7,049 |

## 8 Tax continued

### 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% (2018: 19%) due to the following factors:

| | Trading 2019 £'000 | Exceptional 2019 £'000 | Total 2019 £'000 | Total 2018 £'000 |
|---|---|---|---|---|
| Profit/(Loss) on ordinary activities before tax | 74,531 | (111,826) | **(37,295)** | 13,931 |
| Profit on ordinary activities before tax multiplied by the standard UK corporation tax rate of 19% (2018: 19%) | 14,161 | (21,247) | **(7,086)** | 2,647 |
| *Effects of:* | | | | |
| Depreciation/impairment on non-qualifying assets | 1,583 | 8,683 | **10,266** | 1,844 |
| Expenses not deductible for tax purposes | 466 | 1,165 | **1,631** | 2,872 |
| Movement on unrecognised deferred tax asset | 966 | 139 | **1,105** | – |
| Effect of overseas tax rates | 20 | – | **20** | – |
| Adjustment in respect of previous years | (1,033) | (579) | **(1,612)** | (443) |
| Release of tax provisions | – | – | **–** | (15) |
| Business combinations | – | – | **–** | (80) |
| Profit on disposal of properties | – | (1,310) | **(1,310)** | – |
| Share options | 97 | – | **97** | 224 |
| **Total tax charge for the year** | 16,260 | (13,149) | **3,111** | 7,049 |

The Finance (No.2) Act 2015 introduced a reduction in the main rate of corporation tax from 19% to 18% from April 2020. This reduction was 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.

Note that as part of the conservative manifesto it was announced that the corporation tax rate would no longer be reduced to 17%, as currently stated in the legislation. It is expected the budget on 11 March 2020 will include provisions retaining the corporation tax rate at 19%. The requirement to restate all deferred tax items from 17% to 19% in the financial year 2020 will have a material impact on the tax charge.

## 9 Earnings per share

| | 2019 | 2018 |
|---|---|---|
| **a) Basic earnings per share:** | | |
| Weighted average ordinary shares for the purposes of basic earnings per share | 490,904,049 | 284,959,978 |
| Total profit/(loss) for the year (£'000) | (40,406) | 6,882 |
| **Basic earnings per share for the year (pence)** | (8.23) | 2.42 |
| Total profit/(loss) for the year (£'000) | (40,406) | 6,882 |
| Effect of exceptional items on earnings for the year (£'000) | 98,677 | 34,927 |
| Earnings excluding exceptional items (£'000) | 58,271 | 41,809 |
| **Adjusted earnings per share (pence)** | 11.87 | 14.67 |
| **b) Diluted earnings per share:** | | |
| Weighted average ordinary shares for the purposes of basic earnings per share | 490,904,049 | 284,959,978 |
| **Effect of dilutive potential ordinary shares:** | | |
| Dilutive shares to be issued in respect of options granted under the share option schemes | – | 64,070 |
| Shares held by employee benefit trust | – | 688,276 |
| | 490,904,049 | 285,712,324 |
| **Diluted earnings per share (pence)** | (8.23) | 2.41 |
| **Adjusted diluted earnings per share (pence)** | 11.87 | 14.63 |

Diluted earnings per share 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 to share option schemes and the shares held by the employee benefit trust. The conversion, exercise or other potential issue of ordinary shares has an antidilutive effect on earnings per share and there is therefore no reduction from basic earnings per share.

## 10 Dividend

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders during the year: | | |
| Final dividend for the 52 weeks ended 30 December 2018 of 1.47p (2017: 10.60p) per share | 7,215 | 21,240 |
| Interim dividend for the 52 weeks ended 29 December 2019 of 2.10p (2018: 6.80p) per share | 10,309 | 13,626 |
| **Total dividends paid in the year** | 17,524 | 34,866 |
| Proposed final dividend for the 52 weeks ended 29 December 2019 of £nil (2018 actual proposed and paid: 1.47p) per share | – | 7,232 |

## 11 Intangible assets

| | Goodwill £'000 | Trademarks and licences £'000 | Franchise agreements £'000 | Software and IT development £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2018 | 26,433 | – | – | – | 26,433 |
| Additions | – | – | – | 1,532 | 1,532 |
| Additions recognised on acquisition of subsidiaries | – | 479 | – | 1,207 | 1,686 |
| Intangibles recognised on acquisition of subsidiaries* | 332,284 | 236,000 | 21,900 | – | 590,184 |
| **At 30 December 2018** | 358,717 | 236,479 | 21,900 | 2,739 | 619,835 |
| **Accumulated amortisation and impairment** | | | | | |
| At 1 January 2018 | – | – | – | – | – |
| Charged during the year | – | – | 28 | 314 | 342 |
| **At 30 December 2018** | – | – | 28 | 314 | 342 |
| **Cost** | | | | | |
| At 31 December 2018 | 358,717 | 236,479 | 21,900 | 2,739 | **619,835** |
| Additions | – | – | – | 2,320 | **2,320** |
| Amounts transferred to asset held for sale | (1,641) | (479) | – | – | **(2,120)** |
| Disposals | – | – | – | (223) | **(223)** |
| **At 29 December 2019** | 357,076 | 236,000 | 21,900 | 4,836 | **619,812** |
| **Accumulated amortisation** | | | | | |
| At 31 December 2018 | – | – | 28 | 314 | **342** |
| Charged during the year | – | 10 | 1,460 | 1,119 | **2,589** |
| Impairment | – | – | – | 327 | **327** |
| Amounts transferred to asset held for sale | – | (10) | – | – | **(10)** |
| Disposals | – | – | – | (223) | **(223)** |
| **At 29 December 2019** | – | – | 1,488 | 1,537 | **3,025** |
| Net book value as at 30 December 2018 | 358,717 | 236,479 | 21,872 | 2,425 | 619,493 |
| **Net book value as at 29 December 2019** | 357,076 | 236,000 | 20,412 | 3,299 | **616,787** |

*During 2018, Brunning and Price Limited acquired 100% of issued shares in Food and Fuel Limited and the Group recognised provisional fair values of the identifiable assets and liabilities acquired. During 2019, the Group undertook an external valuation of the property, plant and equipment which was representative of its fair value at the acquisition date. This has resulted in a £3.7m decrease in acquired property, plant and equipment from £6.4m to £2.7m and a £3.7m increase in goodwill. In addition to this, deferred consideration of £0.5m became payable resulting in a further £0.5m increase in goodwill. The total increase to goodwill was £4.2m, from £10.4m to £14.6m As permitted under IFRS the fair value of property, plant and equipment, other payables and goodwill have been retrospectively adjusted.

