Strong brands Focused strategy

Annual Report 2010

the restaurant group plc

Contents

The Restaurant Group plc operates 389 restaurants and pub restaurants. Its principal trading brands are Frankie & Benny's, Chiquito and Garfunkel's and it also operates a Pub restaurant business as well a Concessions division which trades on over 50 sites, principally at UK airports.

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Financial highlights

The Group had a strong performance in 2010:

- Revenue up 7% to £466m (like-for-like sales -1%)
- EBITDA increased by 8% to £86m
- Adjusted profit before tax increased by 12% to £56m
- Adjusted EPS rose 14% to 20p per share
- Proposed full year dividend of 9p per share, up 12.5%
- Statutory profit before tax increased by 17% to £56m
- Statutory EPS rose 7% to 20p

Operations strongly cash generative and net debt reduced by £20m to £47m

Roll out continues

- 24 new sites opened in the period
- 22-27 new sites targeted for 2011

Strong current trading given the economic climate, with like-for-like sales returning to growth at +3% and total sales up 8% for the nine weeks to 6 March 2011

Statutory and adjusted results stated on a 53 week basis for 2010 compared with a 52 week basis for 2009.

Results marked as adjusted are stated excluding non-trading items (refer to note 2 of the financial statements).

Revenue (£m)

+7%

Adjusted EBITDA (£m)

+8%

Adjusted profit before tax (£m)

+12%

Adjusted EPS (p)

+14%

Dividend per share (p)

+12.5%

At a glance

Supporting brand development

- 9 new openings
- 197 restaurants

Frankie & Benny's brings together the best of classic American and Italian style and cuisine that always provides great value for money. The kitchen buzzes with bustling activity as the chefs prepare dishes from our broad menu – pizzas, pastas, burgers, grills and other favourites – while, in typical stateside fashion, service at Frankie & Benny's is second to none! Settle into a cosy booth to enjoy a casual family meal or a catch up with friends and observe the clatter and chatter of the open kitchen and the familiar classic 50's and 60's soundtrack playing in the background. The restaurant walls are filled with family snapshots and memorabilia showing life on the lower east side of the Big Apple, helping you into a "New York state-of-mind". First opened in 1995 in Leicester, Frankie & Benny's has become one of the best known casual dining brands in the United Kingdom, and trades successfully in leisure and retail locations, stand-alone sites and at six airports. The estate comprises of almost 200 restaurants spread across the country from Aberdeen to St Austell.

- 5 new openings
- 68 restaurants

With almost 70 restaurants nationwide, at Chiquito we are proud to be the UK's most popular answer to Mexican eating and drinking with over 100,000 happy hombres tucking into our vibrant, tasty food every week. The Chiquito menu offers a great range of authentic Mexican & "North-of the Border" dishes in a laid-back Latino environment, with fantastic music. The décor draws inspiration from Mexican architecture and Latin style. Some restaurants have a rustic and relaxed feel while others demonstrate the buzz and graphic energy of contemporary Mexico City. Chiquito favourite dishes include nachos, burritos, enchiladas and our signature sizzling fajitas, as well as the old favourites – burgers, salads and steaks from the grill. We specialise in Mexican beer and fantastic cocktails. Chiquito is open for lunch, lazy afternoons and lively evenings, so whether you're out shopping, meeting friends after work or planning a party it's the only place to be! Trading in the UK for over 20 years, Chiquito continues to attract a broad mix of young adults, couples, teenagers, families and large parties.

- 2 new openings
- 23 restaurants

Garfunkel's – a truly great name in British and world cuisine. Founded in London's West End in 1979, Garfunkel's has become legendary! It embraces the concept of being all things to all people. Offering something for everyone, the menu is a fantastic mix of the best of British and international cuisine. From the tempting rotisserie chicken to teriyaki salmon, everything has been chosen because we just love the taste. Our salad bar has a delicious range of fresh salads, prepared dishes and dressings available all day. Principally located across Central London, each Garfunkel's restaurant offers a place to relax and take a break from the hustle and bustle outside, with a loyal following of visitors, local residents and workers who have been eating at Garfunkel's for years. Garfunkel's continuing popularity means expansion is still on the menu after over 30 years of trading. Our latest restaurant opened on Cockspur Street, Trafalgar Square in 2010, and offers the same friendly welcome and broad menu in a warm contemporary setting, just what you need after a hectic shopping trip in the West End or the perfect way to complement a theatre visit. Continued success across all day parts including breakfast, lunch and dinner means a healthy appetite for growth with more sites earmarked to open in Central London.

Pub restaurants

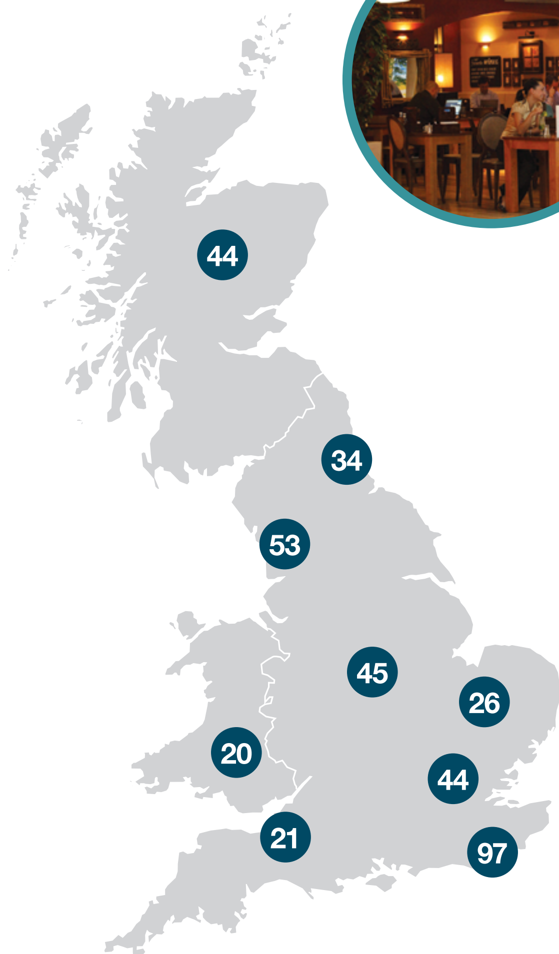
- 1 new opening
- 43 restaurants

Really great pubs are timeless, familiar and very British. Everybody knows what their perfect pub looks like. Each of our pubs has its own style and personality, and you'll always find a warm welcome, ageless interiors, fine British pub food, a large variety of great real ales and fine wine and great coffee. Mostly set in beautiful rural or semi-rural locations, each pub has a "local" feel and many are set in intriguing buildings with fascinating histories. We don't want all our pubs to look and feel the same – instead we preserve the character of the building, which after all was what attracted us to the pub in the first place. The range of beers available changes frequently and seasonal and local specials mean the menu also offers new choices alongside trusted favourites each time you visit. There's friendly, engaging service from the moment you arrive, ensuring that all your needs are taken care of. We believe that really great pubs will never go out of fashion, and that opportunities to expand in the sector are available for experienced operators with the right offer for customers.

trg concessions

- 7 new openings
- 58 restaurants

TRG's Concessions division has a market-leading reputation for developing partnerships to deliver catering solutions that meet the needs of our clients and their customers. Currently operating more than 50 outlets in the UK's busiest airports, other transport locations and shopping centres, we have almost 20 years of experience providing hospitality to the travelling public. Our specialist operating knowledge and flexibility ensures successful performance across our diverse brand portfolio, covering a wide range of popular categories including table service, counter service, sandwich shops, pubs and bars. To meet client needs we deliver existing TRG brands, create bespoke concepts or establish partnerships to franchise brands from third parties as appropriate. Building on our track record of innovation, partnership and performance ahead of sector growth will ensure we remain a market leader in this exciting sector.



Scotland – 44
22 Frankie & Benny's
08 Chiquito
07 Garfunkel's
07 TRG Concessions

Northern Ireland – 2
01 Frankie & Benny's
01 Chiquito

Wales – 20
12 Frankie & Benny's
03 Chiquito
05 Pub restaurants

South West – 21
12 Frankie & Benny's
06 Chiquito
01 Garfunkel's
02 TRG Concessions

South East – 97
36 Frankie & Benny's
13 Chiquito
22 Pub restaurants
26 TRG Concessions

London (inside the M25) – 44
12 Frankie & Benny's
06 Chiquito
15 Garfunkel's
06 Pub restaurants
05 TRG Concessions

East – 26
14 Frankie & Benny's
03 Chiquito
02 Pub restaurants
07 TRG Concessions

Midlands – 45
34 Frankie & Benny's
08 Chiquito
03 TRG Concessions

North West – 53
27 Frankie & Benny's
11 Chiquito
07 TRG Concessions
08 Pub restaurants

North East – 34
24 Frankie & Benny's
09 Chiquito
01 TRG Concessions

Chairman's statement

"The Group has consistently demonstrated the resilient nature of its business model and this is another excellent set of results."

I am delighted to report that the Group has again grown revenues, profits and earnings per share. Trading conditions during the year were adversely impacted by the ongoing difficult economic backdrop and also some very unusual, weather related, events – the ash cloud in April and one of the harshest winters on record at the end of the year. These factors made trading conditions tough for UK consumer-facing businesses during 2010. However, not withstanding those challenges, the Group continued to make profitable progress, opened 24 new restaurants, served 37 million meals including five million children's meals and created 700 new jobs.

During 2010 the Group's revenues grew 7% to £466m (2009: £436m), adjusted profit before tax grew 12% to £55.9m (2009: £50.0m) and adjusted earnings per share increased by 14% to 19.95p (2009: 17.48p). This increase in earnings per share represents a compound annual growth rate of 17% over the five years to 2010, a significant achievement that demonstrates the resilience and ongoing positive performance of the Group.

Accordingly, the Board is recommending an increased final dividend for 2010 of 7.46p per share giving a total for the year of 9.00p per share (2009: 8.00p), an increase of 12.5%. Subject to shareholder approval at the Annual General Meeting to be held on 11 May 2011, the final dividend will be paid on 17 June 2011 to shareholders on the register on 20 May 2011 and the shares will be marked ex-dividend on 18 May 2011.

Our continued focus on our Leisure and Concessions divisions again enabled the Group to deliver a strong performance despite the difficult backdrop for UK consumer – facing businesses. Our Leisure division, which incorporates Frankie & Benny's, Chiquito, Garfunkel's and our Pub restaurants, performed well, delivering a 6% increase in revenues and profits. During the year we opened 17 new restaurants in the Leisure division; these are trading ahead of expectations and are set to deliver strong returns. During 2011 we plan to open between 20 and 23 new restaurants in the Leisure Division.

A business capable of delivering long-term, sustainable and growing cash flows

Despite some major challenges resulting from the ash cloud problems in April and the harsh weather at the end of the year, our Concessions Division performed superbly. Although UK passenger numbers declined during the year, our business countered this by focusing on gaining market share and growing margins. This resulted in a significant uplift in revenues (which increased by 12%) and profits which increased by 29%. During the year seven new sites were opened. These are trading well and are set to deliver good returns. We plan to open two to four new Concessions sites during 2011.

The Group has consistently demonstrated the resilient nature of its business model and this is another excellent set of results. The Group has continued to stay disciplined and focused, growing its estate with quality new restaurants, increasing earnings and dividends, generating high levels of cash and significantly reducing net debt. These excellent results are the result of the hard work, expertise and dedication of our Directors, senior management and staff. On behalf of the Board I would like to record our thanks to all of them.

During the year, we appointed Simon Cloke as a non-executive Director. We welcome Simon to the Board and are confident that he will make a valuable contribution to TRG.

We have started the current year well, with like-for-like sales growth of 3% for the first nine weeks of the year, and we are looking to build further on this. We have a superb business with distinct market positions, and strong brands with outstanding value-for-money offerings with wide appeal. I am confident that we are well placed to continue our profitable progress.

Alan Jackson
Chairman
9 March 2011

Chief Executive Officer's review of operations

"Our core objective continues to be growth in shareholder value and our strategy to achieve this is to build a business capable of delivering long-term, sustainable and growing cashflows."

Introduction

2010 turned out to be another challenging year for The Restaurant Group, partly due to factors that we had anticipated and partly as a result of some that we had not.

Although the UK economic recovery gained momentum during the year, the backdrop for domestic consumer-facing businesses remained difficult. As anticipated, consumer confidence was fragile as a result of a number of factors including the shock from the recession, ongoing tighter credit conditions, levels of unemployment (and the fear of unemployment), inflation, higher taxes and negative real earnings growth. 2010 also threw up two unexpected challenges – the Eyjafjallajökull volcano ash cloud in April and one of the worst winters on record at the end of the year. Both of these unusual meteorological events caused significant disruption to our business and, although we were able to take some mitigating actions, adversely impacted sales and profits.

Notwithstanding those challenges, the Group continued to make further good progress increasing sales, profits and cash flow. Both of our divisions performed well, with our Leisure division delivering a solid increase in profits and our Concessions division delivering a significant profit increase. Margins also held up well with both EBITDA and operating margins improving on the previous year. Total sales were 7% ahead of the previous year (like-for-like sales were 1% below) and adjusted earnings per share increased by 14%. Against a challenging backdrop this represents an impressive performance and bodes well for the future.

The TRG business model and rationale

Our core objective continues to be growth in shareholder value and our strategy to achieve this is to build a business capable of delivering long-term, sustainable and growing cash flows. The Group has a consistent record of converting profits into cash at a very healthy rate, and delivering increasing cash flows each year, and in 2010 this was again the case. TRG's business model enables the Group to grow in a predominantly organic and highly value–accretive way, funded from its internally generated funds.

Our touchstones are cash flow and return on investment. This model enables our shareholders to enjoy the benefits of high returns on capital, growth in profits and cash flow and sizeable income distributions from our progressive dividend policy.

Occupying leading market positions

Our key criteria in determining where to invest our capital is to operate restaurants in locations with high barriers to entry, good growth prospects and where we are confident that we can secure high returns on investment. Our focus is on edge of town, out of town, rural, semi-rural and airport locations and we occupy leading market positions in these segments.

The footprint that the Group occupies in edge and out of town leisure and airport locations is comprehensive and, from a market positioning perspective, very formidable. It would be virtually impossible to replicate this footprint from scratch and the Group is well placed to continue to roll out more new restaurants.

Capital expenditure and TRG opening programme

Our philosophy regarding capital expenditure remains consistent – we focus on cash generation and on securing a return on invested capital at rates ahead of TRG's weighted average cost of capital. We have continued to apply the same levels of analytical rigour, commercial analysis, experience and risk adjustment to each capital project that we undertake. This approach has served TRG well and we do not intend to deviate from it.

Our free cash flow generation is sufficient to enable the Group to fund 35 to 45 new restaurants per annum whilst maintaining maintenance capital expenditure at the appropriate level and pursuing a progressive dividend policy. However, the level of new development activity (particularly edge and out of town developments) within our sector is still well below the levels we saw prior to the onset of the recession. At this stage of the economic cycle this is not unusual and whilst there has been a pick up in new development activity in some sectors, this has not yet gathered pace within our sector. However, there is a significant number of schemes that developers have in the "pipeline" and we are confident that, at some point, these will be activated. The catalysts for this are likely to be evidence of the consumer marketplace returning to steady growth and appropriate funding being available. At this stage it is difficult to predict when this might be but, if the pattern of previous economic recoveries is followed, it is likely to be within the next two years.

In the meantime, we will continue to identify and judiciously pursue other opportunities which we are confident will meet our returns criteria. This is likely to mean that new openings for 2011 will be at a broadly similar level to last year's and, for the time being, we plan to continue to apply our surplus cash flow towards reducing net debt; this fell by a further £20m over the past year to £47m.

Results*

* Results marked as adjusted are stated excluding non-trading items (refer to note 2)

TRG's trading metrics performed well for the 53 week period to 2 January 2011:

- Total sales increased by 7% (like-for-like sales were 1% lower) and we sold 37 million meals;
- Adjusted EBITDA increased by 8% to £86m;
- Adjusted pre-tax profit increased by 12% to £56m;
- Group operating profit margins increased by 40bp to 12.6%; and
- Net debt, at 0.55x Group adjusted EBITDA, fell by £20m to £47m.

Chief Executive Officer's review of operations
continued

Leisure	2010	2009
Total revenue	**£373.7m**	£353.6m
Operating profit	**£72.9m**	£69.1m
Operating margin	**19.5%**	19.5%

Frankie & Benny's (197 units)
Frankie & Benny's performed well in 2010, increasing revenues, margins and profits. We opened nine new restaurants of which five were on non-cinema sites. All of our new openings are trading superbly and are set to deliver strong returns. Our focus continues to be directed towards providing our customers with a great dining experience – plenty of choice across the price points, offerings geared towards specific parts of the day, good value and superb hospitality and service. As with all our brands, we eschewed deep discounting and this helped to deliver a strong margin and profit performance. We anticipate opening between 12 and 15 new Frankie & Benny's restaurants in 2011.

Chiquito (68 units)
Chiquito performed solidly during 2010 although profits were a little below the prior year's level. During the year we absorbed input cost increases in order to maintain menu prices at a level appropriate for the locations in which most of our Chiquito restaurants operate. We opened five new Chiquito restaurants during the year all of which are located alongside Frankie & Benny's. This dual roll out strategy has worked well and we expect it to continue in 2011. The new openings are performing ahead of our expectations and are set to deliver strong returns. During 2011 we expect to open 3-4 new Chiquito restaurants.

Pub restaurants (43 units)
Pub restaurants traded well during 2010, increasing margins and profits. We have continued our programme of modifying the former Blubeckers sites to bring them more into line with the Brunning & Price style of operation and the subsequent results have been very encouraging. We expect to complete this programme during 2011. In December we opened a new pub restaurant, the Nevill Crest & Gun, near Tunbridge Wells. It is trading superbly and is set to deliver strong returns. During 2011 we expect to open 2-3 new pub restaurants.

Garfunkel's (23 units)
Garfunkel's performed superbly during 2010 delivering a significant increase in margins and profits. The business trades predominantly in Central London close to theatres, shopping districts and other tourist attractions. During the year we opened two new restaurants and these are trading well and are set to deliver strong returns. We expect to open up to three new Garfunkel's restaurants during 2011.

Sticking to our areas of expertise

Concessions (58 units)		
	2010	2009
Total revenue	**£92.0m**	£82.2m
Operating profit	**£14.2m**	£11.0m
Operating margin	**15.5%**	13.4%

Our Concessions business, despite having to cope with declining passenger numbers ("pax") and exceptional meteorological events, had an excellent year and delivered a record level of profits.

Trading in the airports marketplace remained tough in 2010 with pax declining for a third year (albeit at a much slower rate of decline compared to 2009). Our efforts have been focused on improving our offering, high levels of customer service and tight cost controls with the objective of improving margins and growing profits. This approach served us well during 2010 and the Concessions division produced a record level of EBITDA (£18.8m) and profits of £14.2m, representing an increase of 29% on the previous year. Our ability to operate effectively and profitably in this market segment, and in challenging conditions, demonstrates our high levels of expertise and our commitment to the airports marketplace.

We occupy the leading market position in the UK airports and have a consistent track record of delivering excellent results. As economic growth resumes, we anticipate an improving trend in pax and this will benefit our Concessions business. During the year we opened seven new sites – these are trading well and are set to deliver good returns. We expect to open between two and four new concessions sites in 2011.

Chief Executive Officer's review of operations
continued

Market dynamics and the economy

For most people, eating out has become a habitual activity and is something that they are reluctant to give up. Despite the challenging economic conditions that have characterised the UK since 2008, the propensity for people to eat away from their homes has continued. This is a secular trend, driven largely by socio-economic factors. Eating out constitutes a "small ticket" item which absorbs a relatively small proportion of disposable income. We expect this trend to continue and this augurs well for the future.

During 2010, our sector continued to be characterised by significant and often deep discounting. "Buy One Get One Free" and similar types of promotions have been commonplace and continue to be used frequently by many other companies. Our approach has been to avoid the deep discounting "treadmill", rather, to give our customers consistently good value, service and hospitality and to broaden the audience of potential customers, predominantly through increased use of digital marketing techniques. During 2010 we significantly increased marketing across social networking websites, e-marketers and smartphone applications and these have had a positive impact on revenues. This approach has meant that we have continued to focus on maintaining and improving margins, growing profits and cash flows and, very importantly, securing high returns on our invested capital.

As the UK climbs out of recession, the macro-economic picture is becoming clearer. Although it is not an immediately attractive landscape it is a much less dark and bleak scenario than the one faced at the beginning of 2009. The UK has started to emerge from the deepest recession seen for several generations and, although during the final quarter of 2010 the recovery lost some traction (mainly due to the severe UK weather), the pattern seems to be following a broadly similar trend to that seen in the early 1990's.