*During 2018, The Restaurant Group acquired 100% of issued shares in Mabel Topco Group and the group recognised provisional fair values of the identifiable assets and liabilities acquired. During 2019, the Group identified a further £1.6m provision on acquisition which has resulted in a corresponding increase in goodwill of £1.6m. As permitted under IFRS the fair value of provisions and goodwill have been retrospectively adjusted.

## 11 Intangible assets continued

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. The impairment test compares the higher of value in use, or recoverable amount, of CGU to its carrying value. In relation to intangible assets, CGU's have been defined as the original group of sites acquired in each acquisition. It is not practicable to go down to the site level as this would require an arbitrary allocation of the intangible assets. The values ascribed to each CGU are shown in the table below.

The recoverable amount of the goodwill and trademark CGUs is £1,214.7m as at 29 December 2019. The recoverable amount has been based on value in use estimates using one year budgets approved by the Board and a further two years forecast by Management. The projected cash flows have been discounted using a rate based on the Group's pre-tax weighted average cost of capital of 8.9% (2018: 9.2%) that reflects the risk of these assets. Cash flows are extrapolated in perpetuity with an annual growth rate of 2%. It was concluded that the value in use for each CGU is higher than its carrying value and therefore did not require impairment.

The carrying amount of goodwill and indefinite life intangible assets allocated to groups of CGUs is presented below along with the group of CGU's recoverable amounts.

| | Trademarks & Licenses £'000 | Goodwill £'000 | Total intangibles £'000 | Recoverable Amount £'000 |
|---|---|---|---|---|
| Wagamama | 236,000 | 315,527 | 551,527 | 1,058,714 |
| Brunning & Price | – | 15,158 | 15,158 | 71,513 |
| Blubeckers | – | 11,275 | 11,275 | 65,121 |
| Food & Fuel | – | 14,526 | 14,526 | 16,354 |
| Ribble Valley Inns | – | 590 | 590 | 3,017 |
| | **236,000** | **357,076** | **593,076** | **1,214,719** |

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 key assumptions used in the recoverable amount estimates are the discount rate applied, the like-for-like sales growth and the perpetuity growth rates. The forecast cash flows and perpetuity growth rates take into account management's experience of the specific sites and its long term expectations of the market. The sensitivity analysis shows that no reasonably possible movements in these assumptions would lead to an impairment, with the exception of Food & Fuel.

The goodwill attributable to the Food and Fuel acquisition is supported on the basis of future trading projections produced by Management. These plans include a material improvement to current trading based on a two to three year improvement plan, which is currently being implemented. If this plan is not effective and sales are less than forecast then part or all of the goodwill amount may be impaired. The Group has conducted a sensitivity analysis on the key impairment test assumptions for the group of CGU's as summarised above.

US liquor licenses and trademarks have been transferred to the disposal group classified as held for sale. This amounts to £469k and relates to assets used by the Wagamama US business. Goodwill relating to the acquisition of Wagamama US has been transferred to assets held for sale amounting to £1,641k. See Note 13 for further details regarding the disposal group held for sale assets.

## 12 Property, plant and equipment

| | Land and buildings £'000 | Fixtures, equipment and vehicles £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2018 | 540,888 | 200,299 | 741,187 |
| Additions | 38,374 | 14,913 | 53,287 |
| Additions on acquisition of subsidiaries* | 64,980 | 31,599 | 96,579 |
| Disposals | (569) | (751) | (1,320) |
| **At 30 December 2018** | 643,673 | 246,060 | 889,733 |
| **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 |
| **Cost** | | | |
| At 31 December 2018 | 643,673 | 246,060 | **889,733** |
| Additions | 36,819 | 32,998 | **69,817** |
| Disposals | (12,266) | (8,035) | **(20,301)** |
| Amounts transferred to Asset held for sale | (20,608) | (5,651) | **(26,259)** |
| Foreign exchange differences | (323) | (73) | **(396)** |
| **At 29 December 2019** | 647,295 | 265,299 | **912,594** |
| **Accumulated depreciation and impairment** | | | |
| At 31 December 2018 | 294,527 | 164,575 | **459,102** |
| Provided during the year | 21,023 | 22,038 | **43,061** |
| Impairment (note 6) | 85,009 | 20,452 | **105,461** |
| Disposals | (2,222) | (6,142) | **(8,364)** |
| Amounts transferred to Asset held for sale | (17,595) | (4,674) | **(22,269)** |
| Foreign exchange differences | (84) | (23) | **(107)** |
| **At 29 December 2019** | 380,658 | 196,226 | **576,884** |
| Net book value as at 30 December 2018 | 349,146 | 81,485 | 430,631 |
| **Net book value as at 29 December 2019** | 266,637 | 69,073 | **335,710** |

*During 2018, Brunning and Price Limited acquired 100% of issued shares in Food and Fuel Limited and the Group recognised provisional fair values of the identifiable assets and liabilities acquired. During 2019, the Group undertook an external valuation of the property, plant and equipment which was representative of its fair value at the acquisition date. This has resulted in a £3.7m decrease in acquired property, plant and equipment from £6.4m to £2.7m and a £3.7m increase in goodwill. As permitted under IFRS the fair value of property, plant and equipment and goodwill have been retrospectively adjusted.

## 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 and a further two years forecast by Management. 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 8.9% (2018: 9.2%) 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 between nil and 2% per annum depending on Management's assessment of the future profitability of the specific CGU.

The key assumptions in the value in use estimates are the discount rate applied and like-for-like sales growth. An increase of 1% in the discount rate would give rise to an additional impairment charge of approximately £0.3m, whilst a decrease of 1% in the discount rate would give rise to a reduction in impairment of approximately £0.3m. The forecast like-for-like sales growth takes into account management's experience of the specific sites and its long term expectations of the market. A 2% reduction in the forecast like-for-like sales growth would result in an additional impairment charge of approximately £1.3m while a 2% increase would reduce the impairment by £22.3m.