The government has committed to significant changes in spending and taxation and the impact of these will be felt during 2011. A large part of the fiscal squeeze is being effected through spending cuts which, in real terms, look quite deep (although these are less draconian in nominal terms). It is likely that these cuts will have an impact upon employment levels in the public sector and, potentially, those parts of the private sector where there is a high level of dependency upon government contracts. There is a clear expectation that the slack which this may create will be absorbed by the private sector. Certainly, corporations have significantly stepped up capital spending, and many exporters are thriving, which should be positive for employment. However, expectations for growth in consumer spend are, in the short-term, more modest. There are several factors impacting consumer spend, including higher levels of taxation (both direct and indirect), unemployment levels approaching 8% (the fear of unemployment also remains a concern for many UK households) and rising household inflation. This latter point has become very topical recently and conventional wisdom would suggest an increase in interest rates to counter inflation. However, it appears that, as the economic recovery is still in its early stages and with the inflation indices being significantly impacted by VAT increases and "imported" inflation, the Monetary Policy Committee ("MPC") appears inclined to maintain a relaxed monetary stance, perhaps in part to reduce the risk of precipitating a sharp slowdown in economic growth with the concomitant risk of deflation. If interest rates rise only modestly and mortgage rates remain at low levels this will, to a significant degree, continue to support households' discretionary spend levels and, providing employment levels do not deteriorate, this should enable consumer confidence to build. Initially this is likely to be gradual, although once it becomes evident that unemployment levels are not dramatically increasing (and as the fear of unemployment diminishes) the recovery in consumer confidence should gather pace.

A robust and well proven business model

Cost inflation also poses challenges for our sector; although this is not a new phenomenon. During much of the last decade, our sector often experienced cost pressures (especially with the significant annual increases in the minimum wage) and in 2007 and 2008 food input costs increased quite quickly. Currently there is relatively low wage cost pressure, but also some risk that inflationary expectations could feed through into UK wage bargaining. Commodity prices (including food and oil) have risen and this trend is expected to continue. TRG's approach has, for several years, been to protect the business from rising input costs by taking out fixed (or capped) price contracts with suppliers. At present over 50% of our input costs have fixed (or capped) prices for one year, and approximately one third are fixed (or capped) for two years. This approach has served us well and is one that we intend to continue.

Future prospects

We are planning on the basis that the outlook for consumer-facing businesses continues to remain as challenging during 2011 as it was last year and we have framed our plans accordingly. Our business has experienced some very tough trading conditions over the past two years and during that time sales, profits and cash flow all grew. TRG is well placed to cope with challenging conditions and, very importantly, to benefit substantially from the upturn in consumer confidence that will, in due course, prevail.

TRG's businesses command strong market positions in each of our chosen segments and our brands are well recognised for the quality and value of our offerings. We have a robust and well proven business model, a strong balance sheet and we are well positioned to continue our expansion. Just as we did in 2010, during 2011 we will continue to:

- Stick to our areas of expertise;
- Focus on our customers by providing excellent value and service;
- Maintain high standards of operational efficiency and execution;
- Carefully control our costs;
- Add high quality new restaurants to our portfolio; and
- Continue to focus on cash flow and returns.

By so doing, our aims are to continue to strengthen our market positions and deliver long-term and sustainable profitable growth.

The difficulties our team faced during 2010 were significant but, as always, our people rose to the challenge and delivered a very impressive performance. We are very fortunate to have an outstanding and loyal team at TRG and I am confident that they will be working towards delivering another strong performance this year. The current year has started well, with like-for-like sales growing in each of the first two months and, after nine weeks, total sales are 8% ahead of last year (like-for-like sales up 3%). We are looking to build further on this as the year progresses.

Andrew Page
Chief Executive Officer
9 March 2011

Group Finance Director's report

"We continue to be absolutely focused on ensuring that all of our new openings achieve the high levels of return on investment which we target."

Results

Against the backdrop of another challenging year in terms of the economic environment, the Group has recorded a very satisfactory set of results. For the statutory 53 week financial year, total sales of £465.7m increased by 7% compared to the prior year. Group EBITDA was £85.8m, an increase of 8% on the prior year. Total depreciation charges were £27.2m (2009: £26.3m), resulting in adjusted operating profits of £58.6m, an increase of almost 10% on the prior year.

Group operating margin in the year was 12.6%, an increase of 40 basis points compared to the prior year. This was achieved through continuing focus on the cost base, close management of procurement costs and operational efficiencies across the business. The Group's margins have also benefited from our decision taken two years ago not to pursue the deep discounting strategy that many other operators in the sector have followed.

Interest costs of £2.7m fell by 20% compared to the prior year, principally as a result of lower debt levels during the year. This resulted in Group adjusted profit before tax of £55.9m, an increase of 12% on the prior year. After taking into account a lower average tax rate in the year (as discussed later in the report), adjusted post-tax profits of £39.7m increased by 15% compared to the prior year, resulting in adjusted EPS of 19.95p, an increase of 14% compared to prior year.

On a pro forma 52 week basis the key financial figures were as follows: revenues were £453.7m (up 4%), EBITDA was £82.6m (up 4%), adjusted operating profit was £55.9m (up 5%), adjusted profit before tax was £53.2m (up 6%), and adjusted earnings per share was 19p (up 9%).

Cost inflation

During 2010 cost pressures were relatively benign with average food and beverage cost inflation at about 1.5%. Wage cost inflation was driven by the National Minimum Wage increases of 1.2% in October 2009 and 2.2% in October 2010.

We are well positioned to continue our expansion

Looking forward to 2011, there is clearly some upward pressure on food and beverage costs. Although the Group has a strategy of fixing costs wherever possible, we do expect to see a somewhat higher level of average inflation compared to 2010. At this stage in the year, taking into account the benefit of the fixed and capped price contracts already secured, we expect average inflation across all our food and beverage inputs to be between 2% and 3%.

On labour costs, the key driver continues to be the National Minimum Wage increase referred to above. Rental cost inflation is at very low levels compared to previous years. For 2011, based on the evidence of reviews in 2010 and those we have completed since the year end, we do not expect rental inflation on the existing base to be much more than 1%. For utility costs, most of our major contracts are fixed forward until late 2012 and in the current year we will have the benefit of a reduction compared to 2010.

Taking all these factors into account, we estimate that the business needs to have total sales growth of 2-3% to cover off the cash costs of these inflationary cost increases. After nine weeks the Group's total sales are up 8%, more than double what is necessary to cover the expected cost increases.

Non-trading and non-core items

In the current year the only non-trading item is a credit of £0.6m, an accounting adjustment arising on the IFRS revaluation of the Group's interest rate swap arrangements.

During the year non-core losses (from our small sub-let estate) reduced from £1.3m to £0.7m. We continue to take steps to minimise these losses.

Capital expenditure

During the year the Group invested a total of £32.0m in capital additions (2009: £31.5m). This included development expenditure of £20.7m (2009: £20.1m) and £11.3m of refurbishment and maintenance expenditure (2009: £11.4m).

The Group is committed to investing in the existing estate and our very strong balance sheet position means that we are not constrained from maintaining this investment, which is essential to securing the long-term health and profitability of the business.

During the year the Group opened a total of 24 new outlets, a significant improvement on expectations at the beginning of the year. Our 2010 new sites (and also those opened in 2009) are generating levels of sales and profitability at least in line with, and in most cases substantially ahead of, feasibility. After taking into account two closures in the year, the Group ended the year with 389 trading units.

The table below summarises openings and closures during the year:

	Year end 2009	Opened	Closed	Year end 2010
Frankie & Benny's	188	9	–	197
Chiquito	63	5	–	68
Garfunkel's	22	2	(1)	23
Pub restaurants	42	1	–	43
Concessions	52	7	(1)	58
Total	367	24	(2)	389

We continue to be absolutely focused on ensuring that all of our new openings achieve the high levels of return on investment which we target. When assessing the viability and profitability of potential new sites, we adopt a highly rigorous and analytical approach. This includes a detailed financial evaluation, as well as demographic analysis, competitor and market analysis, and comparison to other sites in the Group's existing portfolio. We also conduct regular post-investment appraisals and these confirm that we continue to achieve target levels of returns.

Group Finance Director's report
continued

Cash flow

Set out below is a summary cash flow statement for the year. Net cash from operations is £87.8m (2009: £77.1m). After interest payments, tax and maintenance capital expenditure the Group generated free cash flow of £56.8m. Once again this demonstrates the very strong and transparent cash flow generation characteristics of the Group's business. The free cash flow financed all of the new sites and dividends. Net cash flow was £19.8m (2009: £12.2m) which resulted in net debt reducing from £66.7m to £46.9m.

	2010 £m	2009 £m
Operating profit	**58.6**	53.4
Working capital and non-cash adjustments	**2.0**	(2.6)
Depreciation	**27.2**	26.3
Net cash flow from operations	**87.8**	77.1
Net interest paid	**(2.1)**	(2.2)
Tax paid	**(17.6)**	(13.7)
Maintenance capital expenditure	**(11.3)**	(11.4)
Free cash flow	**56.8**	49.8
New build capital expenditure	**(20.7)**	(20.1)
Dividends	**(15.7)**	(14.9)
Normalised net cash flow	**20.4**	14.8
Disposals	**–**	0.5
Net cash flow from share issues	**1.9**	1.0
SWAP termination payment	**(1.0)**	–
Purchase of shares for employee benefit trust	**(1.4)**	(3.9)
Finance costs offset against bank debt	**(0.1)**	(0.2)
Change in net debt	**19.8**	12.2
Net bank debt at start of year	**(66.7)**	(78.9)
Net bank debt at end of year	**(46.9)**	(66.7)

Maintaining high standards of operational efficiency and execution

Financing and key financial ratios

The Group has committed banking facilities of £120m and a £10m overdraft facility. The committed bank facility was put in place in December 2007 and runs for five years until December 2012.

The Group's banking arrangement contains two financial covenants, both of which are tested on a six monthly basis by reference to the Group's published results. These and other key financial ratios are summarised as follows:

	Banking covenant	**2010**	2009
EBITDA/Interest cover	>4x	**32x**	24x
Net debt/EBITDA	<3x	**0.55x**	0.84x
Fixed charge cover	n/a	**2.6x**	2.5x
Balance sheet gearing	n/a	**32%**	58%

As can be seen all of these financial ratios improved during the year. In the current climate, in which the economic outlook continues to be somewhat uncertain, we are happy to see a reduction in the overall level of net debt. This puts us in a very strong position to accelerate the new site opening programme over the next several years as circumstances allow. This strong financial position also allows us to maintain a high level of maintenance expenditure on the existing estate as well as a generous and increasing level of dividend to shareholders.

Tax

The total tax charge in the year was £16.4m, analysed as follows:

	2010 Trading £m	**2010 Non-trading £m**	**2010 Total £m**	2009 Trading £m	2009 Non-trading £m	2009 Total £m
Corporation tax	**17.6**	**(0.3)**	**17.3**	16.0	(0.7)	15.3
Deferred tax	**(1.4)**	**0.5**	**(0.9)**	(0.4)	(3.8)	(4.2)
Total	**16.2**	**0.2**	**16.4**	15.6	(4.5)	11.1
Average tax rate	**29%**			31%		

On trading activities the underlying tax charge in the year of £16.2m represents a tax rate of 29% compared to 31% in 2009. This reduction is primarily due to the revaluation of deferred tax liabilities to reflect the lower rate of corporation tax which applies from April 2011. We expect to see a continuing reduction in the average tax rate over the next few years as the government implements the phased reduction in corporation tax rate announced in 2010.

The Group's average tax rate will continue to be higher than the headline mainstream corporation tax rate primarily due to significant levels of disallowable expenditure within the capital expenditure programme.

Stephen Critoph
Group Finance Director
9 March 2011

Board of Directors

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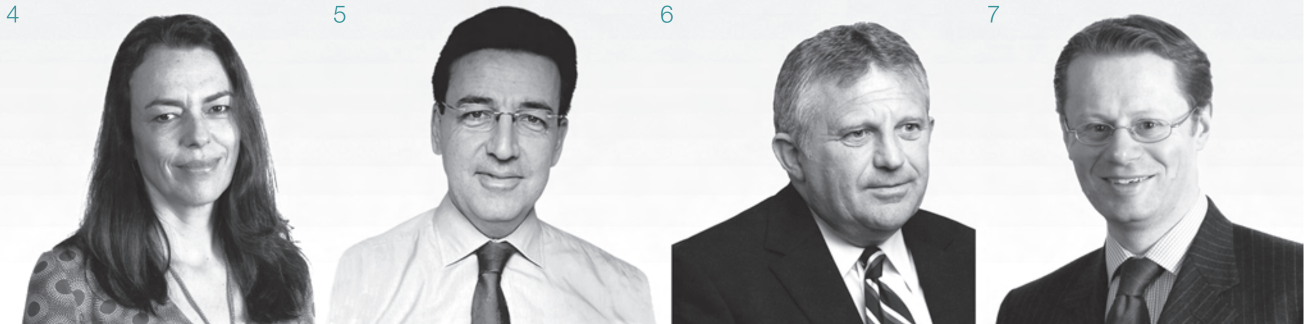
1 Alan Jackson,
Non-executive Chairman
Aged 67, he joined The Restaurant Group plc as Executive Chairman in March 2001 and became non-executive Chairman from January 2006. He has a wealth of experience in the leisure sector. For 18 years, from 1973 to 1991, he occupied various positions within Whitbread, principally Managing Director of Beefeater steakhouses and also the Whitbread restaurant division where he was responsible for the creation and development of Beefeater, Travel Inns and TGI Friday brands. After the Beer Orders in 1991 he founded his own business which became Inn Business Group plc in 1995 and was subsequently acquired by Punch in 1999. He chaired Oriental Restaurant Group plc until its sale to Noble House in 2000. Currently Alan is non-executive chairman of Charles Wells Limited, non-executive deputy chairman of Redrow plc and a non-executive director of Playtech plc.

2 Andrew Page,
Chief Executive Officer
Aged 52, he joined The Restaurant Group plc as Finance Director in June 2001. In December 2003 he was appointed Group Managing Director and in January 2006 became Chief Executive Officer. His career has spanned both international and domestic businesses. Prior to joining The Restaurant Group plc, he held a number of senior positions in the leisure and hospitality industry including Senior Vice President with InterContinental Hotels and Finance Director of Hanover International plc. Prior to that, Andrew spent six years as a Corporate Financier with Kleinwort Benson having trained and qualified as a Chartered Accountant with KPMG. Andrew is a non-executive director of Arena Leisure plc.

3 Stephen Critoph,
Group Finance Director
Aged 50, he was appointed as Finance Director of The Restaurant Group plc in September 2004. Previously he has held several senior finance positions in Compass Group plc and Granada Group plc, including Corporate Development Director of Compass Roadside and Finance Director of Travelodge and Little Chef. He trained and qualified as a Chartered Accountant with Deloitte & Touche.



4 Trish Corzine,
Executive Director, TRG Concessions
Aged 53, she joined The Restaurant Group plc in 1993 as Area Manager for Garfunkel's which included the Group's airport operations. In 1997 she was appointed Brand Director of Garfunkel's and Airports, and in 1999 was promoted to Operations Director – Concessions. In March 2003 she was appointed Managing Director – Concessions and in October 2003 was appointed to the Board. Prior to joining The Restaurant Group plc, Trish worked for Häagen-Dazs then managed the Atacama Restaurant Group.

5 Simon Cloke,
Non-executive
Aged 43, he was appointed as a non-executive Director of the Company in March 2010. Formerly Global Head of Industrials at Dresdner Kleinwort Wasserstein, he was appointed Managing Director of HSBC's Diversified Industries Group in 2005 and is currently responsible for managing HSBC's business with some of its largest house building and building materials clients.

6 Tony Hughes,
Non-executive
Aged 62, he was appointed as a non-executive Director of the Company in January 2008. He was Managing Director of the Restaurants Division of Mitchells & Butlers plc (previously Bass plc and Six Continents plc) from 1995 to 2007 and served on the Board of Mitchells & Butlers plc from 2003 to 2007. Prior to joining Bass, he held senior management roles at B&Q, J.A. Devenish and Whitbread.

7 Robert Morgan,
Company Secretary
Aged 39, he joined The Restaurant Group in 2002 in the finance department and was appointed as Company Secretary in September 2004. Previously he worked in the finance function of Coca-Cola HBC S.A. having qualified as a Chartered Accountant with KPMG.

Report of the Directors

The Directors present their Annual Report and the Group Accounts for the year ended 2 January 2011.

Results and dividends

The results for the year ended 2 January 2011 are presented under International Financial Reporting Standards ("IFRSs"). The Report and Accounts are drawn up on a 53 week reporting basis ending on 2 January 2011 (2009: 52 week reporting basis ending on 27 December 2009). The results for the year are set out in the Group consolidated income statement on page 43. This shows a Group profit after tax of £40.1m (2009: £37.3m). An interim dividend of 1.54p per share was paid on 13 October 2010. The Directors propose a final dividend of 7.46p per share, which is subject to approval at the Company's Annual General Meeting to be held on 11 May 2011. Should this be approved, this final dividend will be paid on 17 June 2011, bringing the ordinary dividend per share payable in respect of 2010 to 9.0p (2009: 8.0p).

Principal activity

The principal activity of the Group is the operation of restaurants and pub restaurants. Further information relating to the business, including a review of the year's performance and planned developments, is given in the Chief Executive Officer's review of operations on pages 6 to 11.

Business review

The Company is required by the Companies Act to include a business review in this report. The information that fulfils the requirements of the business review can be found in the Chairman's statement, Chief Executive Officer's review of operations and Group Finance Director's report on pages 4 to 15, which are incorporated in this report by reference.

Directors

Full details of the Directors of the Company are given on pages 16 and 17. The Directors who held office during 2010 were as follows:

Executive Directors

- Andrew Page
- Stephen Critoph
- Trish Corzine

Non-executive Directors

- Alan Jackson
- Tony Hughes
- Simon Cloke (appointed on 26 March 2010)
- John Jackson (resigned on 6 May 2010)

In respect of 2010, each of the non-executive Directors (excluding the Chairman) is considered by the Board to be independent. Since 6 May 2010, Tony Hughes has held the role of senior non-executive Director. Alan Jackson transitioned from executive Chairman to non-executive Chairman on 1 January 2006 and following his tenure as an executive Director, is not considered to be an independent non-executive Director.

No Director has a service contract with the Company requiring more than twelve months notice. In accordance with the UK Corporate Governance Code best practice, all the Directors will be subject to re-election at the Annual General Meeting to be held on 11 May 2011.

During the year the Audit Committee comprised the following non-executive Directors:

- Simon Cloke (appointed on 26 March 2010)
- Tony Hughes
- John Jackson (resigned on 6 May 2010)

Simon Cloke is currently Chairman of the Audit Committee.

During the year the Remuneration Committee comprised the following non-executive Directors:

- Tony Hughes
- Simon Cloke (appointed on 26 March 2010)
- John Jackson (resigned on 6 May 2010)

Tony Hughes is currently Chairman of the Remuneration Committee.

During the year the Nominations Committee comprised the following Directors:

- Tony Hughes (Chairman)
- Simon Cloke (appointed on 26 March 2010)
- Alan Jackson
- Andrew Page
- John Jackson (resigned on 6 May 2010)

The Directors' remuneration report, which includes details of Directors' remuneration and interests in the Company's shares and options, together with information on service contracts, is set out on pages 29 to 35.

Directors' shareholdings

The interests of the Directors in the shares of the Company, all being beneficially owned, were as follows:

	At 8 March 2011	At 2 January 2011	At 27 December 2009
Executive Directors			
Andrew Page	576,806	576,806	506,806
Stephen Critoph	258,647	258,647	202,491
Trish Corzine	255,497	255,497	213,757
Non-executive Directors			
Alan Jackson	400,191	400,191	400,191
Tony Hughes	91,476	91,476	10,000
Simon Cloke	–	–	n/a

Details of the Directors' share options are disclosed in the Directors' remuneration report on pages 33 and 34. The closing mid-market price of the ordinary shares on 2 January 2011 was 275.0p and the range during the financial year was 186.3p to 297.8p.

Share capital structure

The Company has one class of shares, ordinary shares of 28⅛p. The authorised share capital is 284,444,444 ordinary shares of 28⅛p. As at 2 January 2011, the issued, called up and fully paid number of shares in issue was 199,470,892 shares. There are no preference shares or special rights pertaining to any of the shares in issue.