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Net book value of land and buildings:** | | |
| Freehold | **116,397** | 114,919 |
| Long leasehold | **3,128** | 4,102 |
| Short leasehold | **147,112** | 230,125 |
| | **266,637** | 349,146 |

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Assets held under finance leases** | | |
| **Costs** | | |
| At the beginning of the year | **1,595** | 1,595 |
| **At the end of the year** | **1,595** | 1,595 |
| | | |
| **Depreciation** | | |
| At the beginning of the year | **1,445** | 1,434 |
| Provided during the year | **11** | 11 |
| **At the end of the year** | **1,456** | 1,445 |
| | | |
| **Net book value at the end of the year** | **139** | 150 |

Property plant and equipment transferred to the disposal group classified as held for sale amounts to £4,361k and relates to assets used by the Wagamama US business. See Note 13 for further details regarding the disposal group held for sale assets.

## 13 Assets held for sale

The assets and liabilities relating to the trading Wagamama US restaurants have been presented as held for sale following commencement of a sale process in September 2019. The transaction was completed subsequent to the balance sheet date in January 2020. The Group entered into a joint venture agreement with a third party to operate the Wagamama US restaurants, in accordance with IFRS 5, the assets held for sale were written down to their fair value less costs to sell at the date of classification as held for sale and reassessed as at the Group's year end date. As at 29 December 2019, a fair value loss adjustment of £2,019k has been recorded within exceptional items in the consolidated income statement.

Assets of £3,990k have been transferred in from property, plant and equipment, and £2,110k from intangible assets. Onerous lease liabilities of £4,081k have been transferred from Provisions. These assets and liabilities have been contributed to the joint venture and in return the Group received a 20% share in the joint venture, which the Directors have assessed as having a fair value of £nil. The assets have subsequently been fair valued down from £6,100k to £4,081k and a loss on transfer to assets held for sale of £2,019k has been recognised in exceptional administration costs.

## 14 Other receivables

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Other receivables | 22,262 | 23,709 |
| Expected credit losses | (490) | (950) |
| Fair value lease assets | 152 | 153 |
| | 21,924 | 22,912 |

Movements in the Group provision for expected credit losses of trade and other receivables is as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At the beginning of the year | (950) | (912) |
| Released/(provided) for during the year | 460 | (38) |
| At the end of the year | (490) | (950) |

Other receivables relate to amounts due from suppliers in the ordinary course of business. The Group's exposure to credit risk arising from other receivables is low given the strong trade relationship maintained with suppliers. The Group's exposure to credit risk arising from its operations is minimal given that the customer base is large and unrelated and that the overwhelming majority of customer transactions are settled through cash or secure electronic means.

The Group applies a simplified approach to expected credit losses, recognising a loss allowance based on historic losses and economic factors relating to specific customers.

## 15 Trade and other payables

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade payables | **65,360** | 78,764 |
| Other tax and social security | **38,412** | 45,696 |
| Other payables* | **20,503** | 19,496 |
| Accruals | **62,917** | 67,427 |
| Fair value lease liabilities | **823** | 822 |
| Finance lease liability | **272** | 272 |
| | **188,287** | 212,477 |

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

*During 2018, Brunning and Price Limited acquired 100% of issued shares in Food and Fuel Limited and the Group recognised provisional fair values of the identifiable assets and liabilities acquired. During 2019, deferred consideration of £0.5m became payable resulting in a £0.5m increase in goodwill and other payables.

## 16 Provisions

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Provision for onerous leases | **48,862** | 57,421 |
| Other provisions* | **4,031** | 3,841 |
| **Balance at the end of the year** | **52,893** | 61,262 |
| Analysed as: | | |
| Amount due for settlement within one year* | **14,549** | 11,018 |
| Amount due for settlement after one year | **38,344** | 50,244 |
| | **52,893** | 61,262 |

| | Onerous contracts & other property provisions £'000 | Other £'000 | Total £'000 |
|---|---|---|---|
| **Balance at 31 December 2018*** | 57,421 | 3,841 | **61,262** |
| Transfer from other provisions | 187 | (187) | **–** |
| Provisions classified as held for sale | (4,081) | – | **(4,081)** |
| Release of onerous lease provision in respect of closed sites now disposed | (1,064) | – | **(1,064)** |
| Onerous lease provision in respect of distressed and other sites | 8,291 | 228 | **8,519** |
| Other provisions recognised | – | 576 | **576** |
| Amounts utilised | (12,493) | (460) | **(12,953)** |
| Unwinding of discount | 601 | 33 | **634** |
| **Balance at 29 December 2019** | 48,862 | 4,031 | **52,893** |

## 16 Provisions continued

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 £7.5m in the year (2018: £10.0m). This comprises:
  - A £1.0m credit in respect of unutilised provisions following the successful exit of 8 sites ahead of expectations;
  - A further charge totalling £8.5m was provided for in the year. This comprised a charge of £7.9m in respect of newly identified onerous leases and a charge of £0.6m in respect of sites previously provided for.

Changes in the EBITDA performance of each site could impact on the value of the provision. It is estimated that, a 2% decline in the like-for-like sales performance of sites would generate an additional provision of £0.7m. A 1% increase in the risk free rate would reduce the provision by £1.9m, while a reduction of similar magnitude would result in an additional provision of £0.9m. An increase of 1 year of rent in the cost to exit would result in an increase in the provision of £4.5m, while a decrease of 1 year would result in a decrease of £4.5m.

Provisions transferred to the disposal group classified as held for sale amounts to £4.1m and relate to assets used by the Wagamama US business. See Note 13 for further details regarding the disposal group held for sale assets.

*During 2018, the The Restaurant Group plc acquired 100% of issued shares in Mabel Topco Group and the Group recognised provisional fair values of the identifiable assets and liabilities acquired. During 2019, a £1.6m provision was identified resulting in a £1.6m increase in goodwill and provisions.