Following the 2010 Annual General Meeting the Directors have had the authority to allot shares up to an aggregate nominal amount of £18,690,289 which represented approximately one third of the ordinary share capital of the Company at the time the authority was given by shareholders. This authority expires at the Annual General Meeting to be held on 11 May 2011 and it will be proposed to extend this authority (updated for the current number of shares in issue) at the forthcoming Meeting. The Directors have no present intention of exercising this authority. In addition, following the 2010 Annual General Meeting, the Directors have the authority to make market purchases of shares in The Restaurant Group plc on behalf of the Company up to 19,936,308 ordinary shares (which represented 10% of the Company's issued ordinary share capital at the time of the Notice of the 2010 Annual General Meeting). The minimum price that may be paid for such shares is 28⅛p per share. The maximum price is the higher of 5% above the average middle market quotation for the ordinary shares for the five business days preceding the date of purchase and 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 the purchase is carried out. This authority expires at the forthcoming Annual General Meeting and it will be proposed to extend this authority (updated for the current number of shares in issue) at the forthcoming Meeting. The Directors have no present intention of exercising this authority.

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

Substantial shareholdings

At 16 February 2011 the Company had been notified of the following interests of 3% or more in the issued ordinary share capital of the Company:

	Number of shares	% of issued share capital
Standard Life	11,220,208	5.62
Old Mutual Asset Managers	11,084,906	5.56
Scottish Widows Investment Partnership	9,054,580	4.54
Blackrock Inc	8,360,566	4.19
F&C Asset Management	8,058,428	4.04
New Smith Asset Management	7,608,373	3.81
Legal & General Asset Management	7,282,316	3.65
J.P. Morgan Asset Management	7,099,999	3.56
Ameriprise Financial Inc	6,890,620	3.45
M&G Investment Management	6,700,863	3.36
BAE Pension Fund Investment Management	6,600,615	3.31

Corporate governance

The Company is committed to high standards of corporate governance and to observing the principles of corporate governance contained in the Combined Code on Corporate Governance that was issued in 2006 by the Financial Reporting Council ("the Code") for which the Board is accountable to shareholders.

Statement of compliance with the Combined Code

Throughout the year ended 2 January 2011, the Company has been in compliance with the provisions set out in the Code except for provisions concerning the number of Directors considered to be independent, and the independence of the Chairman (who was previously executive Chairman before assuming the role of non-executive Chairman in January 2006). The Company currently has two non-executive Directors who are considered to be independent, which is less than the 50% of the Board best practice guidance under the Combined Code. During 2010 John Jackson retired from the Board and Simon Cloke was appointed as an independent non-executive Director. The composition of the Board is regularly reviewed to ensure that the effectiveness of the Board (and performance of the Group) are at a high standard.

Statement about applying the principles of the Code

The Company has applied the principles set out in section 1 of the Code, including both the Main Principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the Main Principles have been applied is set out below and in the Directors' remuneration report and the Audit Committee report.

The Board

The Board's role is to provide entrepreneurial leadership of the Company and Group within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board reviews the Group's strategic objectives and looks to ensure that the necessary financial and human resources are in place to achieve these objectives, and to review management performance against these objectives.

The Board also sets the Company's values and standards and manages the business in a manner to meet its obligations to shareholders and other stakeholders. The Board currently comprises the non-executive Chairman, the Chief Executive Officer, the Group Finance Director, the Executive Director of the Concessions division and two non-executive Directors. Their biographies appear on pages 16 and 17 and these demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital for the success of the Group. Tony Hughes acts as senior independent non-executive Director and is available to shareholders if they have reasons for concern on which contact through the normal channels is inappropriate or has failed to resolve an issue.

The roles of Chairman and Chief Executive Officer are clearly defined. The Chairman is responsible for the leadership of the Board and the Chief Executive Officer is responsible for the strategic direction and operational management of the Group.

The Board meets on a regular basis and there is a formal schedule of matters specifically reserved for its consideration. This includes approval of the annual budget and the three year business plan, approval of the interim and year end Report and Accounts, review and approval of significant capital expenditure (including development of new sites), significant disposals of assets and acquisitions or disposals of businesses.

Operational management are responsible for the day-to-day running of the Group and report on a regular basis on that performance to the Board. The Board is responsible for reviewing, challenging and approving the strategic direction of the Group and monitoring operational performance. The Board is responsible to shareholders for the proper management of the Group and has access to the necessary information to enable it to discharge its duties. All Directors are subject to annual election by shareholders at the first opportunity after their appointment, except where they are appointed by shareholders, and to re-election thereafter at intervals of not more than three years. Following changes to the UK Corporate Governance Code, Directors will be subject to re-appointment on an annual basis.

There is significant involvement from the non-executive Directors. This involves an ongoing dialogue with the executive Directors including constructive challenge of performance and the Group's strategy. The non-executive Directors are provided with sufficient information to allow them to monitor, assess and challenge the executive management of the Group. Comprehensive Board papers including financial information are circulated to all Directors prior to Board meetings and, on a weekly basis, they receive up-to-date trading information. The non-executive Directors have the opportunity to meet without the executive Directors present, and this includes discussions of targets set and achieved by management.

All Directors have access to the advice and services of the Company Secretary and a procedure has been agreed for the Directors in the furtherance of their duties to take independent professional advice, if necessary, at the expense of the Company. On joining the Board there is a process for Directors to receive training as to their role and its requirements and for non-executive Directors to gain an understanding of the whole business. Non-executive Directors are actively encouraged to meet with operational management and to visit the Group's operations in order to enhance their understanding of the Group's business, its brands, employees and processes.

During 2010 there were eight Board meetings with full attendance by Board members.

Executive Directors are included in the annual performance evaluation of all senior employees within the Group. This involves a comprehensive review of performance against objectives and covers areas for future development through appraisal documentation and meetings. The non-executive Directors also meet in the absence of the Chairman to appraise the Chairman's performance in the light of his fee review.

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 and to acquire skills and experience which may enhance their contribution to the ongoing progress of the Group. The Board and committees of the Board have been subject to a formal performance appraisal, through an internal questionnaire, and the performance of all members of the Board is considered as part of the annual remuneration review process.

Communications with shareholders

Communications with shareholders are given high priority. The Chairman's statement, Chief Executive Officer's review of operations and Group Finance Director's report on pages 4 to 15 include a detailed review of the business and the Chief Executive Officer's review of operations on pages 6 to 11 includes a review of planned future developments.

There is a regular dialogue with institutional investors including presentations after the Company's announcement of the year-end results, and at the half year. Feedback from major institutional shareholders is provided to the Board on a regular basis and, where appropriate, the Board will take steps to address their concerns and recommendations.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the chairmen of the Audit Committee, Remuneration Committee and Nominations Committee are available at the Annual General Meeting to answer questions, and for all Directors to attend.

Remuneration Committee

The Remuneration Committee consists of two non-executive Directors. There was 100% attendance of the four Remuneration Committee meetings during 2010. The role of this Committee and details of how the Company complies with the principles of the Code are set out in the Directors' remuneration report on pages 29 to 35.

Nominations Committee

The Nominations Committee consists of the non-executive Directors, the non-executive Chairman and the Chief Executive Officer. It met once during 2010 with full attendance at the meeting. There are written terms of reference for the Nominations Committee. It makes recommendations to the Board for the appointment or replacement of additional Directors. It is also responsible for succession planning for the Group.

Audit Committee

The Audit Committee consists of two non-executive Directors. During the year the Committee was chaired by John Jackson until 6 May 2010 and since that date by Simon Cloke. The Audit Committee met twice during 2010 with full attendance at each meeting. A more detailed description of the work undertaken by the Audit Committee is included in the Audit Committee report on pages 36 and 37. Shareholders of the Company have the opportunity to re-appoint Deloitte LLP as external auditors of the Company at the Annual General Meeting to be held on 11 May 2011.

The Restaurant Group plc – strategy

The Restaurant Group's key objective is to grow shareholder value and the strategy deployed to achieve this is to build a business capable of generating long-term, sustainable and growing cash flows. In pursuit of this we have built a business which is focused on the growing casual eating out market. We have targeted segments of this market which offer distinct barriers to entry and where we can be confident of delivering good growth in profits and cash flows and where there is good potential for high returns on investment. This has led the Group to focus our activities in two areas – Leisure and Concessions. The Group operates in the expanding casual dining market, and our offerings continue to provide good value for money in comfortable surroundings and excellent service from our dedicated teams.

The Group's strategy is to deliver further organic growth through the roll-out of our brands – Frankie & Benny's, Chiquito, Garfunkel's and our Pub restaurant business. We have a solid pipeline of sites for development, coupled with a strong focus on continuing to deliver like-for-like sales growth from our existing restaurants. Our Concessions business operates in a dynamic and complicated market where our management teams have market-leading expertise and a track record of innovation and improving sales performance and the Group continues to look for opportunities to expand this division.

The Restaurant Group plc – risk factors

The Board of Directors regularly identify, monitor and manage potential risks and uncertainties to the Group. The list on the following page sets out what the Directors consider to be the current principal risks and uncertainties, with an overview of the mitigation process for these. This list is not presumed to be exhaustive and is, by its very nature, subject to change.

The Restaurant Group plc – key performance indicators

The Board of Directors and executive management receive a wide range of management information delivered in a timely manner. Listed below are the principal measures of progress that are reviewed on a regular basis to monitor the development of the Group.

Like-for-like sales

This measure provides an indicator of the underlying performance of our existing restaurants, and highlights successful development of our offerings to best match changing consumer demands over time. There is no accounting standard or consistent definition of "like-for-like sales" across the industry, although the Group has applied a consistent basis of calculation across years for reporting like-for-like performance. During 2010, the Group like-for-like sales declined by 1% which followed a 2% decline in 2009 and a 1.5% increase in 2008.

Nature of risk	Mitigation plans
Strategic/external risks	
Adverse economic conditions and a decline in consumer confidence and spend in the UK	Regular monitoring of performance and appropriate action plans
Increased supply of new restaurant concepts into the market	Concentration on segments offering higher barriers to entry and good growth prospects; regular monitoring of performance and appropriate action plans
Impact of terrorism in key locations (including airports)	Contingency planning and training; liaison with authorities and landlords in key locations
Possible health pandemic that may cause customers to stay away or prevent restaurants being adequately staffed	Contingency planning and communication with employees
Lack of new site opportunities, and risks to existing Concession agreements	Dedicated property department focusing on new site development, strong relationships with Concessions partners
Operational risks	
Failure to provide customers with brand-standard value for money offerings and service levels	Training, mystery diner visits, monitoring of customer feedback, internal quality control testing
Major failure of key suppliers to deliver products into restaurants	Contingency planning for supply chain and suppliers
Damage to our brands' images due to failures in environmental health compliance in the restaurants or from contamination of products	Training of restaurant and pub teams; detailed health and safety manual; regular internal and external auditing of all sites; auditing of supply chain and suppliers; health and safety incentives and awards
The loss of key personnel or failure to manage succession planning	Benchmarking of remuneration packages; analysis of staff turnover; performance appraisal and review system to retain existing talent; Long-Term Incentive Plan
Financial risks	
Increase in prices of key raw materials (including foreign currency fluctuations), wages, overheads and utilities	Rolling programme of securing longer-term contracts to mitigate short-term pricing fluctuations; energy efficiency programme
Reversion of formerly sold or disposed leases following business failure of new occupiers	Monitoring of sub-let properties; ongoing relationships with property agents
Failure to meet banking covenants	Signed facility agreement, monitoring of financial performance against covenant levels; banking relationships; significant levels of headroom against covenants
Compliance risks	
Increased regulation of the food and beverage industry leading to higher costs	Monitoring of developments and liaison with external authorities such as the Food Standards Agency and Department of Health
Breakdown in internal controls through fraud or error, major failure of IT systems	Experienced staff in key roles; segregation of duties; internal and external audit processes; Audit Committee role
Changes to tax regime, including VAT, corporation tax and income tax	Ongoing monitoring in conjunction with external advisers

Further information on the management of risks highlighted above is provided in the Chief Executive Officer's review of operations and Group Finance Director's report on pages 6 to 15.

New sites opened

The expansion of our brands is a key driver of the Group's profitability. As noted in the Group Finance Director's report, potential new sites are subject to a rigorous appraisal process before they are presented to the Board for approval. This process ensures we maintain the quality of openings as well as the quantity of sites opened. During 2010 the Group opened 24 new sites (2009: 19) and plans to open 22 to 27 new restaurants during 2011.

EBITDA

The ability of the Group to finance its roll-out programme is aided by strong cash flows from the existing business. The Group defines EBITDA as operating profit before depreciation, amortisation and non-trading items. EBITDA serves as a useful proxy for cash flows generated by operations and is closely monitored. During 2010 the Group generated £85.8m EBITDA, an increase of 8% on the 2009 level of £79.6m.

Operating profit margin

The Board and management closely monitor profit margins as an indicator of operating efficiency within restaurants and across the Group. During 2010 the Group adjusted operating margin was 12.6% (2009: 12.2%). In addition, the Group closely scrutinises the returns on invested capital from new site openings and the average EBITDA generated by restaurants.

Further information on these key metrics is provided in the Chief Executive Officer's review of operations and the Group Finance Director's report.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. In accordance with guidance for directors "Internal Control: Guidance for Directors on the Combined Code" (the "Turnbull Guidance"), the Board has ensured that there is an ongoing process for reviewing the effectiveness of the system of internal control including identifying, evaluating and managing the significant risks faced by the Group. This process, which is regularly reviewed by the Board, is carried out in conjunction with business planning and is documented in a risk register that has been progressively enhanced during the financial year and up to the date of approval of the Annual Report and Accounts. Whilst acknowledging its overall responsibility for the system of internal control, the Board is aware that the system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Group has well-established procedures which have been developed over many years which meet the requirements of the Turnbull Guidance. A key control procedure is the day-to-day involvement of executive members of the Board in all aspects of the business and their attendance at regular management meetings at which performance against plan and business prospects are reviewed. The Group has established a monthly executive management meeting where the three executive Directors, senior operational managers and head of functional departments review Group performance and issues affecting the Group. Additionally, the Board seeks to continually strengthen the internal control system where this is consistent with improving the relationship between risk and reward. The Group's associate company, Living Ventures Restaurants Group Limited, does not fall under the same internal controls as the Group. The internal controls within the associate are discussed with management of that company during shareholder meetings and are considered to be appropriate for an entity of its size.

Other key features and the processes for reviewing effectiveness of the internal control system are described below:

- Terms of reference for the Board and its sub-committees, including a schedule of matters reserved for the Board and an agreed annual programme of fixed agenda items for Board approval.
- An established organisational structure with clear lines of responsibility and rigorous reporting requirements.
- Operational performance and operational matters are considered at monthly meetings of the executive Directors with senior management. Financial performance is monitored and action taken through weekly reporting to the executive Directors and monthly reporting to the Board against annual budgets approved by the Board.
- Capital investment is regulated by a budgetary process and authorisation levels, with appraisals and post-investment reviews.
- Comprehensive policy manuals setting out agreed standards and control procedures. These include human resources related policies, information technology and health and safety. The Group employs a firm of external auditors to monitor restaurants on a regular basis for compliance with statutory and internal health and safety requirements.
- An internal audit function headed by an experienced internal auditor has access to all areas of the Company and Group's business and reports into the Board.

Report of the Directors
continued

Statement of Directors' responsibilities in relation to the accounts

The Directors are responsible for preparing the Annual Report, Directors' remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the International Accounting Standards ("IAS") Regulation to prepare the Group financial statements under International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation.

IAS 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- 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.

The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the parent company 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Information provided to auditors

Each of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any relevant information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant information of which the auditors are unaware. This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Going concern

As referred to in the Chief Executive Officer's review of operations there are significant economic concerns facing the United Kingdom and consumer-facing industries in particular. The Group Finance Director's report also contains a summary of the cash flows and borrowing position of the Group. Further information on the Group's policies for capital risk management and financial risk management are set out below. Potential risk factors and uncertainties that could affect the business are listed above.

The Group is highly cash generative, as explained in the Group Finance Director's report, and enjoys negative working capital as it generally does not give credit to its customers. The Group has a debt facility of £120m which matures in December 2012 and net debt at 2 January 2011 of £46.9m (27 December 2009: £66.7m).

Based on the Group's plans for 2011 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.

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, reserves and retained earnings), debt, finance leases 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.

In December 2007 the Group completed a refinancing exercise. As part of this the Group has externally imposed borrowing requirements. The Group has a £120m revolving facility in place until December 2012 and a £10m overdraft facility. Under the terms of the £120m revolving facility the Group is required to comply with its financing covenants whereby net interest charges must be covered at least four times by EBITDA and net debt must not exceed three times EBITDA. These covenants are tested twice annually and are monitored on a regular basis. The Group remained within its external limits throughout 2010.

Financial risk management

The Board of The Restaurant Group plc regularly reviews the financial requirements of the Group and the risks associated therewith. The Group does not use complex financial instruments, and where financial instruments are used it is for reducing interest rate risk. The Group does not use derivative financial instruments for trading purposes. Group operations are primarily financed from retained earnings and bank borrowings (including an overdraft facility). In addition to the primary financial instruments, the Group also has other financial instruments such as debtors, prepayments, trade creditors and accruals that arise directly from the Group's operations. Further information is provided in note 24 to the accounts.

Effective from 18 January 2008, the Group entered into a three year interest rate swap for a notional amount of £25m, from 18 January 2008 to 18 January 2011 at a fixed rate of 4.92% (plus margin). On 8 February 2010 this swap was terminated on payment of £1.0m.

Effective from 16 January 2009, the Group entered into a further two interest rate swaps: a two year interest rate swap for a notional amount of £20m at a rate of 2.70% (plus margin) and a three year interest rate swap for a notional amount of £20m at a rate of 2.975% (plus margin). On 9 February 2011 the three year swap was terminated on a payment of £0.4m.

After the impact of the interest rate swaps, the average rate of interest charged during the year on the Group's debt was 2.81% (2009: 3.56%), and the average year-end rate was 2.98% (2009: 4.06%). On 2010 results, net interest was covered 21.9 times (2009: 16.0 times) by profit before tax, interest and non-trading items. Based on year end debt and profits for 2010, a 1% rise in interest rates would reduce profits before tax and non-trading items by 0.2% (2009: 0.5%) and interest cover would reduce to 21.1 times (2009: 14.9 times).

At 2 January 2011 the Group had gross borrowings attracting interest (including overdraft) of £50.0m (2009: £70.0m) and cash balances of £2.7m (2009: £2.8m).

Creditor payment policy

The Company's policy is to agree the terms of payments with its suppliers as and when a trading relationship is established. The Company ensures that the terms of payment are clear and its policy is to abide by the agreed terms, provided the supplier meets its obligations. At 2 January 2011 the Company had no trade creditors. The Group had an average of 42 days (2009: 41 days) purchases outstanding in trade creditors.

Donations

No donations for political purposes have been directly made by the Company during the year. Charitable events, fund raising and sponsorship are organised by restaurants for organisations in their locality as described in the Corporate Responsibility section on pages 26 to 28.

Annual General Meeting

A separate Circular is included with the mailing of the Annual Report to shareholders setting out the resolutions to be voted on at the Annual General Meeting, which is to take place at 11am on 11 May 2011 at the offices of Maclay Murray & Spens LLP, One London Wall, London EC2Y 5AB.

The Board believes that the proposed resolutions to be put to the shareholders at the Annual General Meeting are in the best interests of shareholders and, accordingly, recommends that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings in the Company.

Auditors

Deloitte LLP have expressed their willingness to continue as auditors, and a resolution will be proposed at the Annual General Meeting for their reappointment.

Directors' responsibilities statement

The Directors confirm that to the best of their knowledge:

1. the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and Group; and
2. the Chairman's statement, Chief Executive Officer's review of operations, Group Finance Director's report and report of the Directors include a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties faced.

By Order of the Board,

Robert Morgan
Company Secretary
9 March 2011

Corporate responsibility

The Restaurant Group plc ("TRG") acknowledges that it has a significant role to play with regard to the community and wider environment in which it operates. This statement sets out the principal areas of focus and activity that the Group has undertaken to date, and what the Group is looking at for future development, in managing its impact on customers, employees, communities and the wider environment.

This is split into five sections:

- Our market – the area of business that our strategy is focused on.
- Our people – the Group's policies and actions towards our 10,000 employees.
- Our communities – how TRG interacts with those communities from which our customers and employees are drawn.
- Our environment – the impact of TRG on the wider environment, and how we are seeking to reduce this.
- Our shareholders – those that have invested capital in the development of The Restaurant Group plc, and to whom the Directors and management of the Group are accountable.

Our market

The Restaurant Group plc has focused its attention on markets in the United Kingdom which have significant growth potential. For a number of years, dining out has been a growing market, and, partially as a result of this, there has been an increased focus from customers and regulatory authorities on health issues relating to our sector. We have seen initiatives on alcohol, food (in particular on calorie consumption and fat and salt content) and smoking over recent years and these are set to continue to be a focus. It is important that the Group continues to monitor closely these developments and ensure that we offer our customers a broad range of choice in our restaurants, including healthy options.

Healthy eating

Healthy eating is a personal responsibility but TRG acknowledges that as a provider of food and drink we have a role to play in providing appropriate options from which individuals may choose when they eat out. TRG strongly believes that we should offer our guests choices on the menu. Whilst we do not wish to be prescriptive we aim to provide a healthy choice at each menu point, alongside more indulgent options. For many people dining out is a treat, and therefore the normal restrictions which may be applied to healthy eating on a day-to-day basis are waived in favour of enjoyment and experience. For example, whilst completing the weekly shop a consumer may choose chocolate fudge cake for their weekend dessert as opposed to a piece of fruit during the week.

The Group is undertaking a process of monitoring nutritional content across its menus and, as part of our ongoing menu review, will look to develop the healthier options available to customers and to work with our suppliers to reduce salt content and calorific content. The Group has engaged with the Food Standards Agency and Department of Health Healthy Catering initiatives and is committed to ensure that all menus feature lighter options and all children's meals come with a choice of carbohydrate alternatives and a complementary portion of salad or vegetables, and to work with our suppliers to source lower salt, saturated fat and calorie versions of ingredients where possible.

Hydrogenated fats

In light of UK government and consumer focus with regard to consumption of products containing high levels of fat, particularly saturated fats and artificial hydrogenated trans-fats*, which have been linked to potential risks to cardiovascular health, we conducted a detailed review of our suppliers and our menu ingredients in conjunction with our external food safety consultants.

- We have worked closely with all of our suppliers to identify the types and levels of fats and oils in our ingredients to facilitate a programme of removal, replacement or reduction, whilst maintaining our required quality standards.
- The vast majority of our ingredients (>99%) are now free from hydrogenated fats and oils.
- Since August 2007 we have prohibited the supply of new ingredients containing added hydrogenated fats and oils.
- We continue to work closely with all of our suppliers to identify and progress opportunities for reducing overall levels of saturated fat wherever possible and to provide healthier choices.

* Whilst some trans-fats occur naturally and are found in small amounts in meat and dairy products, concerns have been raised about artificial trans-fats, formed during a food manufacturing process called hydrogenation that turns oils into solid/semi-solid fats. These hydrogenated fats/oils can be found in products such as biscuits, cakes, margarine, processed foods and cooking oils.

Other initiatives

All our red meat is supplied from producers in the UK and Ireland and we have taken significant steps to reduce our "food miles". This process will continue into 2011, with a focus on improving our supply chain efficiency and reducing the number of deliveries, and therefore food miles, to our restaurants. Our Concessions division sources eggs from The Happy Eggs Company, who operate higher welfare standards for their chickens.

TRG is a member of the Supplier Ethical Data Exchange ("SEDEX"), which facilitates measurement and improvement in ethical business practices across the supply chain; 120 of our food suppliers and 18 other (non-food) suppliers provide information describing their procedures and practices to the Group via SEDEX.

As in previous years, there continue to be no known genetically modified foods in any product the Group uses and new suppliers are required to confirm that they will not provide the Group with such products. We are also working with our suppliers to target and remove the "Southampton Institute" colourings that can cause hyperactivity in children and this will remain an ongoing focus during 2011.

Drink aware
All our restaurants operate an "Are You 21" policy, whereby we will ask for proof of identification to anyone who appears to be under 21. We also do not permit the sale of alcohol to under 18's, even if the alcohol is for consumption with a meal. All of our restaurants offer a wide range of non-alcoholic drinks including fruit juices, carbonates, minerals and non-alcoholic cocktails and tap water is available for customers free of charge.

Smoking
From 1 July 2007 we have complied fully with the legislation throughout the United Kingdom which has banned smoking in public areas.

Our people
The most important asset any company can have is its people. At The Restaurant Group plc we strive to nurture our individuals to build great teams. Anyone has the potential to develop within our company and we endeavour to give them the tools and knowledge to encourage this. This is the key to any successful business and our team is one of which we are especially proud.

We employ approximately 10,000 people and continue to increase this number as we expand our business. The Group opened a further 24 restaurants during 2010 and created approximately 700 jobs for the local communities in the process.

Our policies ensure that we offer equal rights regardless of age, colour, gender, sexual orientation, disability or religion. This gives us a diverse group of employees able to meet the challenges our market presents. We have a fair and open recruitment process with clear terms of employment and we have developed a new website (www.therestaurantgroup.jobs) to allow easier access to available jobs for potential employees across our Group. All staff are provided with a contract of employment and copies of our staff handbook along with other policies to ensure everyone is aware of our rules, expectations and procedures, including grievance and disciplinary issues. The Group has an ethical dealings policy in place which incorporates a strict prohibition on bribery and corruption. The Group also has a defined termination policy, should this be required.

Recently there has been a stronger focus on ensuring the recruitment of our teams complies with current legislation. With the UK Border Agency instigating regular visits to employers to check the validity of our employees' rights to work in the UK we have instigated robust measures to prevent the possibility of TRG contravening the rules.

The Restaurant Group plc pays all of its employees at least the national minimum wage and does not utilise tips in any form to make up this rate. All gratuities are paid to the employees, with credit card tips attracting only the usual tax deductions, but unlike some of our competitors, no administration fee is taken by the company.

The Group allocates considerable resources to provide high quality training to our teams. Training begins on the first day and is an ongoing process of development and support. Our training team is fully qualified and delivers high quality courses, as well as guiding new and established team members throughout their development.

With our portfolio of sites it is vital that our communication is of a very high standard. Each day branch staff are given team briefings; weekly meetings for staff and management are held; and weekly communications packs are issued from head office to each brand. Our senior managers are out in the business extensively and interact daily with their branch management and team members to ensure full two-way communication is present throughout the business.

The health and safety of our customers and employees is of paramount importance. The Group has extensive procedures to ensure we mitigate risks to our guests and teams as far as possible. We have very clear procedures and standards in place, and to enforce these we employ external auditors and carry out benchmarking of our restaurants. We have also significantly increased the level of training in health and safety matters across the Group in recent years to further enhance the clean, safe environment for our customers and staff.

Our communities
Active involvement in the local communities around our restaurants and pub restaurants is important to The Restaurant Group plc. Whilst we operate successful national brands our focus is on local community marketing whether this is for Frankie & Benny's, with almost 200 restaurants, or the individual pub at the heart of a village community. The Restaurant Group supports staff fundraising activities at a brand and local level.

During 2010 we engaged in a number of local and national charitable events:

- The Frankie & Benny's teams across the country worked with three regional charities. In Scotland we raised over £50,000 with CHAS (children's hospices in Scotland). We sponsored The Christie, a leading cancer centre based in Manchester, and raised over £40,000, and also raised over £23,000 for the Macmillan cancer charity. These monies were raised from customers and staff through local events, raffles and theme and fancy dress nights.
- Frankie & Benny's continues its initiative to support local junior sports teams across the country, providing new sports kit for more than 110 local teams in 2010;
- Chiquito teams raised over £7,000 in 2010 during their Cinco de Mayo fiesta, for Casa Alianza, a homeless children's charity in Mexico. The brand went on to support this charity later in the year, on hearing that one of their children's homes had been burned down, Chiquito donated 50p for every "Like" that they gained on Facebook and raised a total of £1,800; and
- Our pubs undertake a number of small fund-raising initiatives for local charities in their communities.

Corporate responsibility
continued

We are proud of our Frankie & Benny's Schools Programme which supports the Primary Key Stages Curriculum. This encourages primary school classes to visit their local Frankie & Benny's restaurant to learn about the restaurant business, food hygiene and health and safety, and to have the opportunity to make and bake their own pizzas. During 2010 we held approximately 450 such visits across the country – over 12,000 pupils visited Frankie & Benny's as part of this initiative.

Our environment

During 2010 we have undertaken a number of developments regarding the Group's commitment to mitigating its impact on the environment. Not only are the attitudes and expectations of our customers changing over time but we recognise that the Group's activities impact the natural environment, most significantly with regard to energy consumption (and carbon emissions), water consumption and the creation and removal of waste. Innovative regulatory mechanisms are being introduced that may in future create a direct link between environmental outcomes and financial benefits or penalties.

We have established a close relationship with the Carbon Trust, who advise the Group on best practice and ensure energy consciousness is at the heart of our strategic objectives covering premises design and construction, heating, lighting, ventilation and food production. TRG is working towards achieving the Carbon Trust Standard.

We have a multi-disciplinary team working on reducing our energy consumption through operational practices and staff awareness, premises design and the improved use of technology to monitor and control our use of energy, water and waste.

We recognise that lasting change in energy consumption by the Group will require changes in behaviour for our whole team. The provision of accurate and timely management information covering energy consumption is an essential tool supporting the change. A web-based energy-information portal to provide real time consumption data to restaurants and our operators has been developed in association with our energy consultants and allows us to target more inefficient sites and challenge our teams through league tables to improve their energy efficiency.

We have also launched an energy saving campaign to all sites, providing information to help our staff drive energy efficiency. By February 2011 we had installed Automated Meter Readers ("AMRs") to supplement half-hourly monitoring of electricity supplies at 98% of our available Leisure Division businesses, and 96% of available sites for gas supplies.

We have installed an equipment monitoring system in one Frankie and Benny's restaurant to allow us to monitor all electrical and gas equipment on a half hourly basis and test out new energy saving replacement equipment. This has already led to three changes in the equipment that is installed in a standard Frankie and Benny's and during 2011 we will monitor the savings in energy consumption from this restaurant and we are working with the Carbon Trust and other external advisers to develop further environmental efficiencies in our building design and equipment used in our operations.

We opened a new Frankie & Benny's restaurant in 2010 which includes heat recovery systems, energy saving lighting and low energy hand dryers as well as solar panels. We will review the energy performance of this site with a view to include energy and financially efficient equipment in other new restaurants.

- Reducing the resources we use and the waste we generate is also a key objective for the Group.
- TRG recycled over 650,000 litres of used cooking oil (an increase of approximately one third on the previous year's level of recycled cooking oil); our contractor supplies a bio-diesel production facility;
- Kids' packs in Frankie & Benny's and Chiquito are now made from 75% recycled material; Frankie and Benny's packs are now packaged in paper bags rather than plastic to reduce the period required for decay; and
- Waste glass and cardboard is collected for recycling at over 90% of our businesses where we control the collection.

Our shareholders

The Group has had a clear strategy since 2001 – to deliver value for shareholders by focusing on sectors within the eating out market that offer high barriers to entry, where we can generate sustainable and growing cash flows and which offer high returns on investment. This has led the Group to focus investment into the Leisure division and our Concessions division, which operates principally on airports. The Group has had a progressive dividend policy and has had a strong track record of growing profits and dividends for shareholders.

The Chairman's statement, Chief Executive Officer's review of operations and Group Finance Director's report provide further detail on the Group's strategy, performance during 2010 and prospects for the Group.

Directors' remuneration report

Introduction

This report has been prepared in accordance with Schedule 8 of the Accounting Regulations under the Companies Act 2006. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration in the Combined Code. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company (to be held on 11 May 2011) at which the financial statements are subject to approval.

The Act requires the auditors to report to the Company's members on the part of the Directors' remuneration report subject to audit and to state whether, in their opinion, that part of the report has been properly prepared in accordance with Schedule 8 of the Accounting Regulations under the Companies Act 2006. The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration Committee

The Company has established a Remuneration Committee ("the Committee") which is constituted in accordance with the recommendations of the Combined Code. The members of the Committee during the year were Tony Hughes, Simon Cloke (from 26 March 2010) and John Jackson (to 6 May 2010), who were independent non-executive Directors. The Committee is chaired by Tony Hughes.

None of the Committee has any personal financial interest in the Company (other than as shareholders). The Committee makes recommendations to the Board. No Director plays a part in any discussion about his own remuneration. In determining the executive Directors' remuneration for the year the Committee consulted Alan Jackson (non-executive Chairman) about its proposals.

Hewitt New Bridge Street (a trading name of Aon Hewitt Limited, part of Aon Corporation) is the independent adviser to the Remuneration Committee. Neither Hewitt New Bridge Street nor any other part of Aon Corporation provided other services to the Company during the year.

Remuneration policy

Executive remuneration packages are designed to attract, motivate and retain executive Directors of the high calibre needed to progress and develop the Group and to reward them for top quartile sector performance and enhancing value to shareholders. The performance measurement of the executive Directors and the determination of their annual remuneration package are undertaken by the Committee. In addition, the Committee determines the remuneration for the Chairman. The remuneration of the other non-executive Directors is determined by the Board. The Company's policy is that a substantial proportion of the remuneration of the executive Directors should be performance related.

There are four main elements of the remuneration package for executive Directors:

- Basic annual salary and benefits;
- Annual bonus payments;
- Long-Term Incentive Plan ("LTIP") awards; and
- Pension arrangements.

Policy review

During 2010, a comprehensive review of the remuneration policy for executive Directors was undertaken. This was the first such review in over five years. The Committee has considered how best to structure the Company's remuneration policy to continue to incentivise and retain the management team as it continues to drive the business forward and deliver superior returns to shareholders. The Committee considered each of the four main aspects of the remuneration package for executive Directors. As part of the process, ten of the Company's largest shareholders and major shareholder representative bodies were consulted. Following the review, the Committee determined that it would be appropriate to increase the maximum level of bonus available, for outstanding performance, to the Chief Executive Officer and Group Finance Director, and to increase the maximum award that may be granted under the LTIP. In addition, the basic salary and pension provision of the Group Finance Director (both of which were becoming increasingly below market) were reviewed and aligned with market levels. These changes are set out in more detail below. The Committee believes that these changes align the level of potential variable remuneration available to the executive management team with their peer group.

Basic salary

An executive Director's basic salary is determined by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and by reference to remuneration levels at other companies in the leisure and hospitality sectors.

Following a recommendation from the executive Directors to hold salaries, the Remuneration Committee determined at the December 2008 salary review that no increase to the basic salary of executive Directors would be applied for the 2009 financial year. At the December 2009 review, it was determined that basic salaries for executive Directors should increase modestly for the 2010 financial year, with such increases capped at 1.5%. This was below the average salary increase of 2% provided to other employees in the Group. Following a review of salary levels for 2011, the Remuneration Committee concluded that the salary for Stephen Critoph should be increased to £270,000, to bring Mr Critoph closer in line with mid-market levels and recognising his performance. Increases to the basic salaries for Andrew Page and Trish Corzine for 2011 were below the average for other employees of 3%.

Basic salary	2008 £	2009 £	2010 £	2011 £
Andrew Page	535,000	535,000	543,000	558,000
Stephen Critoph	240,000	240,000	243,500	270,000
Trish Corzine	230,000	230,000	233,500	240,000

In addition to basic salary, the executive Directors receive pension contributions and certain benefits-in-kind, principally a car (or car allowance), and health and life insurance.

Annual bonus payments

The annual bonus is based on the achievement of stretching profit before tax targets and personal objectives. Performance targets are set annually as part of the budgeting process and performance is reviewed against those targets at the end of the financial year. Following the review by the Remuneration Committee described above, the maximum bonus that can be paid in respect of performance in 2011 will be increased from 100% of basic salary to 150% of basic salary for the Chief Executive Officer and to 125% of basic salary for the Group Finance Director. The bonus will remain at 100% of basic salary for the Executive Director of the Concessions Division.

In return for the increased bonus potential, the Committee has set commensurately tougher performance targets and any bonus payment above 100% of basic salary must be invested in Company shares which must be held for three years. Actual bonus payments for 2010 are presented in the emoluments table on page 32.

Long-term incentives

The Company operates the 2005 Long-Term Incentive Plan ("LTIP" or "Plan"), and the 2003 Save As You Earn ("SAYE") Scheme under which awards may be granted to executive Directors.

Long-Term Incentive Plan

The 2005 LTIP is the primary long-term incentive scheme of the Company. Under the Plan, individuals may receive an award of conditional free shares ("Conditional Awards") with a face value at grant of up to 100% of salary per annum, vesting three years after grant subject to performance conditions and continued employment. In addition, the Plan has the flexibility to grant conditional awards on a matching basis, pro rata to the number of shares purchased via the annual bonus ("Matching Awards"). Matching Awards may be granted over shares worth up to 37.5% of basic salary per annum.

During 2010, the Committee has reviewed the composition of award limits under this scheme. Following this review and in consultation with the Company's major shareholders and representative bodies, the Committee concluded that shareholder approval should be sought at the forthcoming Annual General Meeting to increase:

- the Conditional Award limit from 100% to 150% of basic salary; and
- the Matching Award limit from 37.5% to 50% of basic salary, pro rata to the number of shares purchased via the annual bonus.

Subject to shareholder approval, total LTIP opportunity will therefore be 200% of basic salary, subject to 50% of basic salary being invested into the matching plan.

For awards to be made in 2011, Conditional Award levels will be set at 150% of basic salary for the Chief Executive Officer and 100% of salary for the Group Finance Director and the Executive Director of the Concessions Division, and Matching Award levels will be up to 50% of basic salary for all three individuals. Awards will continue to be structured with a combination of total shareholder return ("TSR") and earnings per share ("EPS") performance conditions:

- The performance condition attached to 50% of the Conditional Awards will require average annual EPS growth from 3 January 2011 to 31 December 2013 of between RPI plus 4% to RPI plus 10% per annum for between 30% and 100% of this part of the award to vest (i.e. between 15% and 50% of the total award).
- The performance condition attached to the other 50% of the Conditional Awards will be based on TSR performance measured against the constituents of the FTSE Travel & Leisure Index (excluding airlines) over a single three-year period from 2011 to 2014
- Awards will vest on a straight line basis between minimum and maximum thresholds.
- For Matching Awards, there will be a 0.3:1 match for average EPS growth of RPI plus 4% per annum rising on a straight line basis to the full 1:1 match for average EPS growth of RPI plus 10% per annum.

The combination of EPS and TSR performance conditions provides a balance between rewarding management for growth in sustainable profitability and stock market out-performance. The EPS target range will require growth from the current all time high level of profitability and the TSR condition will be based from a strong recent share price performance.

Performance against the TSR and EPS targets will be independently calculated and reviewed by the Committee.

Shareholding guidelines

The Company operates shareholding guidelines for executive Directors, linked to the out-turn of the Plan. At the time Conditional and Matching Awards vest under the Plan (or any other executive plan established in the future), there is a requirement to retain no fewer than 50% of the shares, net of taxes, vesting under an LTIP award until a shareholding with a market value (calculated by reference to purchase price) in line with the policy is achieved. Following the Committee's review, shareholding guidelines have been increased to 200% of basic salary in respect of the Chief Executive Officer and 150% in respect of the Group Finance Director. The guideline for the Executive Director of the Concessions Division remains at 100% of basic salary.

SAYE Scheme

The Company also operates an SAYE Share Option Scheme for eligible employees under which options may be granted at a discount of up to 20% of market value. Eligible employees are full time employees and executive Directors who have worked for the Group for at least one year. Under the terms of the SAYE scheme, the eligible employees are able to purchase shares under a three-year savings contract. Awards under the SAYE scheme were made in 2004, 2006, 2008 and 2010 to eligible employees and Directors.

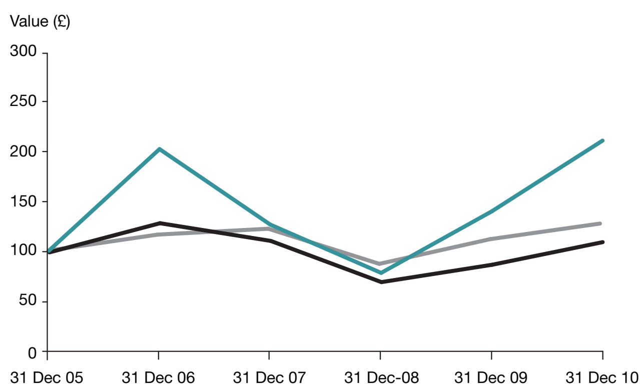
Pension arrangements

Executive Directors have individual pension arrangements in the form of personal pension plans. The Company makes a contribution of 20% of basic salary for the Chief Executive Officer and Group Finance Director (with the latter's contribution increased from 10% of basic salary from January 2011) and 10% of salary for the Executive Director of the Concessions Division towards funding each executive Director's pension plan. To the extent that this funding exceeds the relevant current HMRC limit, the surplus may be paid as a salary supplement. There are no unfunded pension promises or similar arrangement for Directors.