## 17 Deferred taxation

| | Capital allowances £'000 | Intangible assets £'000 | Share options £'000 | Other £'000 | **2019 Total £'000** | 2018 Total £'000 |
|---|---|---|---|---|---|---|
| **Balance at the beginning of the year** | 10,824 | 42,295 | (231) | (214) | **52,674** | 4,301 |
| Opening balance adjustments | 329 | 1,701 | – | (2,030) | **–** | – |
| Movement in deferred tax balances (net of exceptional credit) | (9,634) | (248) | (10) | 645 | **(9,247)** | (244) |
| Adjustments in respect of previous years | (918) | 258 | – | (677) | **(1,337)** | (634) |
| **Deferred tax taken directly to the income statement (Note 8)** | (10,223) | 1,711 | (10) | (2,062) | **(10,584)** | (878) |
| **Deferred tax arising on acquisition** | – | – | – | – | **–** | 49,209 |
| Tax on share-based payments | – | – | (83) | – | **(83)** | 42 |
| **Deferred tax taken through equity** | – | – | (83) | – | **(83)** | 42 |
| **Balance at the end of the year** | 601 | 44,006 | (324) | (2,276) | **42,007** | 52,674 |

## 17 Deferred taxation continued

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Deferred tax consists of:** | | |
| Capital allowances in advance of depreciation | 601 | 10,824 |
| Intangible assets | 44,006 | 42,295 |
| Share options | (324) | (231) |
| Capital gains rolled over | – | 330 |
| Capital losses | – | (330) |
| Other temporary differences | (2,276) | (214) |
| | 42,007 | 52,674 |

## 18 Share capital

| | Number | £'000 |
|---|---|---|
| **Authorised, issued and fully paid** | | |
| At 29 December 2019 and 30 December 2018 | 491,496,230 | 138,234 |

The shares have a par value of 28.125p each (2018: 28.125p).

| | Number | £'000 |
|---|---|---|
| **Treasury shares** | | |
| At 29 December 2019 and 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

### Employee Benefit Trust
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 29 December 2019, the Trustees, Estera Trust (Jersey) Limited, held 592,181 shares in the Company (30 December 2018: 688,276 shares).

£161,553 was received in January 2019 in relation to the rights issue on the unallocated shares. (52 weeks ended 30 December 2018: £nil).

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

### Foreign Currency Movement
During the year, the Group made a £578,092 (2018: £Nil) foreign currency gain on translation of foreign subsidiaries.

## 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 £0.6m (2018: £0.8m).

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.

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.

Year ended 29 December 2019

| 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 |
|---|---|---|---|---|---|---|---|---|
| 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 | – | – | (183,113) | 226,717 | – |
| 2020 | Conditional – EPS element | 333.2p | 409,830 | – | – | (183,113) | 226,717 | – |
| 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 | 128.0p | 809,166 | – | – | (294,235) | 514,931 | – |
| 2021 | Conditional – EPS element | 226.0p | 809,166 | – | – | (294,235) | 514,931 | – |
| 2021 | Conditional – TSR element | 149.0p | 37,684 | – | – | (25,120) | 12,564 | – |
| 2021 | Conditional – EPS element | 276.6p | 37,684 | – | – | (25,120) | 12,564 | – |
| 2022 | Conditional – TSR element | 44.6p | – | 2,629,233 | – | (470,615) | 2,158,618 | – |
| 2022 | Conditional – EPS element | 112.4p | – | 2,629,233 | – | (470,615) | 2,158,618 | – |
| 2022 | Conditional – TSR element | 69.7p | – | 817,632 | – | – | 817,632 | – |
| 2022 | Conditional – EPS element | 149.7p | – | 817,632 | – | – | 817,632 | – |
| **Total number** | | | **3,511,398** | **6,893,730** | **–** | **(2,944,204)** | **7,460,924** | **–** |

## 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 | 128.0p | – | 809,166 | – | – | 809,166 | – |
| 2021 | Conditional – EPS element | 226.0p | – | 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 | – |

## 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 29 December 2019

| 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 |
|---|---|---|---|---|---|---|---|---|
| 2018 – 2019 | 546.0p | 86,537 | – | (329) | – | (86,208) | – | – |
| 2019 – 2020 | 307.0p | 411,320 | – | (21,857) | – | (57,076) | 332,387 | – |
| 2020 – 2021 | 243.8p | 615,281 | – | (18,974) | – | (228,943) | 367,364 | – |
| 2021 – 2022 | 239.5p | 515,612 | – | (38,961) | – | (173,966) | 302,685 | – |
| 2022 – 2023 | 112.7p | – | 2,735,464 | (3,832) | – | (19,480) | 2,712,152 | – |
| **Total number** | | **1,628,750** | **2,735,464** | **(83,953)** | **–** | **(565,673)** | **3,714,588** | **–** |
| **Weighted average exercise price** | | **274.45** | **112.72** | **253.46** | **0.0p** | **290.39** | **153.40** | **–** |

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 – 2022 | 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 |

The weighted average remaining contractual life for the shares outstanding at the end of the period is 2.29 years (2018: 1.78 years).

## 20 Share-based payment schemes continued

### Assumptions used in valuation of share-based payments granted in the year ended 29 December 2019:

| Scheme | April 2019 LTIP Award | | August 2019 LTIP Award | | 2019 SAYE |
|---|---|---|---|---|---|
| | TSR element | Adjusted EPS element | TSR element | Adjusted EPS element | |
| Grant date | 5/4/19 | 5/4/19 | 1/8/19 | 1/8/19 | 20/10/19 |
| Share price at grant date | 112.4p | 112.4p | 149.7p | 149.7p | 150.1p |
| Exercise price | n/a | n/a | n/a | n/a | 112.7p |
| No of options originally granted | 2,629,233 | 2,629,233 | 817,632 | 817,632 | 2,735,464 |
| Minimum vesting period | 3 years | 3 years | 3 years | 3 years | 3 years |
| Expected volatility[1] | 0.407 | n/a | 0.407 | n/a | 0.417 |
| Contractual life | 3 years | 3 years | 3 years | 3 years | 3.4 years |
| Risk free rate | 0.71% | n/a | 0.34% | n/a | 0.49% |
| Expected dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 2.38% |
| Expected forfeitures | 24.20% | 24.20% | 0.00% | 0.00% | 22.49% |
| Fair value per option | 44.6p | 112.4p | 69.7p | 149.7p | 52.5p |

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 April and August 2019 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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Profit/(loss) on ordinary activities before tax | (37,295) | 13,931 |
| Net interest charges | 16,562 | 2,232 |
| Impairment of property, plant, equipment and software | 105,788 | 13,970 |
| Onerous lease and other property provisions | 7,455 | 10,027 |
| Acquisition and integration costs | 11,180 | 14,775 |
| Loss on assets held for sale | 2,019 | – |
| Refinancing costs | – | 467 |
| Depreciation and amortisation | 45,650 | 32,453 |
| (Profit)/loss on disposal of property, plant and equipment | (15,388) | 104 |
| Other non-cash items | (11) | 761 |
| (Increase)/decrease in inventory | (596) | 83 |
| (Increase)/decrease in receivables | (261) | (3,983) |
| Increase/(decrease) in payables | 5,398 | 3,487 |
| **Cash generated from operations** | **140,501** | **88,307** |

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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Net debt:** | | |
| **At the beginning of the year** | **(291,132)** | (23,102) |
| Movements in the year: | | |
| Net repayments/(withdrawals) of borrowings | **32,000** | (102,000) |
| Drawdown of overdraft | **(9,950)** | – |
| 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 | **170** | 208 |
| Non-cash movements in the year | **(1,594)** | (359) |
| Net cash (outflow)/inflow | **(16,122)** | 56,292 |
| **At the end of the year** | **(286,628)** | (291,132) |

Represented by:

| | At 31 December 2017 £'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 flow movements in the year £'000 | Non-cash movements in the year £'000 | At 29 December 2019 £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | **9,611** | 56,292 | – | – | – | – | **65,903** | (16,122) | (25) | **49,756** |
| Overdraft | **–** | – | – | – | – | – | **–** | (9,950) | – | **(9,950)** |
| Bank loans falling due after one year | **(31,223)** | (102,000) | (225,000) | 2,493 | 1,500 | (190) | **(354,420)** | 32,000 | (1,402) | **(323,822)** |
| Finance leases | **(1,490)** | 208 | (1,164) | – | – | (169) | **(2,615)** | 170 | (167) | **(2,612)** |
| | **(23,102)** | (45,500) | (226,164) | 2,493 | 1,500 | (359) | **(291,132)** | 6,098 | (1,594) | **(286,628)** |

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 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 fixed and floating rate debt.

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.

### 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 and prior financial year.

### (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:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Cash and cash equivalents | 49,756 | 65,903 |
| Trade and other receivables | 21,924 | 22,912 |
| **Total financial assets** | **71,680** | 88,815 |

Cash and cash equivalents include £0.3m (2018: £0.7m) 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:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Trade and other payables* | **149,603** | 166,509 |
| Finance lease payable | **272** | 272 |
| Overdraft | **9,950** | – |
| **Short-term financial liabilities** | **159,825** | 166,781 |
| Long-term borrowings – at fixed interest rates | **225,000** | 225,000 |
| Long-term borrowings – at floating interest rates ** | **102,000** | 134,000 |
| Bank fees | **(3,178)** | (4,580) |
| Other payables | **26,077** | 27,521 |
| **Long-term financial liabilities** | **349,899** | 381,941 |
| **Total financial liabilities** | **509,724** | 548,722 |

* During 2018, Brunning and Price Limited acquired 100% of issued shares in Food and Fuel Limited and the Group recognised provisional fair values of the identifiable assets and liabilities acquired. During 2019, deferred consideration of £0.5m became payable resulting in a £0.5m increase in goodwill and other payables.

** Total financial liabilities attracting interest were £327m (2018: £359m). 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 3.98% (2018: 3.02%).

On 2019 results, net interest excluding onerous lease interest was covered 8.5 times (2018: 47.3 times) by earnings before interest, tax, depreciation and exceptional items. Based on year-end debt and earnings for 2019, a 1% rise in interest rates would reduce interest cover to 8.0 times (2018: 27.9 times).

At 29 December 2019 the Group had a cash balance of £49.8m (2018: £65.9m).

Total Group's revolving credit 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 29 December 2019 the Group has £118m of committed borrowing facilities in excess of gross borrowings (2018: £86.0m) and £0.1m of undrawn overdraft (2018: £10.0m of undrawn overdraft).

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.

## 23 Financial instruments and derivatives continued

### 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 (2018: £35.3m), other receivables of £7.5m (2018: £7.5m), trademarks and licences of £0.5m (2018 £0.5m), and assets arising from a finance leases of £1.0m (2018: £1.0m). The fixed charge also covers 90 (2018: 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 (2018: £76.4m), software and IT development of £1.2m (2018: £1.2m), stock of £2.6m (2018: £2.6m), prepayments of £9.4m (2018: £9.4m) and cash of £38.0m (2018: £38.0m).

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 29 December 2019

| | **Overdraft £'000** | **Trade and other payables excluding tax £'000** | **Fixed rate loan £'000** | **Floating rate loan £'000** | **Finance lease debt £'000** | **Total £'000** |
|---|---|---|---|---|---|---|
| Within one year | 9,950 | 149,875 | 9,281 | 5,153 | 362 | **174,621** |
| Within two to five years | – | – | 239,062 | 111,780 | 1,307 | **352,149** |
| After five years | – | – | – | – | 12,951 | **12,951** |
| | 9,950 | 149,875 | 248,343 | 116,933 | 14,620 | **539,721** |

### At 30 December 2018

| | Overdraft £'000 | Trade and other payables excluding tax* £'000 | Fixed rate loan £'000 | Floating rate loan £'000 | Finance lease debt £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Within one year | – | 165,185 | 9,281 | 5,322 | 272 | 180,060 |
| Within two to five years | – | – | 248,343 | 144,617 | 1,089 | 394,049 |
| After five years | – | – | – | – | 12,370 | 12,370 |
| | – | 165,185 | 257,624 | 149,939 | 13,731 | 586,479 |

* During 2018, Brunning and Price Limited acquired 100% of issued shares in Food and Fuel Limited and the Group recognised provisional fair values of the identifiable assets and liabilities acquired. During 2019, deferred consideration of £0.5m became payable resulting in a £0.5m increase in goodwill and other payables.