Performance graph

As required by the Regulations, the graph below compares the Company's TSR performance with the FTSE 350 Travel and Leisure Share Index for each of the past five years.

The FTSE 350 Travel and Leisure Share Index has been selected for this comparison because it is the index most relevant to gauging the Company's relative performance. This graph shows the value, by 31 December 2010, of £100 invested in The Restaurant Group plc on 31 December 2005 compared with the value of £100 invested in the FTSE All-Share Index and the FTSE 350 Travel and Leisure Share Index.



Source: Thomson Reuters

- The Restaurant Group
- FTSE All-Share Index
- FTSE 350 Travel and Leisure Index

Directors' contracts

It is the Company's policy that executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice. However, it may occasionally be necessary to offer longer initial notice periods to new Directors. All executive Directors have contracts which are subject to one year's notice by either party. In the event of early termination (including following a change of control in the Company), the Directors' contracts provide for compensation in line with their contractual notice period.

The details of the executive Directors' contracts are summarised in the table below:

	Date of contract	Notice period
Andrew Page	28 August 2002	1 year
Stephen Critoph	7 July 2004	1 year
Trish Corzine	31 March 2003	1 year

Appointments outside the Group

Executive Directors are entitled to accept appointments outside the Company or Group and there is no requirement for Directors to remit any fees to The Restaurant Group plc. Andrew Page is a non-executive director of Arena Leisure plc and received fees as a non-executive director of Arena Leisure plc of £50,000 in 2010 (2009: £45,000).

Non-executive Directors

The service contracts of the non-executive Directors were each set for an initial three-year period (thereafter renewable for periods of three years). They are required to submit themselves for re-election every three years and in accordance with the Group's compliance with best practice under the UK Corporate Governance Code, will make themselves available for re-election on an annual basis going forward from 2011. The non-executive Directors' appointments were made as follows:

	Date of appointment as non-executive Director	Notice period
Alan Jackson*	9 November 2005	1 year
Tony Hughes	1 January 2008	Nil
Simon Cloke	26 March 2010	Nil

* Alan Jackson was previously Executive Chairman of the Company, and was appointed in March 2001. From 1 January 2006 he has held the position of non-executive Chairman.

All non-executive Directors have specific terms of engagement and their remuneration (with the exception of Alan Jackson) is determined by the Board based on a review of fees paid to non-executive Directors of similar companies and reflects the time commitment and responsibilities of each role. The basic fee paid to the non-executive Directors (excluding Alan Jackson) in the year was £50,000 (2009: £50,000) (pro rated by tenure of service). Alan Jackson's fee, which is set by the Remuneration Committee, was £300,000 (2009: £300,000). No increases to the fees of non-executive Directors have been made in respect of 2011.

Directors' remuneration report
continued

Audited information
Aggregated Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2010 Executive £'000	2010 Non-executive £'000	2010 Total £'000	2009 Total £'000
Emoluments	**2,096**	**440**	**2,536**	2,632
Money purchase pension contributions	**156**	**–**	**156**	155
	2,252	**440**	**2,692**	2,787

(a) Emoluments
(i) Executive

	2010 Basic salary £'000	2010 Bonus £'000	2010 Benefits in kind £'000	2010 Total £'000	2009 Total £'000
Andrew Page	**543**	**543**	**29**	**1,115**	1,204
Stephen Critoph	**244**	**244**	**15**	**503**	544
Trish Corzine	**233**	**233**	**12**	**478**	449
	1,020	**1,020**	**56**	**2,096**	2,197

The annual bonus payments recognise the strong financial, operational and personal performance of the executive Directors over 2010, which resulted in the stretching profit before tax range set at the start of the year being exceeded.

(ii) Non-executive

	2010 Fees £'000	2010 Benefits in kind £'000	2010 Total £'000	2009 Total £'000
Alan Jackson	**300**	**30**	**330**	335
Tony Hughes	**50**	**1**	**51**	50
Simon Cloke (from 26 March 2010)	**38**	**–**	**38**	–
John Jackson (to 6 May 2010)	**21**	**–**	**21**	50
	409	**31**	**440**	435

(b) Pension schemes
The executive Directors are members of money purchase schemes. Where an executive Director's entitlement to a contribution exceeds the allowable limit set by HMRC, a salary supplement may be payable up to but not exceeding the level of entitlement. Contributions paid as pension contributions or salary supplements by the Group in respect of the executive Directors were as follows:

	2010 £'000	2009 £'000
Andrew Page	**109**	108
Stephen Critoph	**24**	24
Trish Corzine	**23**	23
	156	155

Long-term incentives

Aggregate emoluments disclosed above do not include any amounts for the long-term incentives granted to or held by the Directors. The policy for long-term incentives is described earlier in this report and the table below sets out the outstanding awards held by executive Directors.

Name of Director	Scheme	At 28 December 2009	Granted	Lapsed	Exercised	At 2 January 2011	Exercise price	Date from which exercisable	Expiry date
Alan Jackson	One-off	200,000	–	–	(200,000)	–	45.0p	5.6.2004	5.6.2011
	2003	178,114	–	–	(178,114)	–	67.4p	4.7.2006	4.7.2013
	2003	200,000	–	–	(200,000)	–	97.7p	4.10.2007	4.10.2014
	2003	250,000	–	–	(150,000)	100,000	134.4p	4.4.2008	4.4.2015
Andrew Page	2003	200,000	–	–	(200,000)	–	97.7p	4.10.2007	4.10.2014
	2003	227,679	–	–	(127,679)	100,000	134.4p	4.4.2008	4.4.2015
	LTIP (1)	145,929	–	(27,396)	(118,533)	–	–	3.3.2010	3.9.2010
	LTIP (2)	39,171	–	–	(39,171)	–	–	3.3.2010	3.9.2010
	LTIP (3)	645,689	–	–	–	645,689	–	9.3.2011	9.9.2011
	LTIP (4)	90,084	–	–	–	90,084	–	9.3.2011	9.9.2011
	2008 SAYE	7,680	–	–	–	7,680	125.0p	1.6.2011	1.12.2011
	LTIP (5)	780,208	–	–	–	780,208	–	Publication of 2011 results	6 months after vesting
	LTIP (6)	111,457	–	–	–	111,457	–	Publication of 2011 results	6 months after vesting
	LTIP (7)	–	264,878	–	–	264,878	–	Publication of 2012 results	6 months after vesting
	LTIP (8)	–	97,865	–	–	97,865	–	Publication of 2012 results	6 months after vesting
Stephen Critoph	2003	235,000	–	–	(235,000)	–	97.7p	4.10.2007	4.10.2014
	2003	50,000	–	–	(50,000)	–	134.4p	4.4.2008	4.4.2015
	LTIP (1)	69,124	–	(12,968)	(56,156)	–	–	3.3.2010	3.9.2010
	LTIP (2)	20,340	–	–	(20,340)	–	–	3.3.2010	3.9.2010
	LTIP (3)	248,275	–	–	–	248,275	–	9.3.2011	9.9.2011
	LTIP (4)	58,188	–	–	–	58,188	–	9.3.2011	9.9.2011
	LTIP (5)	300,000	–	–	–	300,000	–	Publication of 2011 results	6 months after vesting
	LTIP (6)	75,000	–	–	–	75,000	–	Publication of 2011 results	6 months after vesting
	LTIP (7)	–	118,780	–	–	118,780	–	Publication of 2012 results	6 months after vesting
	LTIP (8)	–	43,902	–	–	43,902	–	Publication of 2012 results	6 months after vesting
	2010 SAYE	–	4,932	–	–	4,932	184.0p	1.6.2013	1.12.2013
Trish Corzine	2003	100,000	–	–	(100,000)	–	97.7p	4.10.2007	4.10.2014
	2003	90,000	–	–	(90,000)	–	134.4p	4.4.2008	4.4.2015
	LTIP (1)	64,516	–	(12,103)	(52,413)	–	–	3.3.2010	3.9.2010
	LTIP (2)	18,433	–	–	(18,433)	–	–	3.3.2010	3.9.2010
	LTIP (3)	237,931	–	–	–	237,931	–	9.3.2011	9.9.2011
	LTIP (4)	54,310	–	–	–	54,310	–	9.3.2011	9.9.2011
	2008 SAYE	7,680	–	–	–	7,680	125.0p	1.6.2011	1.12.2011
	LTIP (5)	287,500	–	–	–	287,500	–	Publication of 2011 results	6 months after vesting
	LTIP (6)	71,874	–	–	–	71,874	–	Publication of 2011 results	6 months after vesting
	LTIP (7)	–	113,902	–	–	113,902	–	Publication of 2012 results	6 months after vesting
	LTIP (8)	–	42,073	–	–	42,073	–	Publication of 2012 results	6 months after vesting

Directors' remuneration report
continued

LTIP (1) – Conditional Awards. Vesting of 50% of these awards was based on EPS growth of the 2009 results compared with the 2006 results and 50% based on relative TSR performance over the three financial years to 31 December 2009. The EPS performance condition range of RPI+4%-10% p.a. was achieved in full and consequently those shares pertaining to the EPS criteria vested in full. For the TSR performance condition, the performance of the Group was between the median and upper quartile for the relevant period and consequently 62.5% of the TSR element of the award vested.
LTIP (2) – Matching Awards. Vesting was based on EPS growth of the 2009 results compared with the 2006 results and the RPI+4%-10% p.a. performance condition was met in full. Consequently the Matching Shares vested in full.
LTIP (3) – Conditional Awards. Vesting of 50% of these awards was based on EPS growth of the 2010 results compared with the 2007 results and 50% based on TSR performance over the three financial years to 31 December 2010. The RPI+4%-10% p.a. EPS growth range was achieved partially and 82.5% of the EPS part of the award will vest. For the TSR performance condition the performance of the Group was above upper quartile, so the condition was achieved in full.
LTIP (4) – Matching Awards. Vesting was based on EPS growth of the 2010 results compared with the 2007 results. The RPI+4%-10% p.a. EPS growth range was achieved partially and 82.5% of the award will vest.
LTIP (5) – Conditional Awards and LTIP (6) – Matching Awards. Vesting is based on TSR performance of the Group against a comparator group comprising the FTSE 350 Travel and Leisure Sector (excluding airlines) over the three years to 1 March 2012, with 30% of the award vesting at median performance and full vesting for top quartile performance.
LTIP (7) – Conditional Awards. Vesting of 50% of the award is based on TSR performance of the Group against a comparator group comprising the FTSE 350 Travel and Leisure Sector (excluding airlines) over the three years to 31 December 2012, with 30% of this part of the award vesting at median performance and full vesting of this part of the award for top quartile performance. The remaining 50% of the award is based on EPS growth of the 2012 results compared with the 2009 results, with a requirement for average annual growth of between RPI+4%-10% p.a..
LTIP (8) – Matching Awards. Vesting is based on EPS growth of the 2012 results compared with the 2009 results, with a requirement for average annual growth of between RPI+4%-10% p.a..

During 2010 certain Directors exercised options under the 2003 options schemes, Long Term Incentive Plan and SAYE scheme that had vested. Details of these transactions during 2010 are detailed below:

Name of Director	Scheme	Number of options exercised	Exercise price	Market price at date of exercise	Gain on exercise before tax (£'000)
Alan Jackson	One-off	200,000	45.0p	215.3p	341
	2003 scheme	178,114	67.4p	224.5p	280
	2003 scheme	200,000	97.7p	224.5p	254
	2003 scheme	150,000	134.4p	230.0p	143
Andrew Page	2003 scheme	200,000	97.7p	226.0p	257
	2003 scheme	127,679	134.4p	226.0p	117
	LTIP	157,704	–	226.0p	356
Stephen Critoph	2003 scheme	235,000	97.7p	215.3p	276
	2003 scheme	50,000	134.4p	215.3p	40
	LTIP	76,496	–	215.0p	164
Trish Corzine	LTIP	70,846	–	215.0p	152
	2003 scheme	100,000	97.7p	230.0p	132
	2003 scheme	90,000	134.4p	230.0p	86

For comparative information, during 2009 the following exercises of shares were made by Directors:

Name of Director	Scheme	Number of options exercised	Exercise price	Market price at date of exercise	Gain on exercise before tax (£'000)
Alan Jackson	LTIP	241,070	–	129.2p	311
Andrew Page	LTIP	247,874	–	150.0p	372
	2003	22,321	134.4p	155.0p	5
Stephen Critoph	SAYE	5,843	160.0p	194.8p	2
	LTIP	149,411	–	129.2p	193
	2003	15,000	97.7p	154.0p	8
Trish Corzine	LTIP	136,277	–	140.0p	191
	2003	10,000	134.4p	154.0p	2

Approval

This report was approved by the Board of Directors on 9 March 2011 and signed on its behalf by:

Tony Hughes
Chairman of the Remuneration Committee

Audit Committee report

This report sets out the work carried out by the Audit Committee of the Board with reference to the Guidance on Audit Committees ("the Smith Report") attached to the Combined Code on Corporate Governance.

Audit Committee composition

The Audit Committee is appointed by the Board from the non-executive Directors of the Company.
The Committee was chaired by John Jackson until his retirement from the Board on 6 May 2010 and has been chaired by Simon Cloke since. Tony Hughes is also a member of the Committee. During 2010, the Audit Committee has not been in compliance with the best practice guidelines of the Smith Report due to the number of non-executive Directors on the Board of The Restaurant Group plc.

The Committee regularly invites the external auditors, the Chairman of the Board, the Chief Executive Officer and the Group Finance Director to its meetings. The Company Secretary attends the meetings and is secretary to the Committee. Discussions are held in private when appropriate.

Responsibilities of the Audit Committee

The responsibilities of the Audit Committee are set out in its terms of reference and the principal matters are to:
- provide additional assurance regarding the integrity, quality and reliability of financial information used by the Board and in financial statements issued to shareholders and the public;
- review the Company's internal procedures for control and compliance with regard to 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;
- receive reports from the Group's external auditors concerning external announcements, in particular the Annual Report and Accounts and the Interim Report;
- develop and oversee the Company's policy regarding the engagement of external auditors, review the independence of the external auditors, review the provision of non-audit services provided by the external auditors and review remuneration paid to the external auditors; and
- consider any other matter that is brought to its attention by the Board or the external auditors.

The Board as a whole reviews the risks facing the Group, and the processes on mitigating those risks, on a regular and formal basis. The Board also reviews the work carried out by the Internal Audit function.

Audit Committee frequency

The Committee meets at least twice a year. Two meetings of the Committee were held during 2010 with full attendance.

Audit Committee process

The Committee discharges its responsibilities, as defined in its terms of reference, through Audit Committee meetings during the year at which detailed reports are presented for review. From time to time the Committee commissions reports from external advisers or Company management, either after consideration of the Company's major risks or in response to developing issues. The Committee has the opportunity to meet privately with the external auditors at least twice a year and liaises with Company management in considering areas for review.

During the year, the Committee considered the following matters:
- interim and full year financial results;
- the scope and cost of the external audit;
- the external auditor's interim and full year reports;
- non-audit work carried out by the external auditors in accordance with the Committee's policy to ensure the safeguard of audit independence;
- the effectiveness of the external auditors and consideration of their reappointment; and
- the suitability of the Group's accounting policies and practices.

The Company's public financial statements are reviewed by the Committee in advance of their consideration by the Board.

External auditor's independence

The Committee has adopted a policy on the use of the external auditors for non-audit work which is in compliance with the Combined Code. The pre-approved services may be summarised as follows:

- audit related services, including work related to the annual Group financial statements audit, subsidiary audits and local statutory accounts; and
- certain specified tax services, including tax compliance, tax planning and tax advice.

Other work to be carried out by the external auditors is subject to review by the Audit Committee.

To fulfil its responsibility regarding the independence of the external auditors, the Audit Committee takes into account the following:

- the external auditors' plan for the current year, noting the role of the senior statutory audit partner who signs the audit report and who, in accordance with professional rules, has not held office for more than five years;
- the arrangements for day-to-day management of the audit relationship;
- a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest;
- the overall extent of non-audit services provided by the external auditors, in addition to its case-by-case approval of the provision of non-audit services by the external auditors; and
- the past service of the auditors who were first appointed in 2007.

To assess the effectiveness of the external auditors, the Audit Committee takes into account:

- the arrangements for ensuring the external auditors' independence and objectivity;
- the external auditors' fulfilment of the agreed audit plan; and
- the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements.

Overview

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference. The Committee has reviewed the independence and objectivity of Deloitte LLP as external auditor and recommends their re-appointment by shareholders at the Annual General Meeting to be held on 11 May 2011.

On behalf of the Audit Committee,

Simon Cloke
9 March 2011

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

We have audited the Group financial statements of The Restaurant Group plc for the 53 weeks ended 2 January 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 2 January 2011 and of its profit for the 53 week period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

Under the Listing Rules we are required to review:

- the Directors' statement contained within the Report of the Directors in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review;
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of The Restaurant Group plc for the 53 week period ended 2 January 2011 and on the information in the Directors' remuneration report that is described as having been audited.

Timothy Steel (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
9 March 2011

Accounting policies for the consolidated accounts

Significant accounting policies

The Restaurant Group plc (the "Company") is a company incorporated and registered in Scotland. The consolidated financial statements of the Company for the year ended 2 January 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in its associate.

(a) Statement of compliance

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

(b) Going concern basis

The consolidated financial statements have been prepared on a going concern basis as, after making appropriate enquires, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future at the time of approving the financial statements. The principal risks and uncertainties facing the Group and further comments on going concern are set out in the report of the Directors on pages 21 to 25.

(c) Basis of preparation

The accounting year runs to a Sunday within seven days of 31 December each year which will be a 52 or 53 week period.

The financial statements are presented in sterling, rounded to the nearest thousand. They have been prepared on the historical cost basis except derivative financial instruments which are held at their fair value. Non-current assets and assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

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 judgments 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.

Change in accounting policies

In the current financial year, the Group has adopted International Financial Reporting Standard 3 "Business Combinations" (revised 2008) and International Accounting Standard 27 "Consolidated and Separate Financial Statements" (revised 2008). There has been no impact on the consolidated financial statements on adoption of these standards.

Future accounting policies

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 — Financial Instruments
- IAS 24 (amended) — Related Party Disclosures
- IAS 32 (amended) — Classification of Rights Issues
- IFRIC 19 — Extinguishing Financial Liabilities with Equity Instruments
- IFRIC 14 (amended) — Prepayments of a Minimum Funding Requirement
- Improvements to IFRSs (May 2010)

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount would be reduced to £nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) 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. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency
Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the balance sheet. Transactions in foreign currencies are translated into sterling at the rate of exchange at the date of the transaction. The profit and loss accounts for overseas operations are translated at the average rate of exchange for the periods covered by the accounts. Exchange differences that relate to the net equity investment in overseas activities are taken directly to reserves.

(f) Derivative financial instruments
The Group uses derivative financial instruments, where appropriate, to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. None of the Group's derivatives currently qualify for hedge accounting.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(g) Property, plant and equipment
Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy l).

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.

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property (excluding land element) acquired by way of finance lease is stated at an amount equal to the lower of its 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 l). Lease payments are accounted for as described in accounting policy s.

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 the 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 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

(h) Intangible assets – Goodwill
All business combinations are accounted for by applying the acquisition method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. 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.

The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is formally tested bi-annually for impairment (see accounting policy l). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Any excess of fair value of net assets over consideration on acquisition is recognised directly in the income statement.

(i) Trade and other receivables
Trade and other receivables are stated at their cost less impairment losses (see accounting policy l).

(j) Stock
Stock is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. 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.

(l) Impairment
The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment.

For property, plant and equipment, the carrying value of each cash generating unit ("CGU") is compared to its estimated value in use. Value in use calculations are based on discounted cash flows over the remaining useful life of the CGU (between 2 and 50 years). The discount rate used is the rate believed by the Board to reflect the risks associated with each CGU. Impairment losses are recognised in the income statement.

For goodwill and assets that have an indefinite useful life, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement and are not subsequently reversed.

(m) Share-based payment transactions
The share option programme allows 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 fair value of the options granted is measured using a Stochastic model, 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.

(n) 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 and, where appropriate, the risks specific to the liability.

(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 selected employees into defined contribution pension plans and these contributions are charged to the income statement as they become payable. The Group does not operate any defined benefit plans.

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

(r) Revenue
Revenue represents amounts received and receivable for services and goods provided (excluding value added tax and voluntary gratuities left by customers for the benefit of employees) and is recognised at the point of sale.