### Offsetting financial assets and financial liabilities

*Financial assets*

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Gross amount of recognised financial assets | **62,325** | 65,988 |
| Gross amounts of recognised financial liabilities set off in the balance sheet | **(12,568)** | (85) |
| Net amount of financial assets presented in the balance sheet | **49,757** | 65,903 |

## 23 Financial instruments and derivatives continued

### 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 ensures continuity of funding, provided the Group continues to meet its covenant requirements (as detailed in the Directors' Report page 56).

### (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.

### (e) Interest rate risk

Exposure to interest rate movements has been controlled historically through the use of fixed and floating rate debt. 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 | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Within one year | **272** | 272 | **272** | 272 |
| Within two to five years | **1,089** | 1,089 | **780** | 779 |
| After five years | **12,112** | 12,370 | **1,560** | 1,564 |
| | **13,473** | 13,731 | | |
| Less: future interest payments | **(10,861)** | (11,116) | | |
| **Present value of lease obligations** | **2,612** | 2,615 | **2,612** | 2,615 |
| **Analysed as:** | | | | |
| Amount due for settlement within one year | | | **272** | 272 |
| Amount due for settlement after one year | | | **2,340** | 2,343 |
| **Present value of lease obligations** | | | **2,612** | 2,615 |

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 2019 £'000 | Receivable 2019 £'000 | Payable 2018 £'000 | Receivable 2018 £'000 |
|---|---|---|---|---|
| Within one year | **125,949** | **2,970** | 97,481 | 2,253 |
| Within two to five years | **457,597** | **9,081** | 322,856 | 6,451 |
| After five years | **422,406** | **16,275** | 717,132 | 22,064 |
| | **1,005,952** | **28,326** | 1,137,469 | 30,768 |

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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Authorised and contracted for: | 15,153 | 12,259 |

At 29 December 2019, the Group had commitments of £15.2m (2018: £12.3m) 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 cash outflow is deemed to be remote, however, we estimate contingent liabilities to be £3.3m (2018: £1.6m), calculated on an undiscounted basis to the end of the lease term.

## 27 Related party transactions

There were no related party transactions in the 52 weeks ended 29 December 2019.

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.

## 28 Business combinations

**Food and Fuel**
During 2018, Brunning and Price Limited acquired 100% of issued shares in Food and Fuel Limited and the Group recognised provisional fair values of the identifiable assets and liabilities acquired. During 2019, the Group undertook an external valuation of the property, plant and equipment which was representative of its fair value at the acquisition date. This has resulted in a £3.7m decrease in acquired property, plant and equipment from £6.4m to £2.7m and a £3.7m increase in goodwill. In addition to this, additional deferred consideration of £0.5m was identified resulting in a further £0.5m increase in goodwill. The total increase to goodwill was £4.2m, from £10.4m to £14.6m. As permitted under IFRS the fair value of property, plant and equipment, other payables and goodwill have been retrospectively adjusted.

During 2018, The Restaurant Group acquired 100% of issued shares in Mabel Topco Group and the group recognised provisional fair values of the identifiable assets and liabilities acquired. During 2019, the Group identified a further £1.6m provision on acquisition which has resulted in a corresponding increase in goodwill of £1.6m. As permitted under IFRS the fair value of other payables and goodwill have been retrospectively adjusted.

## 29 Subsequent Events

In January 2020, the Group entered into a joint venture agreement with a third party to operate the Wagamama US restaurants (refer to Note 13).

There are no other material events which have arisen between 29 December 2019 and the date the financial statements were issued which have significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the Group in future financial periods.

# Company balance sheet

| | Note | At 29 December 2019 £'000 | At 30 December 2018 Restated (Note 1) £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiary undertakings | 3 | **117,763** | 147,714 |
| Loans to subsidiary undertakings | 4 | **342,823** | 349,519 |
| | | **460,586** | 497,233 |
| **Current assets** | | | |
| **Receivables** | | | |
| Amounts falling due within one year from Group undertakings | | **114,249** | 87,572 |
| Accrued Income | | **1,795** | – |
| | | **116,044** | 87,572 |
| **Total assets** | | **576,630** | 584,805 |
| **Payables** | | | |
| Overdraft | | **(9,950)** | – |
| Amounts falling due within one year to Group undertakings | | **–** | (11,579) |
| Accruals | | **(226)** | – |
| | | **(10,176)** | (11,579) |
| **Net current assets** | | **105,868** | 75,993 |
| **Total assets less current liabilities** | | **566,454** | 573,226 |
| Long-term borrowings | 5 | **(90,637)** | (129,880) |
| **Net assets** | | **475,817** | 443,346 |
| **Capital and reserves** | | | |
| Called up share capital | | **138,234** | 138,234 |
| Share premium account | | **249,686** | 249,686 |
| Other reserves | | **(5,271)** | (5,825) |
| Profit and loss account | | **93,168** | 61,251 |
| **Shareholders' funds** | | **475,817** | 443,346 |

The Company's profit for the year was £49.4m (2018 restated: £18.3m).

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 112 to 119 were approved by the Board of Directors and authorised for issue on 25 February 2020 and were signed on its behalf by:

**Andrew Hornby (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 1 January 2018** | 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 – restated | – | – | – | 18,262 | 18,262 |
| Dividends | – | – | – | (34,866) | (34,866) |
| **Balance at 30 December 2018 – restated (Note 1)** | 138,234 | 249,686 | (5,825) | 61,251 | 443,346 |
| **Balance at 31 December 2018** | **138,234** | **249,686** | **(5,825)** | **61,251** | **443,346** |
| Employee share-based payment schemes | **–** | **–** | **554** | **–** | **554** |
| Total comprehensive income | **–** | **–** | **–** | **49,441** | **49,441** |
| Dividends | | | | **(17,524)** | **(17,524)** |
| **Balance at 29 December 2019** | **138,234** | **249,686** | **(5,271)** | **93,168** | **475,817** |

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. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. 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 pounds 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.