Accounting policies for the consolidated accounts
continued

(s) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Incentives to enter into an operating lease are also spread on a straight-line basis over the lease term as a reduction in rental expense.

(ii) 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.

(iii) Pre-opening expenses

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

(iv) 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.

(t) Dividend policy

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.

Critical accounting judgements and key sources of estimation and uncertainty

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.

a) Impairment of carrying value of associate

The investment in Living Ventures Restaurants Group Limited and the loan note of £10.4m receivable from a subsidiary of that company were fully provided against in the years ended 30 December 2007 and 31 December 2006. Following a review of the trading performance of the company, the Directors have concluded that this treatment is appropriate and no adjustment has been made in either the current or the previous year. Further details are provided in note 13.

b) Impairment of goodwill and property, plant and equipment

The Group formally determines whether property, plant and equipment and goodwill are impaired on a bi-annual basis. This requires the Group to determine the lowest level of assets which generate largely independent cash flows (cash generating units or "CGU") and to estimate the value in use of these assets or CGUs; and compare these to their carrying value. Cash generating units are deemed to be individual units, a collection of units or a brand depending on the nature of the trading environment in which they operate. 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 discount rate used in the year ended 2 January 2011 for all CGUs was based on the Group's weighted average cost of capital of 9.5% (year ended 27 December 2009: 10.96%) as the Directors believe there are broadly equal risks associated with each CGU. No impairment is required in the year ended 2 January 2011.

Consolidated income statement

	Note	53 weeks ended 2 January 2011 Trading business £'000	Non-trading £'000	Total £'000	52 weeks ended 27 December 2009 Trading business £'000	Non-trading £'000	Total £'000
Revenue	3	**465,704**	**–**	**465,704**	435,743	–	435,743
Cost of sales:							
Excluding pre-opening costs	4	**(379,268)**	**–**	**(379,268)**	(356,889)	–	(356,889)
Pre-opening costs	4	**(1,591)**	**–**	**(1,591)**	(1,477)	–	(1,477)
		(380,859)	**–**	**(380,859)**	(358,366)	–	(358,366)
Gross profit		**84,845**	**–**	**84,845**	77,377	–	77,377
Administration costs		**(26,289)**	**–**	**(26,289)**	(24,017)	–	(24,017)
Trading profit		**58,556**	**–**	**58,556**	53,360	–	53,360
Loss on disposal of fixed assets	5	**–**	**–**	**–**	–	(526)	(526)
Operating profit/(loss)		**58,556**	**–**	**58,556**	53,360	(526)	52,834
Interest payable	7	**(2,788)**	**596**	**(2,192)**	(3,517)	(1,169)	(4,686)
Interest receivable	7	**114**	**–**	**114**	186	–	186
Profit/(loss) on ordinary activities before tax		**55,882**	**596**	**56,478**	50,029	(1,695)	48,334
Tax on profit/(loss) from ordinary activities	8	**(16,186)**	**(167)**	**(16,353)**	(15,559)	4,497	(11,062)
Profit for the year		**39,696**	**429**	**40,125**	34,470	2,802	37,272
Earnings per share (pence)							
Basic	9	**19.95**		**20.16**	17.48		18.90
Diluted	9	**19.90**		**20.11**	17.40		18.82
Dividend per share (pence)[1]	10			**9.00**			8.00

[1] The dividend per share of 9.00p is the interim and proposed final dividend in respect of 2010 (8.00p is the two interim dividends and the final dividend in respect of 2009).

Consolidated statement of comprehensive income

	53 weeks ended 2 January 2011 £'000	52 weeks ended 27 December 2009 £'000
Profit for the year	**40,125**	37,272
Exchange differences on translation of foreign operations	**(5)**	(140)
Total comprehensive income for the year	**40,120**	37,132

Consolidated statement of changes in equity

	Share capital £'000	Share premium £'000	Foreign currency translation reserve £'000	Other reserves £'000	Retained earnings £'000	**Total £'000**
Balance at 28 December 2009	**55,568**	**21,867**	**493**	**(7,104)**	**45,108**	**115,932**
Profit for the year	–	–	–	–	40,125	**40,125**
Exchange differences on translation of foreign operations	–	–	(5)	–	–	**(5)**
Total comprehensive income for the year	**–**	**–**	**(5)**	**–**	**40,125**	**40,120**
Issue of new shares	533	1,367	–	–	–	**1,900**
Dividends	–	–	–	–	(15,706)	**(15,706)**
Share-based payments – credit to equity	–	–	–	2,235	–	**2,235**
Employee benefit trust – purchase of shares	–	–	–	(1,433)	–	**(1,433)**
Current tax on share-based payments taken directly to equity	–	–	–	–	525	**525**
Deferred tax on share-based payments taken directly to equity	–	–	–	–	1,140	**1,140**
Balance at 2 January 2011	**56,101**	**23,234**	**488**	**(6,302)**	**71,192**	**144,713**
Balance at 29 December 2008	**55,333**	**21,104**	**633**	**(5,348)**	**21,884**	**93,606**
Profit for the year	–	–	–	–	37,272	**37,272**
Exchange differences on translation of foreign operations	–	–	(140)	–	–	**(140)**
Total comprehensive income for the year	**–**	**–**	**(140)**	**–**	**37,272**	**37,132**
Issue of new shares	235	763	–	–	–	**998**
Dividends	–	–	–	–	(14,887)	**(14,887)**
Share-based payments – credit to equity	–	–	–	2,098	–	**2,098**
Employee benefit trust – purchase of shares	–	–	–	(3,854)	–	**(3,854)**
Current tax on share-based payments taken directly to equity	–	–	–	–	29	**29**
Deferred tax on share-based payments taken directly to equity	–	–	–	–	810	**810**
Balance at 27 December 2009	**55,568**	**21,867**	**493**	**(7,104)**	**45,108**	**115,932**

Consolidated balance sheet

	Note	At 2 January 2011 £'000	At 27 December 2009 £'000
Non-current assets			
Intangible assets	11	**26,433**	26,241
Property, plant and equipment	12	**259,583**	254,841
		286,016	281,082
Current assets			
Stock	14	**3,630**	4,122
Trade and other receivables	15	**5,573**	5,042
Prepayments		**13,541**	12,951
Cash and cash equivalents		**2,738**	2,831
		25,482	24,946
Total assets		**311,498**	306,028
Current liabilities			
Corporation tax liabilities		**(8,539)**	(9,298)
Trade and other payables	16	**(81,945)**	(80,326)
Financial liabilities – derivative financial instruments	24	**(618)**	(2,242)
Other payables – finance lease obligations	25	**(296)**	(276)
Provisions	17	**(602)**	(928)
		(92,000)	(93,070)
Net current liabilities		**(66,518)**	(68,124)
Non-current liabilities			
Long-term borrowings	23	**(49,662)**	(69,515)
Other payables – finance lease obligations	25	**(2,772)**	(2,718)
Deferred tax liabilities	18	**(19,091)**	(21,161)
Provisions	17	**(3,260)**	(3,632)
		(74,785)	(97,026)
Total liabilities		**(166,785)**	(190,096)
Net assets		**144,713**	115,932
Equity			
Share capital	19	**56,101**	55,568
Share premium		**23,234**	21,867
Foreign currency translation reserve		**488**	493
Other reserves	20, 21	**(6,302)**	(7,104)
Retained earnings		**71,192**	45,108
Total equity		**144,713**	115,932

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 39 to 68 were approved by the Board of Directors and authorised for issue on 9 March 2011 and were signed on its behalf by:

Alan Jackson
Stephen Critoph ACA

Consolidated cash flow statement

	Note	53 weeks ended 2 January 2011 £'000	52 weeks ended 27 December 2009 £'000
Operating activities			
Cash generated from operations	22	**87,821**	77,075
Interest received		**114**	186
Interest paid		**(3,289)**	(2,377)
Tax paid		**(17,518)**	(13,724)
Net cash flows from operating activities		**67,128**	61,160
Investing activities			
Purchase of property, plant and equipment		**(31,982)**	(31,519)
Proceeds from sale of property, plant and equipment		**–**	463
Net cash flows used in investing activities		**(31,982)**	(31,056)
Financing activities			
Net proceeds from issue of ordinary share capital		**1,900**	998
Employee benefit trust – purchase of shares	20	**(1,433)**	(3,854)
Net repayments of loan draw downs		**(20,000)**	(15,000)
Dividends paid to shareholders	10	**(15,706)**	(14,887)
Net cash flows used in financing activities		**(35,239)**	(32,743)
Net decrease in cash and cash equivalents		**(93)**	(2,639)
Cash and cash equivalents at beginning of year	23	**2,831**	5,470
Cash and cash equivalents at end of year	23	**2,738**	2,831

Notes to the accounts

1 Segmental analysis

53 weeks ended 2 January 2011	Turnover £'000	EBITDA £'000	EBITDA margin %	Operating profit £'000	Operating profit margin %
Leisure	373,720	95,067	25.4%	72,946	19.5%
Concessions	91,984	18,789	20.4%	14,234	15.5%
Principal trading brands	**465,704**	**113,856**	**24.4%**	**87,180**	**18.7%**
Non-core	–	(744)	–	(744)	–
Total all brands	**465,704**	**113,112**	**24.3%**	**86,436**	**18.6%**
Pre-opening costs		(1,591)	(0.3%)	(1,591)	(0.3%)
Administration costs		(23,480)	(5.0%)	(24,054)	(5.2%)
Share-based payments		(2,235)	(0.5%)	(2,235)	(0.5%)
Total before non-trading items		**85,806**	**18.4%**	**58,556**	**12.6%**
Loss on disposal of fixed assets				–	
Operating profit				**58,556**	
Total net interest charges				(2,078)	
Profit on ordinary activities before tax				**56,478**	

52 weeks ended 27 December 2009	Turnover £'000	EBITDA £'000	EBITDA margin %	Operating profit £'000	Operating profit margin %
Leisure	353,552	89,525	25.3%	69,076	19.5%
Concessions	82,184	15,862	19.3%	11,040	13.4%
Principal trading brands	**435,736**	**105,387**	**24.2%**	**80,116**	**18.4%**
Non-core	7	(787)	–	(1,262)	–
Total all brands	**435,743**	**104,600**	**24.0%**	**78,854**	**18.1%**
Pre-opening costs		(1,477)	(0.3%)	(1,477)	(0.3%)
Administration costs		(21,384)	(4.9%)	(21,919)	(5.0%)
Share-based payments		(2,098)	(0.5%)	(2,098)	(0.5%)
Total before non-trading items		**79,641**	**18.3%**	**53,360**	**12.2%**
Loss on disposal of fixed assets				(526)	
Operating profit				**52,834**	
Total net interest charges				(4,500)	
Profit on ordinary activities before tax				**48,334**	

EBITDA is operating profit before depreciation, amortisation and non-trading items.

	53 weeks ended 2 January 2011			
	Depreciation £'000	Capital additions £'000	Segment assets £'000	Segment liabilities £'000
Leisure	22,121	26,930	266,977	50,660
Concessions	4,555	4,983	26,601	13,856
Principal trading brands	**26,676**	**31,913**	**293,578**	**64,516**
Non-core	–	–	925	6,487
Total all brands	**26,676**	**31,913**	**294,503**	**71,003**
Administration	574	69	10,304	7,962
Unallocated items	–	–	6,691	87,820
Total Group	**27,250**	**31,982**	**311,498**	**166,785**

	52 weeks ended 27 December 2009			
	Depreciation £'000	Capital additions £'000	Segment assets £'000	Segment liabilities £'000
Leisure	20,449	25,662	262,585	49,912
Concessions	4,822	5,797	26,084	12,072
Principal trading brands	**25,271**	**31,459**	**288,669**	**61,984**
Non-core	475	–	954	8,441
Total all brands	**25,746**	**31,459**	**289,623**	**70,425**
Administration	535	60	10,181	8,158
Unallocated items	–	–	6,224	111,513
Total Group	**26,281**	**31,519**	**306,028**	**190,096**

Assets and liabilities are allocated to divisions where possible. Unallocated assets include trade and other receivables, certain prepayments and cash and cash equivalents. Unallocated liabilities include borrowings, current and deferred tax, derivative financial instruments and certain accruals and other creditors.

Information reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of segment performance is focussed on two divisions. The Group's reportable segments under IFRS 8 are therefore Leisure and Concessions.

Notes to the accounts
continued

2 Additional non-statutory information

Results are stated excluding non-trading items

Additional non-statutory income statement information is provided as a useful guide to underlying trading performance. The 2010 and 2009 results include a number of items which are of a one-off nature or are unrelated to the year's result and hence are not representative of the underlying trading performance of the business. The following segmental analysis excludes these non-trading items, as described in note 5, and is provided to aid understanding of the income statement and should be read in conjunction with, rather than as a substitute for, the reported information.

	53 weeks ended 2 January 2011				
	Turnover £'000	EBITDA £'000	EBITDA margin %	Operating profit £'000	Operating profit margin %
Leisure	373,720	95,067	25.4%	72,946	19.5%
Concessions	91,984	18,789	20.4%	14,234	15.5%
Principal trading brands	**465,704**	**113,856**	**24.4%**	**87,180**	**18.7%**
Non-core	–	(744)	–	(744)	–
Total all brands	**465,704**	**113,112**	**24.3%**	**86,436**	**18.6%**
Pre-opening costs		(1,591)	(0.3%)	(1,591)	(0.3%)
Administration costs		(23,480)	(5.0%)	(24,054)	(5.2%)
Share-based payments		(2,235)	(0.5%)	(2,235)	(0.5%)
EBITDA/adjusted operating profit		**85,806**	**18.4%**	**58,556**	**12.6%**
Total net interest charges				(2,674)	
Adjusted profit before tax				**55,882**	
Tax				(16,186)	
Adjusted profit after tax				**39,696**	
Earnings per share (pence) – trading business					
Basic				**19.95**	
Diluted				**19.90**	

	52 weeks ended 27 December 2009				
	Turnover £'000	EBITDA £'000	EBITDA margin %	Operating profit £'000	Operating profit margin %
Leisure	353,552	89,525	25.3%	69,076	19.5%
Concessions	82,184	15,862	19.3%	11,040	13.4%
Principal trading brands	**435,736**	**105,387**	**24.2%**	**80,116**	**18.4%**
Non-core	7	(787)	–	(1,262)	–
Total all brands	**435,743**	**104,600**	**24.0%**	**78,854**	**18.1%**
Pre-opening costs		(1,477)	(0.3%)	(1,477)	(0.3%)
Administration costs		(21,384)	(4.9%)	(21,919)	(5.0%)
Share-based payments		(2,098)	(0.5%)	(2,098)	(0.5%)
EBITDA/adjusted operating profit		**79,641**	**18.3%**	**53,360**	**12.2%**
Total net interest charges				(3,331)	
Adjusted profit before tax				**50,029**	
Tax				(15,559)	
Adjusted profit after tax				**34,470**	
Earnings per share (pence) – trading business					
Basic				**17.48**	
Diluted				**17.40**	

Financial information regarding segmental assets and liabilities is detailed in note 1.

EBITDA is operating profit before depreciation, amortisation and non-trading items.

3 Revenue

	2010 £'000	2009 £'000
Income for the year consists of the following:		
Revenue from continuing operations	**465,704**	435,743
Other income not included within revenue in the income statement:		
Rental income	**3,527**	3,493
Interest income	**114**	186
Total income for the year	**469,345**	439,422

4 Profit for the year

	2010 £'000	2009 £'000
Cost of sales consists of the following:		
Continuing business excluding pre-opening costs	**379,268**	356,889
Pre-opening costs	**1,591**	1,477
Total cost of sales for the year	**380,859**	358,366

	2010 £'000	2009 £'000
Profit for the year has been arrived at after charging/(crediting):		
Depreciation	**27,250**	26,281
Purchases	**106,690**	101,695
Staff costs (see note 6)	**145,581**	134,353
Rental income	**(3,527)**	(3,493)
Minimum lease payments	**47,495**	43,272
Contingent rents	**7,083**	6,833
Total operating lease rentals of land and buildings	**54,578**	50,105

	2010 £'000	2009 £'000
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**66**	63
Fees payable to the Company's auditors and their associates for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	**81**	77
Total audit fees	**147**	140
Tax services	**102**	54
Other services	**40**	39
Total non-audit fees	**142**	93
Total auditors' remuneration	**289**	233

Audit fees included in the above total relating to the Company are borne by a subsidiary undertaking. All of the fees paid to auditors in 2010 and 2009 were expensed as administration costs.

Notes to the accounts
continued

5 Non-trading items

	Note	2010 £'000	2009 £'000
Items classified as non-trading within ordinary activities:			
Loss on disposal of fixed assets	i	**(2)**	(564)
Creation of accrual for disposal of assets	i	**–**	(80)
Amounts receivable	i	**–**	113
Other asset disposal included within operating profit	i	**2**	5
Loss on disposal of fixed assets		**–**	(526)
Finance credit/(charge) arising from remeasurement of interest rate swaps	ii	**596**	(1,169)
Profit/(loss) on ordinary activities before tax		**596**	(1,695)
Tax on non-trading items	iii	**(167)**	4,497
Total non-trading items after tax		**429**	2,802

i) During 2009 the Group disposed of fixed assets and realised a net loss of £0.5m.

ii) The Group has taken a credit of £0.6m (2009: £1.2m charge) in respect of the remeasurement of its interest rate swaps. Further details are provided in note 24.

iii) In the year ended 2 January 2011, the Group has recognised a non-trading tax charge of £0.2m. In the year ended 27 December 2009, the Group recognised a non-trading tax credit of £4.5m. Included within this amount is a credit of £3.6m in relation to the release of a number of provisions created in 2005 following agreement with HMRC on the treatment of a number of transactions.

6 Staff costs and numbers

	2010	2009
a) Staff numbers (including executive Directors)		
Restaurant staff	**10,257**	9,858
Administration staff	**223**	212
	10,480	10,070

	2010 £'000	2009 £'000
b) Staff costs (including Directors) comprise:		
Wages and salaries	**132,900**	122,742
Social security costs	**9,947**	9,028
Share-based payments	**2,235**	2,098
Pension costs	**499**	485
	145,581	134,353
c) Directors' remuneration		
Emoluments	**2,536**	2,632
Money purchase (and other) pension contributions	**156**	155
	2,692	2,787
Charge in respect of share-based payments	**1,326**	1,237
	4,018	4,024

Further details of the Directors' emoluments and the executive pension schemes are given in the Directors' remuneration report on pages 29 to 35, of which the information on pages 32 to 35 has been audited.

7 Net finance charges

	2010 £'000	2009 £'000
Bank interest payable	**1,978**	2,886
Other interest payable	**460**	289
Interest on obligations under finance leases	**350**	342
Change in fair value of interest rate swaps	**(596)**	1,169
Total borrowing costs	**2,192**	4,686
Bank interest receivable	**(2)**	(6)
Other interest receivable	**(112)**	(180)
Total interest receivable	**(114)**	(186)
Net finance charges	**2,078**	4,500

8 Tax

	2010 £'000	2009 £'000
a) The tax charge comprises:		
Current tax		
UK corporation tax at 28% (2009: 28%)	**17,571**	16,058
Adjustments in respect of previous years	**(288)**	(756)
	17,283	15,302
Deferred tax		
Origination and reversal of timing differences	**(291)**	(1,183)
Adjustments in respect of previous years	**142**	(3,057)
Credit in respect of rate change	**(781)**	–
	(930)	(4,240)
Total tax charge for the year	**16,353**	11,062

b) Factors affecting the tax charge for the year

The tax charge for the year varies from the standard UK corporation tax rate of 28% (2009: 28%) due to the following factors:

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	**56,478**	48,334
Profit on ordinary activities before tax multiplied by the standard UK corporation tax rate of 28% (2009: 28%)	**15,814**	13,534
Effects of:		
Depreciation on non-qualifying assets	**1,642**	1,546
Expenses/(gain) not deductible for tax purposes	**110**	(293)
Loss on disposal of non-qualifying assets	**–**	29
Credit in respect of rate change on deferred tax liability	**(781)**	–
Adjustment in respect of previous years	**(146)**	(3,813)
Utilisation of capital losses brought forward	**–**	(110)
Other adjustments	**(286)**	169
Total tax charge for the year	**16,353**	11,062

The Finance Act 2010 reduced the rate of corporation tax from 28% to 27% from 1 April 2011, and this rate is required to be used in calculating deferred tax provisions at the balance sheet date. This has resulted in a tax credit in the income statement of £0.8m.