### 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.

### 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.

## 1 Accounting policies and basis of preparation continued

### Restatement of comparatives

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

| | As originally disclosed £'000 | Wagamama investment £'000 | Revolving Credit Facility £'000 | As restated £'000 |
|---|---|---|---|---|
| **Consolidated income statement for the 52 weeks ended 30 December 2018** | | | | |
| Profit after tax | 18,390 | – | (128) | 18,262 |
| **Consolidated balance sheet at 30 December 2018** | | | | |
| Investments in subsidiary undertakings | 346,431 | (198,717) | – | 147,714 |
| Loans to subsidiary undertakings | 150,408 | 199,111 | – | 349,519 |
| Amounts falling due within one year to Group undertakings | (140,937) | (394) | 129,752 | (11,579) |
| Long-term borrowings | – | – | (129,880) | (129,880) |
| Profit and loss account | 61,379 | – | (128) | 61,251 |

### Wagamama investment

The Company incorrectly classified the investment in Mabel Mezzco Limited (Wagamama) as being held by The Restaurant Group plc. This investment is actually held by TRG (Holdings) Limited who has 100% of the share capital of Mabel Mezzco Limited. There is no impact on the net assets of the Company, or of the result for the current or prior year.

### Revolving Credit Facility

In the prior year, the Company incorrectly classified the Revolving Credit Facility which was put in place on 24 December 2018, as a liability of The Restaurant Group (UK) Limited, whereas The Restaurant Group Plc is the borrower under the facility. This loan has been reclassified in the 2019 accounts. The impact on the opening reserves for 2019, and the 2018 result is a reduction in Profit for the Year of £128k.

## 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).

All costs of employees and Directors are borne by a subsidiary undertaking. At 29 December 2019 the Company employed five persons, being the directors (30 December 2018: six persons). Refer to the Directors remuneration report for further details of remuneration paid for services.

## 3 Investment in subsidiary undertakings

| | Shares £'000 | Share Based Payment £'000 | Loans £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 30 December 2018 – restated** | 91,829 | 25,380 | 31,927 | **149,136** |
| Share-based payment schemes | – | 554 | – | **554** |
| Loan forgiven | – | – | (6,342) | **(6,342)** |
| Reclassification | – | – | (25,585) | **(25,585)** |
| **At 29 December 2019** | 91,829 | 25,934 | – | **117,763** |
| **Amounts written off** | | | | |
| **At 30 December 2018** | 888 | – | 534 | **1,422** |
| Reversal of bad debt provision | (888) | – | (534) | **(1,422)** |
| **At 29 December 2019** | – | – | – | **–** |
| Net book value at 30 December 2018 | 90,941 | 25,380 | 31,393 | **147,714** |
| **Net book value at 29 December 2019** | 91,829 | 25,934 | – | **117,763** |

## 3 Investment in subsidiary undertakings continued

The Company's subsidiaries are listed below:

| | Registered office | Country of Incorporation | Status | Proportion of voting rights and shares held at 29 December 2019 |
|---|---|---|---|---|
| **Leisure & Concessions** | | | | |
| TRG (Holdings) Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Holding | 100% |
| The Restaurant Group (UK) Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Trading | 100% |
| Chiquito Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Trading | 100% |
| TRG Concessions Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Trading | 100% |
| TRGI Limited | 2nd Floor, 1-2 Victoria Buildings, Haddington Road, Dublin | Ireland | Dormant | 100% |
| Caffe Uno Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Dormant | 100% |
| Number One Leicester Square Limited | 1 George Square, Glasgow, G2 1AL | Scotland | Dormant | 100% |
| Adams Rib Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Dormant | 100% |
| G.R. Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Holding | 100% |
| Strikes Restaurants Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Dormant | 100% |
| Black Angus Steak Houses Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Dormant | 100% |
| J.R. Restaurants Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Dormant | 100% |
| DPP Restaurants Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Dormant | 100% |
| Garfunkels Restaurants Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Dormant | 100% |
| Frankie & Benny's (UK) Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Dormant | 100% |
| City Centre Restaurants (UK) Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Dormant | 100% |
| City Hotels Group Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Dormant | 100% |
| Est Est Est Group Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Holding | 100% |
| Factmulti Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Holding | 100% |

## 3 Investment in subsidiary undertakings continued

| | Registered office | Country of Incorporation | Status | Proportion of voting rights and shares held at 29 December 2019 |
|---|---|---|---|---|
| **Pubs** | | | | |
| Brunning and Price Limited | Yew Tree Farm Buildings, Saighton, Chester, Cheshire, CH3 6EG | England and Wales | Trading | 100% |
| Blubeckers Limited | 5-7 Marshalsea Road Borough, London, SE1 1EP | England and Wales | Trading | 100% |
| Ribble Valley Inns Limited | Yew Tree Farm Buildings, Saighton, Chester, Cheshire, CH3 6EG | England and Wales | Trading | 100% |
| Food & Fuel Limited | Yew Tree Farm Buildings, Saighton, Chester, Cheshire, CH3 6EG | England and Wales | Trading | 100% |
| Front Page Holdings Limited | Yew Tree Farm Buildings, Saighton, Chester, Cheshire, CH3 6EG | England and Wales | Dormant | 100% |
| Front Page Pubs Limited | Yew Tree Farm Buildings, Saighton, Chester, Cheshire, CH3 6EG | England and Wales | Dormant | 100% |
| **Wagamama** | | | | |
| Mabel Topco Limited | 76 Wardour Street, London, W1F 0UR | England and Wales | Holding | 100% |
| Mabel Midco Limited | 76 Wardour Street, London, W1F 0UR | England and Wales | Holding | 100% |
| Mabel Mezzco Limited | 76 Wardour Street, London, W1F 0UR | England and Wales | Holding | 100% |
| Mabel Bidco Limited | 76 Wardour Street, London, W1F 0UR | England and Wales | Holding | 100% |
| Wagamama Finance Plc | 76 Wardour Street, London, W1F 0UR | England and Wales | Holding | 100% |
| Wagamama Group Limited | 76 Wardour Street, London, W1F 0UR | England and Wales | Holding | 100% |
| Wagamama Limited | 76 Wardour Street, London, W1F 0UR | England and Wales | Trading | 100% |
| Wagamama International (Franchising) Limited | 76 Wardour Street, London, W1F 0UR | England and Wales | Trading | 100% |
| Wagamama CPU Limited | 76 Wardour Street, London, W1F 0UR | England and Wales | Trading | 100% |
| Wagamama Newco Limited | 76 Wardour Street, London, W1F 0UR | England and Wales | Dormant | 100% |
| Ramen USA Limited | 76 Wardour Street, London, W1F 0UR | England and Wales | Holding | 100% |

## 3 Investment in subsidiary undertakings continued

| | Registered office | Country of Incorporation | Status | Proportion of voting rights and shares held at 29 December 2019 |
|---|---|---|---|---|
| Wagamama USA Holdings Inc | 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808 | USA | Holding | 100% |
| Wagamama Inc | 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808 | USA | Trading | 100% |
| Wagamama USA 2015 LLC | 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808 | USA | Trading | 100% |
| Wagamama NY 1011 3rd LLC | 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808 | USA | Holding | 100% |
| Wagamama NY 210 5th LLC | 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808 | USA | Holding | 100% |
| Wagamama NY 53 3rd LLC | 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808 | USA | Holding | 100% |
| Boston One LLC | 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808 | USA | Holding | 100% |

The Company's operating subsidiaries are registered in England, Wales and the US, 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 non-trading or dormant.