The Government has also indicated that it intends to enact future reductions in the main corporation tax rate of 1% each year reducing the main tax rate down to 24% by April 2014. The future 1% main tax rate reductions are expected to have a similar impact on the financial statements as the current year, however the actual impact will be dependent on the deferred tax position at that time.

9 Earnings per share

	2010	2009
a) Basic earnings per share:		
Weighted average ordinary shares in issue during the year	**199,026,844**	197,212,437
Total basic profit for the year (£'000)	**40,125**	37,272
Basic earnings per share for the year (pence)	**20.16**	18.90
Total basic profit for the year (£'000)	**40,125**	37,272
Effect of non-trading items on earnings for the year (£'000)	**(429)**	(2,802)
Earnings excluding non-trading items (£'000)	**39,696**	34,470
Adjusted earnings per share (pence)	**19.95**	17.48
b) Diluted earnings per share:		
Weighted average ordinary shares in issue during the year	**199,026,844**	197,212,437
Dilutive shares to be issued in respect of options granted under the share option schemes	**495,532**	884,472
	199,522,376	198,096,909
Diluted earnings per share (pence)	**20.11**	18.82
Adjusted diluted earnings per share (pence)	**19.90**	17.40

The additional non-statutory earnings per share information (where non-trading items, described in note 5, have been added back) has been provided as the Directors believe they provide a useful indication as to the underlying performance of the Group.

Diluted earnings per share information is based on adjusting the weighted average number of shares in issue in respect of notional share awards made to employees in respect of share option schemes. No adjustment is made to the reported earnings for 2010 or 2009.

10 Dividend

	2010 £'000	2009 £'000
Amounts recognised as distributions to equity holders during the year:		
Second interim dividend for the 52 weeks ended 27 December 2009 of 6.30p (2008: nil) per share	**12,146**	–
Final dividend for the 52 weeks ended 27 December 2009 of 0.30p (2008: 6.30p) per share	**580**	12,188
Interim dividend for the 53 weeks ended 2 January 2011 of 1.54p (2009: 1.40p) per share	**2,980**	2,699
Total dividends paid in the year	**15,706**	14,887
Second interim dividend for the 53 weeks ended 2 January 2011 of nil (2009: 6.30p) per share	**–**	12,146
Proposed final dividend for the 53 weeks ended 2 January 2011 of 7.46p (2009 actual proposed and paid: 0.30p) per share	**14,440**	580

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting to be held on 11 May 2011 and is not recognised as a liability in these financial statements. The proposed final dividend payable reflects the number of shares in issue on 2 January 2011, adjusted for the 5.9m shares owned by the employee benefit trust for which dividends have been waived. Further details are provided in note 20.

11 Intangible assets

	£'000
Cost and carrying amount	
At 29 December 2008 and at 27 and 28 December 2009	26,241
Additional consideration[1]	192
At 2 January 2011	**26,433**

[1] The additional consideration represents amounts paid to the previous shareholders of Brunning and Price Limited, as agreed under the terms of the purchase agreement, being monies received on outstanding negotiations relating to the pre-acquisition period.

Goodwill arising on business combinations is not amortised but is subject to a bi-annual impairment review, or more frequently if events or changes in circumstances indicate that it might be impaired. Therefore, goodwill arising on acquisition is monitored and an impairment test is carried out which compares the value in use of each cash generating unit ("CGU") to the carrying value. The goodwill represents amounts arising on the acquisition of Blubeckers Limited and Brunning and Price Limited, which now trade as Pub Restaurants. Previously, the goodwill arising on each acquisition was assessed individually but, following the program of modifying the former Blubeckers sites to bring them more in line with the Brunning & Price style of operation, it is now considered appropriate to evaluate them in aggregate.

Value in use calculations are based on cash flow forecasts derived from the most recent financial budgets and three year business plans approved by the Board. Cash flows are then extrapolated in perpetuity with an annual growth rate of 2%. Perpetuity is believed to be reasonable due to the significant proportion of freeholds in the estate and the nature of the leasehold properties. The pre-tax discount rate applied to cash flow projections is 9.5% (2009: 10.96%) which is the rate believed by the Directors to reflect the risks associated with the CGU.

Since 1 January 1989 the cumulative amount of goodwill written off against realised reserves is £50.4m (2009: £50.4m). Records for periods prior to this date are not readily available.

12 Property, plant and equipment

	Land and buildings £'000	Fixtures, equipment and vehicles £'000	Total £'000
Cost			
At 29 December 2008	273,831	99,124	372,955
Exchange movement	(215)	(86)	(301)
Additions	18,510	13,009	31,519
Disposals	(3,775)	(2,410)	(6,185)
At 27 December 2009	**288,351**	**109,637**	**397,988**
Accumulated depreciation and impairment			
At 29 December 2008	76,389	45,844	122,233
Exchange movement	(153)	(56)	(209)
Provided during the year	13,920	12,361	26,281
Disposals	(3,017)	(2,141)	(5,158)
At 27 December 2009	**87,139**	**56,008**	**143,147**
Cost			
At 28 December 2009	288,351	109,637	397,988
Exchange movement	42	17	59
Additions	22,097	9,885	31,982
Disposals	(3,740)	(2,460)	(6,200)
At 2 January 2011	**306,750**	**117,079**	**423,829**
Accumulated depreciation and impairment			
At 28 December 2009	87,139	56,008	143,147
Exchange movement	34	13	47
Provided during the year	13,659	13,591	27,250
Disposals	(3,740)	(2,458)	(6,198)
At 2 January 2011	**97,092**	**67,154**	**164,246**
Net book value as at 27 December 2009	201,212	53,629	254,841
Net book value as at 2 January 2011	**209,658**	**49,925**	**259,583**

	2010 £'000	2009 £'000
Net book value of land and buildings:		
Freehold	**58,454**	58,353
Long leasehold	**2,707**	1,656
Short leasehold	**148,497**	141,203
	209,658	201,212

	2010 £'000	2009 £'000
Assets held under finance leases		
Cost at the beginning and end of the year	**1,961**	1,961
Depreciation		
At the beginning of the year	**1,099**	1,074
Provided during the year	**25**	25
At the end of the year	**1,124**	1,099
Net book value at the end of the year	**837**	862

13 Investment in associate

The Restaurant Group plc holds a 38% investment in Living Ventures Restaurants Group Limited and this investment is accounted for using the equity method. Living Ventures Restaurants Group Limited has an accounting year end date of 31 March and as there is no material benefit in making the accounting year end co-terminus with the Group, no change has been made.

As a result of a detailed review of the trading performance of Living Ventures Restaurants Group Limited, the investment has been recorded at £nil and a loan note of £10.4m plus interest receivable due from LV Finance Limited, a subsidiary of Living Ventures Restaurants Group Limited, was fully provided against as at 2 January 2011 and 27 December 2009.

The Group's share of the post-tax result of Living Ventures Restaurants Group Limited for the year ended 2 January 2011 was a loss of £0.18m (2009: loss of £0.04m). This loss has not been recognised in the income statement, in accordance with IAS 28 "Associates and Joint Ventures" as the investment has a carrying value of £nil.

Interest is receivable from LV Finance Limited on the loan note of £10.4m at a rate of LIBOR. In the 53 weeks ended 2 January 2011 £0.1m of interest has accrued of which the Group has recognised £nil (2009: £0.2m of which the Group recognised £nil). Consequently in addition to the loan note of £10.4m outstanding at that date, £1.2m of interest receivable had accrued, of which, under the terms of the agreement, all was overdue.

Summarised financial information on Living Ventures Restaurants Group Limited is as follows:

	2010 £'000	2009 £'000
Non-current assets	**10,859**	11,944
Current assets	**2,460**	2,263
Non-current liabilities	**(17,384)**	(18,143)
Current liabilities	**(5,979)**	(5,647)
Equity	**(10,044)**	(9,583)
Revenue	**24,232**	23,593
Net loss	**(461)**	(103)

At 2 January 2011 Living Ventures Restaurants Group Limited was contractually committed to £0.01m of capital expenditure (27 December 2009: £0.02m).

14 Stock

Stock comprises raw materials and consumables and have been valued at the lower of cost and estimated net realisable value. The replacement cost at 2 January 2011 is not considered by the Directors to be materially different from the balance sheet value. The Group recognised £106.7m of purchases as an expense in 2010 (2009: £101.7m).

15 Trade and other receivables

	2010 £'000	2009 £'000
Amounts falling due within one year:		
Trade debtors	**1,117**	1,154
Other debtors	**4,456**	3,888
	5,573	5,042

16 Trade and other payables

	2010 £'000	2009 £'000
Amounts falling due within one year:		
Trade creditors	**36,613**	33,380
Other tax and social security	**12,948**	12,347
Other creditors	**5,487**	7,992
Accruals	**26,897**	26,607
	81,945	80,326

17 Provisions

	2010 £'000	2009 £'000
Provision for onerous lease contracts:		
Balance at the beginning of the year	**4,560**	4,873
Additional provisions made	**177**	1,056
Amounts utilised	**(899)**	(961)
Provisions released	**(645)**	(143)
Adjustment for change in discount rate	**239**	(645)
Unwinding of discount	**430**	380
Balance at the end of the year	**3,862**	4,560
Analysed as:		
Amount due for settlement within one year	**602**	928
Amount due for settlement after one year	**3,260**	3,632
	3,862	4,560

The provision for onerous contracts is in respect of lease agreements and covers the element of expenditure over the life of those contracts which are considered onerous, expiring in 2-36 years.

18 Deferred tax

	2010 £'000	2009 £'000
Balance at the beginning of the year	**21,161**	26,211
Depreciation in advance of capital allowances credited to the income statement	**(392)**	(344)
Other timing differences	**243**	(3,896)
Credit in respect of rate change	**(781)**	–
Deferred tax taken directly to the income statement (see note 8)	**(930)**	(4,240)
Tax on share-based payments	**(1,214)**	(810)
Credit in respect of rate change	**74**	–
Deferred tax taken through equity	**(1,140)**	(810)
Balance at the end of the year	**19,091**	21,161

	2010 £'000	2009 £'000
Deferred tax consists of:		
Capital allowances in advance of depreciation	**22,564**	23,792
Capital gains rolled over	**523**	543
Other timing differences	**(3,996)**	(3,174)
	19,091	21,161

19 Share capital

	Number	£'000
Authorised:		
At 27 December 2009 and 2 January 2011 (ordinary shares of 28⅛p each)	**284,444,444**	**80,000**
Issued, called up and fully paid:		
At 29 December 2008	196,738,838	55,333
Exercise of share options	837,025	235
At 27 and 28 December 2009	**197,575,863**	**55,568**
Exercise of share options	1,895,029	533
At 2 January 2011	**199,470,892**	**56,101**

20 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 2 January 2011, the Trustees, Appleby Trust (Jersey) Limited, held 5.9m shares in the Company (27 December 2009: 5.8m shares).

Net cash outflow in the year ended 2 January 2011 was £1.4m, inclusive of costs (year ended 27 December 2009: £3.9m, inclusive of costs).

		Number	£'000
At 29 December 2008		**5,100,200**	
Purchase of shares on 2 September 2009 at an average price of £1.931 per share	1,000,000		1,945
Purchase of shares on 2 November 2009 at an average price of £1.808 per share	268,000		488
Purchase of shares on 1 December 2009 at an average price of £1.881 per share	750,000		1,421
		2,018,000	3,854
Transfer of shares to satisfy the exercise of share awards		(1,326,943)	
At 27 and 28 December 2009		**5,791,257**	
Purchase of shares on 27 April 2010 at an average price of £2.372 per share	600,000		1,433
		600,000	1,433
Transfer of shares to satisfy the exercise of share awards		(482,383)	
At 2 January 2011		**5,908,874**	

Details of options granted under the Group's share schemes are given in note 21.

21 Share-based payment schemes

The Group operates a number of share-based payment schemes, details of which are provided in the Directors' remuneration report on pages 29 to 35. The Group has taken advantage of the exemption under IFRS 2 "Share-based payments" not to account for share options granted before 7 November 2002.

The charge recorded in the financial statements of the Group for the year ended 2 January 2011 in respect of share-based payments is £2.2m (2009: £2.1m).

The other reserve 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 in order to satisfy the vesting of existing and future share awards under the Long-Term Incentive Plan (see note 20).

Executive Share Option Plans ("ESOPs")

The Group has in place three ESOPs, the 1998 scheme, the 2003 scheme and a one-off scheme. Under these schemes, the Remuneration Committee may grant options over shares in The Restaurant Group plc to employees of the Group. Awards under the ESOPs are generally reserved for senior management level and above. The contractual life of an option is ten years. Options granted under ESOPs become exercisable on the third anniversary of the date of grant, subject to growth in earnings per share exceeding RPI growth by more than 4% (under the 1998 scheme) or 2.5% (under the 2003 scheme). Exercise of options is subject to continued employment within the Group. Options were valued using a Stochastic option pricing model. No performance conditions were included in the fair value calculations.

21 Share-based payment schemes continued

Year ended 2 January 2011:

Period during which options are exercisable	Exercise price	Outstanding at beginning of year	Granted	Exercised	Lapsed	Outstanding at end of year	Exercisable at end of year
1998 Scheme							
2003 – 2010	48.6p	3,015	–	(3,015)	–	–	–
Total number		**3,015**	**–**	**(3,015)**	**–**	**–**	**–**
Weighted average exercise price		**48.6p**	**–**	**48.6p**	**–**	**–**	**–**
2003 Scheme							
2006 – 2013	67.4p	186,887	–	(179,853)	–	7,034	7,034
2007 – 2014	97.7p	1,074,710	–	(939,355)	–	135,355	135,355
2008 – 2015	134.4p	929,679	–	(568,679)	–	361,000	361,000
Total number		**2,191,276**	**–**	**(1,687,887)**	**–**	**503,389**	**503,389**
Weighted average exercise price		**110.7p**	**–**	**106.8p**	**–**	**123.6p**	**123.6p**
One-off scheme (see note below)							
2004 – 2011	45.0p	200,000	–	(200,000)	–	–	–
Total number		**200,000**	**–**	**(200,000)**	**–**	**–**	**–**
Weighted average exercise price		**45.0p**	**–**	**45.0p**	**–**	**–**	**–**
Total number		**2,394,291**	**–**	**(1,890,902)**	**–**	**503,389**	**503,389**
Weighted average exercise price		**105.1p**	**–**	**100.2p**	**–**	**123.6p**	**123.6p**

Year ended 27 December 2009:

Period during which options are exercisable	Exercise price	Outstanding at beginning of year	Granted	Exercised	Lapsed	Outstanding at end of year	Exercisable at end of year
1998 Scheme							
2003 – 2010	48.6p	3,015	–	–	–	3,015	3,015
Total number		**3,015**	**–**	**–**	**–**	**3,015**	**3,015**
Weighted average exercise price		**48.6p**	**–**	**–**	**–**	**48.6p**	**48.6p**
2003 Scheme							
2006 – 2013	67.4p	186,887	–	–	–	186,887	186,887
2007 – 2014	97.7p	1,445,710	–	(371,000)	–	1,074,710	1,074,710
2008 – 2015	134.4p	1,419,000	–	(429,321)	(60,000)	929,679	929,679
Total number		**3,051,597**	**–**	**(800,321)**	**(60,000)**	**2,191,276**	**2,191,276**
Weighted average exercise price		**112.9p**	**–**	**117.4p**	**134.4p**	**110.7p**	**110.7p**
One-off scheme (see note below)							
2004 – 2011	45.0p	200,000	–	–	–	200,000	200,000
Total number		**200,000**	**–**	**–**	**–**	**200,000**	**200,000**
Weighted average exercise price		**45.0p**	**–**	**–**	**–**	**45.0p**	**45.0p**
Total number		**3,254,612**	**–**	**(800,321)**	**(60,000)**	**2,394,291**	**2,394,291**
Weighted average exercise price		**108.7p**	**–**	**117.4p**	**134.4p**	**105.1p**	**105.1p**

During 2010, the weighted average market price at date of exercise was 224.6p per share (2009: 157.1p).

Note: The one-off scheme is in respect of Alan Jackson's share options granted on 5 June 2001. During the year Alan Jackson exercised 200,000 options under this scheme, and as at 2 January 2011 there are no share options outstanding.
No charge to the income statement is recognised in respect of Alan Jackson's share options as they were granted prior to 7 November 2002.

Long-Term Incentive Plan

On 9 November 2005 an Extraordinary General Meeting of The Restaurant Group plc approved the adoption of a new Long-Term Incentive Plan ("LTIP") for the Group, details of which are provided in the Directors' remuneration report on pages 29 to 36. Awards under the LTIP are generally reserved for senior management level and above.

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

Date of Award	Date by which Deposited Shares must be acquired
7 December 2005	7 May 2006
8 March 2007	30 June 2007
6 March 2008	30 June 2008
5 March 2009	30 June 2009
4 March 2010	30 June 2010

Vesting of share options under the LTIP is dependent on continuing employment. In exceptional circumstances, employees may be permitted to exercise options before the normal period in which they are exercisable.

On publication of the 2010 results, the Conditional and Matching Awards granted on 6 March 2008 become exercisable. The vesting criteria for the Total Shareholder Return ("TSR") element of the Conditional Award were met in full and consequently, 100% of this part of the award will vest. Earnings per share ("EPS") growth of the 2010 results compared with the 2007 results was between RPI +4% and RPI +10% and consequently, 82.5% of the EPS element of the Conditional Award and the Matching Award will vest.

The options from the LTIP scheme will be satisfied through share purchases via a trust. Further details are provided in note 20.

Year ended 2 January 2011:

Period during which options are exercisable	Type of award	Fair value	Outstanding at beginning of year	Granted	Exercised	Lapsed	Outstanding at end of year	Exercisable at end of year
2010	Conditional – TSR element	240.9p	150,921	–	(94,295)	(56,626)	–	–
2010	Conditional – EPS element	336.0p	284,176	–	(268,219)	(15,957)	–	–
2010	Matching	336.0p	119,869	–	(119,869)	–	–	–
2011	Conditional – TSR element	83.1p	626,292	–	–	–	626,292	–
2011	Conditional – EPS element	146.0p	1,369,677	–	–	(93,857)	1,275,820	–
2011	Matching	146.0p	360,107	–	–	(13,689)	346,418	–
2012	Conditional	89.9p	2,593,420	–	–	(265,820)	2,327,600	–
2012	Matching	89.9p	492,653	–	–	(9,894)	482,759	–
2013	Conditional – TSR element	144.0p	–	541,699	–	(9,795)	531,904	–
2013	Conditional – EPS element	208.9p	–	541,699	–	(9,794)	531,905	–
2013	Matching	208.9p	–	486,497	–	(109,951)	376,546	–
Total number			**5,997,115**	**1,569,895**	**(482,383)**	**(585,383)**	**6,499,244**	**–**

21 Share-based payment schemes continued

Year ended 27 December 2009:

Period during which options are exercisable	Type of award	Fair value	Outstanding at beginning of year	Granted	Exercised	Lapsed	Outstanding at end of year	Exercisable at end of year
2009	Conditional – TSR element	99.0p	340,135	–	(340,135)	–	–	–
2009	Conditional – EPS element	153.0p	625,150	–	(617,980)	(7,170)	–	–
2009	Matching	153.0p	373,385	–	(368,828)	(4,557)	–	–
2010	Conditional – TSR element	240.9p	150,921	–	–	–	150,921	–
2010	Conditional – EPS element	336.0p	293,859	–	–	(9,683)	284,176	–
2010	Matching	336.0p	158,920	–	–	(39,051)	119,869	–
2011	Conditional – TSR element	83.1p	626,292	–	–	–	626,292	–
2011	Conditional – EPS element	146.0p	1,402,535	–	–	(32,858)	1,369,677	–
2011	Matching	146.0p	360,107	–	–	–	360,107	–
2012	Conditional	89.9p	–	2,611,370	–	(17,950)	2,593,420	–
2012	Matching	89.9p	–	757,999	–	(265,346)	492,653	–
Total number			**4,331,304**	**3,369,369**	**(1,326,943)**	**(376,615)**	**5,997,115**	**–**

Save As You Earn Scheme

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 2 January 2011:

Period during which options are exercisable	Exercise price	Outstanding at beginning of year	Granted	Exercised	Lapsed	Outstanding at end of year	Exercisable at end of year
2011	125.0p	602,609	–	(4,127)	(50,245)	548,237	–
2013	184.0p	–	357,274	–	(38,163)	319,111	–
Total number		**602,609**	**357,274**	**(4,127)**	**(88,408)**	**867,348**	**–**

Year ended 27 December 2009:

Period during which options are exercisable	Exercise price	Outstanding at beginning of year	Granted	Exercised	Lapsed	Outstanding at end of year	Exercisable at end of year
2009	160.0p	130,514	–	(36,704)	(93,810)	–	–
2011	125.0p	731,321	–	–	(128,712)	602,609	–
Total number		**861,835**	**–**	**(36,704)**	**(222,522)**	**602,609**	**–**

During 2010, the weighted average market price at date of exercise was 251.7p per share (2009: 187.4p).

21 Share-based payment schemes continued

Assumptions used in valuation of share-based payments granted in the year ended 2 January 2011

Scheme	2010 LTIP Conditional Award		2010 LTIP Matching Award	2010 SAYE scheme
Grant date	TSR element 04/03/2010	EPS element 04/03/2010	04/03/2010	19/04/2010
Share price at grant date	208.9p	208.9p	208.9p	235.1p
Exercise price	n/a	n/a	n/a	184.0p
No of options originally granted	541,699	541,699	486,497	357,274
Minimum vesting period	3 years	3 years	3 years	3 years
Expected volatility[1]	50.7%	n/a	n/a	48.0%
Contractual life	3.5 years	3.5 years	3.5 years	3.5 years
Risk free rate	3.0%	3.0%	3.0%	1.9%
Expected dividend yield	nil	nil	nil	2.8%
Expected forfeitures	10%	10%	30%	15%
Fair value per option	144.0p	208.9p	208.9p	88.7p

[1] Expected volatility is the measure of the amount by which the share price is expected to fluctuate during a period. In order to calculate volatility, the movement in the return index (share price plus dividends re-invested) over a period prior to the grant date equal in length to the remaining period over which the performance condition applies has been calculated. For the SAYE awards and for the discount for the TSR performance condition for the relevant Conditional Awards, the calculated volatility based on the movement in the return index over a period of 3.25 years and 3 years respectively prior to the grant has been used.

22 Reconciliation of profit before tax to cash generated from operations

	2010 £'000	2009 £'000
Profit before tax	**56,478**	48,334
Net finance charges	**2,078**	4,500
Loss on disposal of fixed assets	**–**	526
Share-based payments	**2,235**	2,098
Depreciation	**27,250**	26,281
Decrease/(increase) in stocks	**492**	(189)
(Increase)/decrease in debtors	**(1,121)**	758
Increase/(decrease) in creditors	**409**	(5,233)
Cash generated from operations	**87,821**	77,075

Major non-cash transactions

There were no major non-cash transactions in the 53 weeks ended 2 January 2011 or the 52 weeks ended 27 December 2009.

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

	2010 £'000	2009 £'000
Net debt:		
At the beginning of the year	**(66,684)**	(78,884)
Movements in the year:		
Repayments of loan draw downs	**20,000**	15,000
Non-cash movements in the year	**(147)**	(161)
Cash outflow	**(93)**	(2,639)
At the end of the year	**(46,924)**	(66,684)

23 Reconciliation of changes in cash to the movement in net debt continued

Represented by:	At 29 December 2008 £'000	Cash flow movements in the year £'000	Non-cash movements in the year £'000	At 27 and 28 December 2009 £'000	Cash flow movements in the year £'000	Non-cash movements in the year £'000	At 2 January 2011 £'000
Cash and cash equivalents	**5,470**	(2,639)	–	**2,831**	(93)	–	**2,738**
Bank loans falling due after one year	**(84,354)**	15,000	(161)	**(69,515)**	20,000	(147)	**(49,662)**
	(78,884)	12,361	(161)	**(66,684)**	19,907	(147)	**(46,924)**

24 Financial instruments and derivatives

The Group finances its operations through equity and borrowings. The Group borrows at floating rates and during 2010 and 2009, used interest rate swaps to generate the desired interest profile. The use of any financial instruments is carefully controlled and monitored by the Board in line with the Group's treasury strategy and the terms and conditions of its facilities.

Management's approach to treasury is to:

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

Further details on the business risk factors that are considered to affect the Group and more specific financial risk management (including sensitivity to increases in interest rates) are included in the report of the Directors on pages 18 to 25. Further details on market and economic risk is included in the Chief Executive Officer's review of operations on pages 6 to 11. Further detail on headroom against covenants is included in the Group Finance Director's report on pages 12 to 15.

(a) Financial assets and liabilities

Financial assets

The financial assets of the Group comprise:

	2010 £'000	2009 £'000
Cash and cash equivalents – Sterling	**2,470**	2,398
Cash and cash equivalents – Euro	**268**	433
	2,738	2,831
Trade and other receivables	**5,573**	5,042
Total financial assets	**8,311**	7,873

Cash and cash equivalents include balances held on account in respect of deposits paid by tenants under the terms of their rental agreement.

Financial liabilities

The financial liabilities of the Group comprise:

	2010 £'000	2009 £'000
Trade and other payables excluding tax	**68,997**	67,979
Derivative financial instruments	**618**	2,242
Finance lease debt	**296**	276
Short-term financial liabilities	**69,911**	70,497
Long-term borrowings – at floating interest rates*	**49,662**	69,515
Finance lease debt	**2,772**	2,718
Long-term financial liabilities	**52,434**	72,233
Total financial liabilities	**122,345**	142,730

* Total financial liabilities attracting interest were £50.0m (2009: £70.0m). Interest is payable at floating interest rates which fluctuate and are dependent on LIBOR and base rate. The average weighted year end interest rate for these borrowings was 1.30% (2009: 1.22%). After taking into account the effect of the interest rate swaps, the average weighted year end interest rate for these borrowings was 2.98% (2009: 4.06%).

24 Financial instruments and derivatives continued

On 19 December 2007 the Group entered a 5 year facility agreement for £120m which was utilised from 17 January 2008. Interest is payable on the amount drawn down at LIBOR plus mandatory cost and the bank's margin, which is dependent on the debt to EBITDA ratio. The Group has a £10m overdraft facility, which is repayable on demand, on which interest is payable at the bank's overdraft rate.

At 2 January 2011 the Group has £70.0m of committed borrowing facilities in excess of gross borrowings (27 December 2009: £50.0m) and £10.0m of undrawn overdraft (27 December 2009: £10.0m of undrawn overdraft).

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

At 2 January 2011

	Trade and other payables excluding tax £'000	Floating rate loan £'000	Finance lease debt £'000	**Total £'000**
Within one year	68,997	926	296	**70,219**
Within two to five years	–	51,170	1,184	**52,354**
After five years	–	–	6,016	**6,016**
	68,997	52,096	7,496	**128,589**
Less: Future interest payments	–	(2,434)	(4,428)	**(6,862)**
	68,997	49,662	3,068	**121,727**

At 27 December 2009

	Trade and other payables excluding tax £'000	Floating rate loan £'000	Finance lease debt £'000	**Total £'000**
Within one year	67,979	1,146	276	**69,401**
Within two to five years	–	74,358	1,103	**75,461**
After five years	–	–	6,299	**6,299**
	67,979	75,504	7,678	**151,161**
Less: Future interest payments	–	(5,989)	(4,684)	**(10,673)**
	67,979	69,515	2,994	**140,488**

Effective from 16 January 2006, the Group entered into an interest rate swap for an initial notional amount of £20m, rising to £50m from 18 April 2006 until 16 January 2008, when it reduced to £30m until 16 January 2009, when it terminated. The fixed rate for the duration of the three years was 4.695%.

Effective from 18 January 2008 the Group entered into an interest rate swap for a notional amount of £25m for three years. The fixed rate for the duration of the three years was 4.92%. On 8 February 2010 the interest rate swap was terminated on payment of £1.0m.

Effective from 16 January 2009 the Group entered into an interest rate swap for a notional amount of £20m for two years. The fixed rate for the duration of the two years was 2.70%.

Effective from 16 January 2009 the Group entered into an interest rate swap for a notional amount of £20m for three years. The fixed rate for the duration of the three years was 2.975%. On 9 February 2011 the interest rate swap was terminated on payment of £0.4m.

24 Financial instruments and derivatives continued

Fair value of financial assets and liabilities

At 2 January 2011, the Group had derivative financial instruments relating to interest rate swaps and these have been valued in accordance with IAS 39. The fair value measurement of these financial instruments is categorised as Level 1, being derived from quoted prices in active markets for identical liabilities.

The fair value of these instruments was £0.6m and this is accounted for as a liability in the consolidated balance sheet (2009: £2.2m liability). The movement in fair value, after taking into consideration the £1.0m cash paid on termination of one of the swaps, has been recorded as a non-trading item in the consolidated income statement.

All financial assets and liabilities, excluding the interest rate swaps, 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 and derivative balances are with 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 retrospective discounts receivable from suppliers but the Directors believe adequate provision has been made in respect of doubtful debts and there are no material amounts past due that have not been provided against.

The Group has an outstanding long-term receivable of £10.4m plus interest due from LV Finance Limited, a subsidiary of the Group's associate company Living Ventures Restaurants Group Limited. This debt is secured on the assets of Living Ventures Restaurants Limited, but is subject to a prior ranking behind LV Finance Limited's bank. In 2007, following a detailed review of the carrying value of the business including the loan note receivable, the Board made full provision against the loan note due (further details are provided in note 13).

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

(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 facilities by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group's loan facilities, which mature in 2012 (as set out in note (a) above) ensure continuity of funding, provided the Group continues to meet its covenant requirements (as detailed in the report of the Directors on pages 18 to 25).

(d) Foreign currency risk

As the Group operates primarily within the United Kingdom any transactional or translational exposure to changes in foreign exchange rate is limited. The Group operates three restaurants in Spain that are serviced by local Euro denominated debt. The Group is not materially exposed to changes in foreign currency rates and does not use foreign exchange forward contracts.

(e) Interest rate risk

Exposure to interest rate movements has been controlled historically through the use of floating rate debt and interest rate swaps to achieve a balanced interest rate profile. The Group no longer has an interest rate swap, following the early repayment of the swap scheduled to terminate in 2012, as the reduction in the level of debt throughout 2010 combined with current market conditions results in a low level of exposure. The Group's exposure will continue to be monitored and the use of interest rate swaps may be considered in the future.

25 Lease commitments

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

	Minimum lease payments		Present value of minimum lease payments	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Within one year	**296**	276	**296**	276
Within two to five years	**1,184**	1,103	**907**	845
After five years	**6,016**	6,299	**1,865**	1,873
	7,496	7,678		
Less: Future interest payments	**(4,428)**	(4,684)		
Present value of lease obligations	**3,068**	2,994	**3,068**	2,994
Analysed as:				
Amount due for settlement within one year			**296**	276
Amount due for settlement after one year			**2,772**	2,718
Present value of lease obligations			**3,068**	2,994

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 fair value of the lease payments is estimated as £3.1m (2009: £3.0m).

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

Payments due:	**Payable 2010 £'000**	**Receivable 2010 £'000**	Payable 2009 £'000	Receivable 2009 £'000
Within one year	**47,719**	**3,399**	44,904	3,229
Within two to five years	**170,417**	**11,124**	166,751	11,287
After five years	**372,325**	**28,682**	348,197	30,062
	590,461	**43,205**	559,852	44,578

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 Concession division, the amount included above is the minimum guaranteed rent as detailed in the concession agreement. Where there is no minimum guaranteed rent, the amount included is based on the estimated amount payable.

26 Capital commitments

	2010 £'000	2009 £'000
Authorised and contracted for:	**13,251**	9,043

Notes to the accounts
continued

27 Contingent liabilities

The Group has assigned a number of leases to third parties that were originally completed prior to 1 January 1996 and 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.

28 Related party transactions

Living Ventures Restaurants Group Limited is a related party to The Restaurant Group plc through the Group's 38% holding. A loan note of £10.4m is due from LV Finance, a subsidiary of Living Ventures Restaurants Group Limited, which attracts interest at the rate of LIBOR. During the year ended 2 January 2011, £0.1m of interest was accrued of which the Group recognised £nil (2009: £0.2m of which the Group recognised £nil). Consequently, in addition to the £10.4m loan note outstanding at 2 January 2011, £1.2m interest had accrued, of which all was overdue under the terms of the agreement. Further details are provided in note 13.

Alan Jackson is a non-executive director of Charles Wells Limited, an independent brewing, pub and distribution company. During 2005, The Restaurant Group plc entered into a lease for a site owned by Charles Wells Limited and subsequently this site was converted into a Frankie & Benny's restaurant. No premium was paid by the Group to Charles Wells Limited. The Group has entered into the lease with Charles Wells Limited, on an arm's length basis, with an annual rent of £73,850 per annum. In addition, the Group purchased products with a value totalling £0.7m (2009: £0.9m) from Charles Wells Limited during the year, on an arm's length basis. No balance was directly outstanding at the year end. Alan Jackson received no remuneration or compensation in respect of these transactions.

Remuneration in respect of key management personnel, defined as the Directors for this purpose, is disclosed in note 6. Further information concerning the Directors' remuneration is provided in the Directors' remuneration report on pages 29 to 35, of which pages 32 to 35 are audited.

Independent auditors' report

to the members of The Restaurant Group plc

We have audited the parent company financial statements of The Restaurant Group plc for the 53 week period ended 2 January 2011 which comprise the Company balance sheet and the related notes (i) to (v). The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 2 January 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion 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; and
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

Other matter

We have reported separately on the Group financial statements of The Restaurant Group plc for the 53 week period ended 2 January 2011.

Timothy Steel (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
9 March 2011

Company financial statements – under UK GAAP

Company balance sheet

	Note	At 2 January 2011 £'000	At 27 December 2009 £'000
Fixed assets			
Investments in subsidiary undertakings	i	**129,117**	126,882
		129,117	126,882
Current assets			
Debtors			
Amounts falling due within one year from Group undertakings		**150,636**	102,001
		150,636	102,001
Creditors			
Amounts falling due within one year to Group undertakings	ii	**(136,792)**	(121,553)
Net current liabilities		**13,844**	(19,552)
Total assets less current liabilities		**142,961**	107,330
Net assets		**142,961**	107,330
Capital and reserves			
Called up share capital	v	**56,101**	55,568
Share premium account	v	**23,234**	21,867
Other reserves	v	**(6,302)**	(7,104)
Profit and loss account	v	**69,928**	36,999
Shareholders' funds		**142,961**	107,330

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 70 to 71 were approved by the Board of Directors and authorised for issue on 9 March 2011 and were signed on its behalf by:

Alan Jackson
Stephen Critoph ACA

Accounting policies and basis of preparation

Basis of accounting
The accounts for the Company have been prepared under UK Generally Accepted Accounting Practice, whilst the Group accounts have been prepared under International Financial Reporting Standards. The Company accounts have been prepared under the historical cost convention in accordance with applicable UK accounting standards and on a going concern basis.

Investments
Investments are valued at cost less any provision for impairment.

Dividends
In accordance with FRS 21, "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 share options have been accounted for as an expense in the company in which the employees are employed, using a valuation based on the Stochastic simulation model.

In accordance with an available election in FRS 20, share-based payment awards granted before 7 November 2002 have not been subject to a charge. An increase in the investment held by the Company in the subsidiary in which the employees are employed, with a corresponding increase in equity, is recognised in the accounts of the Company. Information in respect of the Company's share-based payment schemes is provided in note 21 to the consolidated financial statements.

The value is accounted for as a capital contribution in the relevant Group subsidiary that employs the staff members to whom awards of share options have been made.

i) Investment in subsidiary undertakings

	Shares £'000	Loans and other £'000	Total £'000
Cost			
At 28 December 2009	90,587	37,717	128,304
Additions – share option scheme	–	2,235	2,235
At 2 January 2011	**90,587**	**39,952**	**130,539**
Amounts written off			
At 28 December 2009 and 2 January 2011	**888**	**534**	**1,422**
Net book value at 2 January 2011	**89,699**	**39,418**	**129,117**
Net book value at 27 December 2009	89,699	37,183	126,882

The Company's operating subsidiaries, listed below, are held by an intermediate holding company (TRG (Holdings) Limited):

	Holding	Proportion of voting rights and shares held at 2 January 2011
City Centre Restaurants (UK) Limited	Ordinary shares	100%
Chiquito Limited	Ordinary shares	100%
Blubeckers Limited	Ordinary shares	100%
Brunning and Price Limited	Ordinary shares	100%
Frankie & Benny's S.L.	Ordinary shares	100%
DPP Restaurants Limited	Ordinary shares	100%

Other than Frankie & Benny's S.L., the Company's principal operating subsidiaries are registered in England and Wales, and operate restaurants in the United Kingdom. Frankie and Benny's S.L. is registered and operates three restaurants in Spain.

All other subsidiary undertakings are wholly owned by the Company or one of its subsidiaries, and are dormant.

ii) Creditors – amounts falling due within one year

In accordance with FRS 21, the proposed final dividend in respect of 2010 is not recorded as a liability in these financial statements as it was declared after the balance sheet date and is subject to approval by shareholders.

iii) Profit attributable to members of the holding Company

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account has not been presented for the holding Company. During the year the Company recorded a profit of £48.6m, representing paid and accrued internal preference dividend income (2009: £nil) of which £17.9m related to the year ended 27 December 2009. Remuneration of the auditors is borne by a subsidiary undertaking (refer to note 4 in the consolidated accounts).

iv) Employee costs and numbers

All costs of employees and Directors are borne by a subsidiary undertaking. At 2 January 2011 the Company employed three persons (27 December 2009: three persons).

v) Share capital and reserves

	Share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 28 December 2009	**55,568**	**21,867**	**(7,104)**	**36,999**	**107,330**
Issue of shares	533	1,367	–	–	1,900
Employee share option schemes	–	–	2,235	–	2,235
Employee benefit trust – purchase of shares	–	–	(1,433)	–	(1,433)
Profit for the year	–	–	–	48,635	48,635
Dividends	–	–	–	(15,706)	(15,706)
At 2 January 2011	**56,101**	**23,234**	**(6,302)**	**69,928**	**142,961**

Details of share issues during the year are given in note 21 of the consolidated accounts and details of the dividends paid and proposed during the year are given in note 10 of the consolidated accounts.

Group financial record

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Revenue	**465,704**	435,743	416,530	366,710	314,748
Adjusted operating profit	**58,556**	53,360	54,231	48,207	39,187
Underlying interest	**(2,674)**	(3,331)	(5,306)	(3,978)	(3,254)
Share of post-tax result in associated undertaking	**–**	–	–	(749)	(917)
Adjusted profit before tax	**55,882**	50,029	48,925	43,480	35,016
Non-trading credits/(charges)	**596**	(1,695)	(1,794)	(660)	(13,437)
Profit on ordinary activities before tax	**56,478**	48,334	47,131	42,820	21,579
Tax	**(16,353)**	(11,062)	(14,914)	(13,644)	(11,163)
Profit on ordinary activities after tax	**40,125**	37,272	32,217	29,176	10,416
Profit on sale of businesses net of tax	**–**	–	–	–	3,950
Profit for the year	**40,125**	37,272	32,217	29,176	14,366
Basic earnings per share	**20.16p**	18.90p	16.38p	14.90p	7.26p
Adjusted earnings per share	**19.95p**	17.48p	16.67p	14.64p	11.50p
Proposed total dividend per share for the year	**9.00p**	8.00p	7.70p	7.25p	6.00p
Dividend cover (excluding non-trading items)	**2.22**	2.19	2.16	2.02	1.92
Employment of finance					
Property, plant and equipment	**259,583**	254,841	250,722	228,757	174,035
Other non-current assets	**26,433**	26,241	26,241	26,516	19,960
Net current liabilities	**(66,518)**	(68,124)	(66,092)	(67,524)	(59,612)
Long-term liabilities	**(55,694)**	(75,865)	(91,054)	(85,207)	(52,932)
	163,804	137,093	119,817	102,542	81,451
Financed by:					
Equity shareholders' funds	**144,713**	115,932	93,606	77,154	65,204
Deferred tax	**19,091**	21,161	26,211	25,388	16,247
	163,804	137,093	119,817	102,542	81,451
Net debt	**(46,924)**	(66,684)	(78,884)	(76,573)	(47,482)
Gearing	**32.4%**	57.5%	84.3%	99.2%	72.8%
Interest cover before non-trading items (times)	**21.9**	16.0	10.2	12.1	12.0

Shareholder information

Directors

Alan Jackson
Non-executive Chairman

Andrew Page
Chief Executive Officer

Stephen Critoph
Group Finance Director

Trish Corzine
Executive Director, Concessions

Tony Hughes
Non-executive

Simon Cloke
Non-executive

Company Secretary

Robert Morgan

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London EC2M 6XB

Financial calendar

Annual General Meeting – 11 May 2011

Proposed final dividend – 2010

Announcement – 9 March 2011
Ex-dividend – 18 May 2011
Record date – 20 May 2011
Payment date – 17 June 2011

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