## 4 Loans to subsidiary undertakings

On 24 December 2018, the Company also extended a loan to TRG (Holdings) Limited of £199.1m, which is repayable on demand. Interest is payable at 3% plus LIBOR per annum with interest accruing quarterly on to the balance outstanding.

On 24 December 2018, the Company extended a loan to Mabel Midco Limited of £150.4m, which is repayable on demand. Interest is payable at 3% plus LIBOR per annum with payments made quarterly.

## 5 Long term Borrowings

Total Company borrowing facilities consist of a £200m revolving credit facility, and a £10m overdraft facility. The revolving credit facility is committed until December 2021, and has £108m of commited borrowing facilicities in excess of gross borrowings (2018: £70m). The interest rate is a range of 1.5% to 3.0% above LIBOR. The overdraft is repayable on demand, and interest is payable at 1.0% above LIBOR.

# Group financial record

| | 2019 £'000 | 2018 Restated £'000 | 2017 Restated £'000 | 2016 Restated £'000 | 2015 Restated £'000 |
|---|---|---|---|---|---|
| **Revenue** | **1,073,052** | 686,047 | 679,282 | 710,712 | 685,381 |
| Adjusted operating profit | **91,093** | 55,402 | 59,500 | 78,963 | 88,706 |
| Underlying interest | **(16,562)** | (2,232) | (1,661) | (1,814) | (1,861) |
| **Adjusted profit before tax** | **74,531** | 53,170 | 57,839 | 77,149 | 86,845 |
| Non-trading (charges)/credits | **(111,826)** | (39,239) | (29,666) | (134,943) | – |
| **Profit on ordinary activities before tax** | **(37,295)** | 13,931 | 28,173 | (57,794) | 86,845 |
| Tax | **(3,111)** | (7,049) | (9,827) | (638) | (17,959) |
| **Profit for the year** | **(40,406)** | 6,882 | 18,346 | (58,432) | 68,886 |
| Basic earnings per share | **(8.23p)** | 2.42p | 6.68p | (29.18p) | 34.55p |
| Adjusted earnings per share | **11.87p** | 14.67p | 16.66p | 30.02p | 33.80p |
| Total ordinary dividend per share for the year | **2.10p** | 8.27p | 17.40p | 17.40p | 17.40p |
| Dividend cover (excluding non-trading items and special dividends) | **5.65** | 1.77 | 0.96 | 1.73 | 1.94 |
| **Employment of finance** | | | | | |
| Property, plant and equipment | **335,710** | 430,631 | 327,320 | 354,463 | 421,560 |
| Other non-current assets | **617,998** | 620,854 | 26,433 | 26,433 | 26,433 |
| Net current liabilities | **(111,954)** | (97,608) | (79,579) | (79,276) | (91,664) |
| Long-term liabilities | **(439,855)** | (495,285) | (94,008) | (106,748) | (70,967) |
| | **401,899** | 458,592 | 180,166 | 194,872 | 285,362 |
| **Financed by:** | | | | | |
| **Equity** | **401,899** | 458,592 | 180,166 | 194,872 | 285,362 |
| Net debt | **(286,628)** | (291,132) | (23,102) | (28,314) | (28,382) |
| Gearing | **71.3%** | 63.5% | 12.8% | 14.5% | 10.0% |

# Glossary

| | |
|---|---|
| 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 EBITDA | Earnings before interest, tax, depreciation, amortisation and exceptional items. Calculated by taking the Trading business operating profit and adding back depreciation and amortisation. |
| 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 operating profit | Earnings before interest, tax and exceptional items. |
| 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. |
| EBITDA | Earnings before interest, tax, depreciation, amortisation and impairment. |
| 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. |
| Free cash flow | EBITDA less working capital and non-cash movements (excluding exceptional items), tax payments, interest payments and maintenance capital expenditure. |
| 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. |
| Outlet EBITDA | EBITDA directly attributable to individual sites and therefore excluding corporate and central costs. |
| Net debt | Net debt is calculated as the net of the long-term borrowings and finance lease obligations less cash and cash equivalents. |
| 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. |
| TSR | Total Shareholder Return over a period. |

# Shareholder information

**Directors**
Debbie Hewitt
Non-executive Chairman

Andy Hornby (from 1 August 2019)
Chief Executive Officer

Kirk Davis
Chief Financial Officer

Allan Leighton
Senior Independent Director

Graham Clemett
Independent non-executive Director

Mike Tye
Independent non-executive Director

Alison Digges (from 1 January 2020)
Independent non-executive Director

Zoe Morgan (from 1 January 2020)
Independent non-executive Director

Simon Cloke (retired 26 February 2020)
Independent non-executive Director

**Company Secretary**
Jean-Paul Rabin

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

**Telephone number**
020 3117 5001

**Company number**
SC030343

**Registered office**
1 George Square
Glasgow G2 1AL

**Registrar**
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

**Auditor**
Ernst & Young LLP
1 More London Place
London SE1 2AF

**Solicitors**
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Goodman Derrick LLP
10 St Bride Street
London EC4A 4AD

**Brokers**
J.P. Morgan Cazenove
25 Bank Street
London E14 5JP

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

**Annual General Meeting**
Tuesday 19 May 2020

# Notes

# Notes

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**The Restaurant Group plc**

5-7 Marshalsea Road
London SE1 1EP
Tel: 020 3117 5001

www.trgplc.com